

# GERMAN REALITIES

*A Guide to the Future Peace of Europe*

## GUSTAV STOLPER

Author of *THIS AGE OF FABLE* and *GERMAN ECONOMY*

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... generation perhaps is better equipped  
... Stolper to explain to Americans the  
... the German problem, the right solution  
of which is so tragically indispensable to peace.

Sir Norman Angell

# GERMAN REALITIES

BY GUSTAV STOLPER

THIS BOOK answers two leading questions: What are the realities of the German problem today, nearly three years after the unconditional surrender? And what are the basic misconceptions which may already have made the German problem insoluble and peace in Europe thereby impossible?

The course of events in Germany has taken an entirely different direction from that expected at the end of the war in 1945. To indicate a way out of the present dangerous confusion, Mr. Stolper begins by taking stock. How much of the biological substance of the German people has been destroyed and what does this imply for the future of German and European economy and the political balance in Europe? How much German material equipment was destroyed? What does the complete destruction of currency mean for the social and economic fabric of Germany? How does the moral destruction express itself? What has happened in that part of Germany behind the iron curtain? How wide and deep is the cleavage between the East and West?

The second part of his study is devoted to special problems. These include reparations, the war potential of revived industry, the struggle between socialism and private capitalism, and the question of a constitution for a restored Germany. Mr. Stolper sums up this brilliant and authoritative analysis with a provocative restatement of the historical errors in our thinking about German realities which may be fatal to the making of a durable peace.

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BY  
GUSTAV STOLPER

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**To My Three Sons  
Who Served  
with the American Forces  
in Germany**

## PREFACE

THE IDEA of this book was conceived when, as a member of former President Herbert Hoover's mission, I revisited Germany in February of this year. The bulk of the manuscript was written in Switzerland during several summer months in close contact with German men and matters. And the finished book goes to press in the days immediately following the utter failure of the London Conference of the foreign ministers. So much was this failure anticipated that not one word had to be altered in the text on account of this momentous event.

This is not a book about a hard or a soft peace, about the good or the bad Germans, or whatever other irrelevancies have up to now dominated the debate on the German problem, though not the course of history. History goes its own inexorable way, which is not altogether determined by human folly and ignorance—however powerful forces they are—but also by the weight of the underlying realities. Just what these realities are this book undertakes to analyze.

I am grateful for the proper occasion to pay my personal tribute to Herbert Hoover. I do not know Mr. Hoover's views on most current political issues, nor has he ever inquired into mine. I guess we disagree on quite a few. Mr. Hoover has not seen any part of the manuscript of this book and is therefore free of any responsibility for its content. At the same time, I am proud to confess that its underlying philosophy is the same as that of the three reports which Mr. Hoover submitted to the President of the United States and to which I was privileged to contribute my little share. This philosophy I may presume to epitomize as passionate abhorrence of human misery and servitude. Peace must be built on tolerable living conditions, moral and material, in a world of free men. Above all, it must be built on truth. We have hardly made a beginning toward such a peace.

It has been my good fortune to observe Herbert Hoover at

work. In a long, variegated career in several lands I have never met a leading statesman acting with greater wisdom, knowledge, dignity, tact and, most of all, human kindness. It is the Quaker who is shocked by the sight of human suffering, the Republican who cannot bear the revival of slavery in the Europe of the Twentieth Century. To have witnessed and helped, in however humble a capacity, the work of this great American I shall cherish as happy memory. It inspired not a little the painful labor of this book.

Among the many friends, American and German, who aided me with advice and criticism most must remain unnamed for obvious reasons of their position or residence. A few sources are referred to in the text. I wish, however, to mention here with special thanks one friend, Hans A. Kallmann, Berlin, who spent many precious hours of day and night of his well-deserved summer vacation in Switzerland to write a current commentary as the manuscript grew. I accepted many of his suggestions and rejected others, but I was always stimulated by his friendship and his devotion to the work as a civil servant in the most difficult place for which the American Government is responsible in these days.

As with my previous books, Miss Martha Anderson has performed an invaluable editorial job. In particular, she tried to protect me against the "Infatuation with Sound of Own Words Department" of the *New Yorker* of whose watchful authority she as a most experienced editor is scared. I do not think she has been entirely successful. But if such words as chaos, collapse, catastrophe occur more than once, I can assure the *New Yorker* that it has little to do with infatuation or carelessness. Even the immense wealth of the English language is not commensurate with the inexpressible horrors of the German Realities.

Greenhaven-Rye, N. Y.  
December 18, 1947

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PART ONE

STOCK-TAKING

"I beseech you, in the bowels of Christ, to think it possible you may be mistaken."

OLIVER CROMWELL to the Church of  
Scotland, *August 3, 1650*

## I.

### *MISCONCEIVED REALITIES*

SOVIET RUSSIA, which today stands in the path of a reasonable or even tolerable organization of the world, has not revealed one single attitude, motive, political technique, diplomatic trick or propaganda device that was not recognizable—and recognized—by any serious student in the days of Teheran, Yalta and Potsdam. But they were not recognized by or known to the President of the United States and most of his closest advisers who in those days shaped the fate of mankind. In the Wilson era, during the Paris Conference after World War I, the American peace delegation enjoyed the reputation of being the best prepared, best informed of all delegations. Few will be ready to accord the same tribute to the American delegations acting in World War II Allied conferences. The agreements which they produced seem to have one quality in common—disregard of history and economics, of the political psychology of other nations, of the implications of their ideologies, of the underlying forces of their national life, of their social structure and emotional trends in the world-wide struggle in which we were engaged. The State Department, the Services or the agencies in charge of financial and economic matters were not remiss in their duty or lacking information. A host of able men were working in Washington collecting data, preparing memoranda, exploiting the knowledge of competent experts. A copious, conscientious job was done in the preparation of a peace still far in the future. But all this work was of little avail on the highest level where the historical decisions were being made. On this level the dilettante, not the expert, was master. Since the armistice we have realized the disastrous consequences of this particular kind of personal government. Decisive arrangements were kept secret (even from the State Department itself) or communicated to the public only as accomplished facts, of which not even Congress could alter one iota.

Most of the information poured out was propaganda. We now

know how ineffective this propaganda was on the morale of the enemy. The real victim of this propaganda was not the enemy but our own people, including the men on whom the responsibility rests for the policies of the nation. By necessity propaganda simplifies. Over-simplification, however, nullifies the effect. Propaganda, if it goes on for any length of time, creates its own reality. A slogan repeated often enough takes on a weird life of its own. Hitler adopted repetition as a conscious technique of propaganda. But he himself fell victim to that technique, because what was originally an intentional lie eventually seized upon his mind and made him incapable of seeing the realities. By endless repetition he built up a fairy-tale world as hideous as his own mind. In this fairy-tale world none of the figures moving over the scene had much resemblance to living persons. Finally he was up against that stark reality before which his phantom world dissolved. In this phantom world all his enemies had strange faces. Hitler knew nothing about the gigantic power of the United States, about the flexibility of its political system, about the wonderful elasticity of its social fabric. He did not have the remotest idea about the moral strength of the British people or about the spiritual and emotional ties that held the peoples of the Commonwealth and Empire together and made them rise and fight and die. He foolishly underrated the power of Soviet Russia, although he probably comprehended the political system of the Soviets better than any leading Western statesmen at the time. He studied it closely in the early days of his movement. What he did not understand was the national enthusiasm and the national bravery the Russians have demonstrated in every major test in their history.

Hitler, who was convinced (and acted on that conviction, as we now know from documentary evidence) that Great Britain would take his attack on Poland lying down (in fateful ignorance of the changes in British psychology since the days of Munich) was also convinced that he could invade Russia because its military power would crumble within six months. And when he plunged into the gamble for the biggest stakes, America's gigantic and decisive role never entered his head.

But have we been so very much wiser in our assessments of historical realities? Did we know and understand much more

about the Hitler regime than he did about the United States, Great Britain and Soviet Russia? Did Americans indulge in less dangerous illusions about the German realities than Hitler did about the American? For almost six years, while there was time to squash the monster without major effort, we let the monster seize power and grow and spread. How many people were there in the United States, in Britain, in France who realized the danger to our lives that was being hatched in Berlin? The horrors of the concentration camps, the abominations of the most fiendish terror system were splashed over the front pages of newspapers and magazines and the screens of our movies, screamed and screeched from the loudspeakers of our radios—when? When these horrors were committed? When the terror in inexorable persistency enslaved the German people? When the cancer was implanted in the body of one European nation after the other? Oh, no! It was done after the Hitler regime had collapsed, after Germany and much of the rest of Europe had been turned into a desert, when nothing could any longer save the victims, millions of them, of the most criminal regime of all time.

Was it because the governments did not know? No. The American and the British ambassadors and consuls reported, for all we know, conscientiously, faithfully, correctly. But these reports remained buried in the confidential files of the foreign offices and state departments, to be dug up some day for self-righteous expost propaganda. None of the "crimes against humanity," of which so much has since been made in Nuernberg, remained unknown when they happened, except for irrelevant details, but the few victims who escaped found no hearing with the democratic governments, hardly any access to the press of the democratic countries and, where and when they succeeded in breaking the ring of silence, they were regarded and treated as bores, nuisances, or worse, as war mongers. The noblest refugees, some of whom are among the great heroes of our age, were treated as outcasts, while the criminals, as members and representatives of the Hitler regime, were accorded royal honors wherever they appeared and were permitted to play host to the most distinguished statesmen and citizens of the democratic nations.

The moral collapse of the world preceded and made inevitable the catastrophe of this last war. The moral collapse of

Western civilization expressed itself in the neutrality legislation of the United States just as much as in Britain's appeasement of Hitler or in France's paralysis which prevented it from taking action in 1935 and 1936 when Hitler's Germany was militarily not a match even for the disorganized military power of France. That demoralization made ignorance so desirable an excuse that governments purposely foisted it on their people. It seemed a convenient cover for immoral national behavior. The point need not be made here that immorality does not pay. The point is that ignorance, witting or unwitting, leads to disaster. Democracies cannot afford either. The conduct of democratic peoples must be based on minimum standards of morality, for they are the only common denominators of conflicting political convictions. This is why democratic nations are doomed when there is no more common ground of unity. Abraham Lincoln knew it; Woodrow Wilson knew it. For British statesmen the issue was never in doubt, but even Britain came close to losing that sense of the indispensable role of minimum moral standards in its policies during the thirties. France was lost ere Hitler fired the first shot because its political life had disintegrated long before.

Modern dictatorships can do without. Hitler could make and break any promise; Hitler could murder and loot and torture and lie because the machinery of a despotic state is a mechanical, not an organic product. It functions as long as it does by the mechanical laws on which it is built. When it collapses, the collapse is total, beyond hope of repair. Even the treatment of mass psychology is completely mechanized by the propaganda machine. The slogan of today may be reversed tomorrow; it will always be faithfully parroted as it is issued by the loudspeakers of the machine. The masses that march in demonstrations or fill the meeting halls are commandeered, rehearsed when to boo and when to applaud, when to laugh and when to show silent awe. They must march for hours on end, dog-tired, without food or drink or sleep, and still show enthusiasm. There is nothing spontaneous left, no margin of individual reason except at the supreme risk of life or liberty. Under such a regime the technique of dealing with "human material" is just as systematized as dealing with quantities of steel, copper or wood. Once the scheme is designed, each individual is assigned his place.

Like the Soviets, the Nazis developed this technique of mass treatment to a peak of perfection. What we know about it from Gestapo documents found by the invading armies in Germany corresponds in almost every detail with what Kravchenko<sup>1</sup> reports about the Russians. What people living under despotisms actually feel and think, like and dislike has not the slightest relation to what their governments tell the world they think, feel, like and dislike. It is a rather safe bet to assume as truth the opposite of what these governments assert. Gestapo agents reported to their offices about the *Stimmung*, the real sentiments and opinions of the people, their real reactions to certain measures or certain events. These reports were as a rule unvarnished, frank and truthful. The spies who infested the life of the common man in Germany were not supposed to fool themselves or their superiors. They had to supply the raw material for the propaganda machine whose operators certainly had no interest in making mistakes. They cared very much about what people thought and felt, not in order to express that thinking and feeling, but in order to direct, mold and shape it. The reader of the Communist press of all nations on all continents is struck by the identity of the argument and the phraseology employed whenever Russian interests are involved. However monstrous the nonsense to which they treat the public with such unanimity, all Communists and inhabitants of Communist-ruled countries are not idiots devoid of the most primitive mental capacity and knowledge of facts. Their propaganda is just as absolute and independent of the popular will as the men who direct it.

Only rulers in the position of Hitler and Stalin could accomplish what they did in 1939. After insulting each other, their nations and systems in terms of vilest abuse for many years, they switched over night into mutual adulation, protestations of sympathy and friendship. Neither believed a single word of what he forced his subjects to believe. Neither felt the slightest compunction or inhibition at dealing out to his hundreds of millions of subjects a lie none was supposed to mention by its right name even in a whisper. These despots knew what they wanted. To them humanity was just material; *Menschenmaterial* is the sig-

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<sup>1</sup> *I Chose Freedom*, New York, 1946.

nificant term used in the German military lingo. The mass man has no human qualities, he is just so much malleable matter.

In a democracy propaganda has a different function and a different effect. It appeals to human instincts, human ideologies, human knowledge in order to make them amenable to voluntary common action; or, where the enemy is involved, to break down those of his moral powers and instincts which work outside or even despite the orders by which his government directs them. All peoples at war are ready to fight and die for their countries, their integrity or supposed vital interests. The awakening of national pride and passion is rather natural and universal once war has begun. Democracies form national governments under the impact of war, or at least national partisanship disappears. Wilhelm II in 1914 coined the long-remembered phrase: "I no longer know parties, I know only Germans." The Russian remains Russian, whether he loathes or loves Stalin, once his country is invaded. The German who detested Hitler remained German once the life of his nation was at stake. That he detested his government created only a tragic moral conflict which our war propaganda and war policy chose to ignore rather than to exploit for the shortening of the war. This oversight of our war propaganda—if oversight it was—contributed more than anything to obfuscate our popular ideas, and the ideas of our statesmen, about the German (and Russian) realities.

It was not the only mistake. This war has created or made manifest a new phenomenon—the challenge of national or nationalistic allegiance by other conflicting ideological allegiances. A new catalyst has arisen in our political life, the Quisling and the Fifth Columnist, the men who believe they are serving their own country by serving the ideologies and interests of another power or who do not care about serving their country because they believe in different moral values. The Quisling and the Fifth Columnist personify that new phenomenon which signifies the dawn of a new age of history just as much as does the atomic bomb. The nineteenth century had developed and exalted racial allegiance to the supreme position among political and moral values, monopolizing that position in a national emergency. It

was the emergence of nationalism on a racial basis that made the survival of multi-national states such as the Habsburg Monarchy or the Ottoman Empire impossible once the inertia of their traditional life was shattered.

This new catalyst disrupts the standards by which we measure political and social trends, disrupts the technique of government in both national and international affairs, disrupts all notions derived from the historical character of the various nations. No longer are these nations consistent units with which we can deal. Their personality changes according to what government happens to come to power. Never before in history have foreign governments been represented in the governments even of Great Powers. A France in which Communists hold important government posts is no longer an independent power. It has become a tributary power under Russian suzerainty. A France in which a Laval was premier would have been a German province even had German troops not occupied it. The Poland of Sikorsky and Mikolajczyk would have been a different Poland from that of Bierut and Osobka-Moravski. The Spain of the Caudillo Franco is a different nation from the Spain under the Republic. The Yugoslavia of General Mihailovich would have been a different Yugoslavia from that of Marshal Tito. We do not merely mean that these countries would have pursued a different foreign policy, that their international relations with the United States, Great Britain, Russia and so on, would have been different.

They would have been different countries in the sense that the character of the nation or at least the characteristic features presented to the outside world would have been basically different. The infamous fascist militia of M. Darnand under the Vichy regime committed all the bestialities against Frenchmen that the SS committed in German concentration camps. Tens of thousands of Frenchmen could be found for that militia just as easily as Himmler found all the criminal men he needed for his work of torture and extermination. No despot has ever had trouble to muster his hangmen. If the masters of France in that sorry period had deemed it convenient, they might have recruited several hundred thousands. And the face of France, so dear to the civilized world, would have been disfigured and desecrated to the point of raising doubts of how real that face had ever been. Books might

have appeared in the still-free world enumerating the cruelties and atrocities committed both in France and abroad in former periods of French history, the gruesome story of the terror during the Great Revolution, the *noyades* in the Loire and the mass executions of the guillotine, and all the countless wars of aggression throughout the world from Charlemagne to Napoleon III. And eager writers would have tried their wits to prove either that the French are all bad, or that there are two Frances, one bad and one good. This would have gone on until such conceivable time as the Fascist International had established its unchallenged rule over the civilized world. Then that literature would have been burned and the Lavals and Darnands and their militias would have remained as the sole representatives of the noblest French tradition while the heroes and martyrs of liberty would have been obliterated from the history books or mentioned only as objects of utter vilification. The case of Trotsky in Russian history books is a perfect illustration of our point.

On practically the entire Continent that condition prevailed by 1944 with respect to Fascism. It is rapidly being approached in our day with respect to the Russian system. The press, even of the freest European countries, uses restrained language in dealing with the Soviets. Most of the topical literature read in hundreds of thousands of copies in the United States is unknown east of the Rhine (and was unknown even in France as long as the Communists were in the government), and serious critical treatment of conditions in Russia can be found in the daily press or in periodicals only in exceptional cases. Correspondingly, the political ignorance among most Europeans, even those keenly interested in international affairs, or even their political leaders, is frightening. This, of course, enormously enhances Russia's prestige and power. The colossus appears bigger and stronger to the European than to the American not only because he is so much closer, but because his weaknesses are hidden. But opportunism is not alone an outgrowth of weakness. The United States has not hesitated to measure with double moral standards friend and foe whenever it seemed politically expedient. German war criminals are still hanged or imprisoned (as they should be) but nobody has asked Mr. Vishinsky publicly how many innocent people he has put to death. Nay, a phase of those Russian mass

murders, the purge trials, was glorified in a film made under semi-official auspices. The Nuernberg trials, which led to the hanging of the Nazi leaders (they deserved it a hundred times!), were based on Germany's disregard of the Kellogg Pact. (With the acknowledgment of the Kellogg Pact as legally binding international law the indictment "stands and falls", we were assured by Justice Jackson.) But this indictment was not directed against the Russian member of the Tribunal although everybody (including the German defendants) knew that Russia was not only accomplice in the German aggression against Poland, but had in the winter of 1940 waged its own war of aggression against Finland, not to mention the annexation of the Baltic republics which the United States has refused to recognize up to the present day.

The internal structure of the European nations has ceased to be an internal affair only. It has become an international concern of the first order. This is what the governments of the Western powers have only recently begun to realize. President Truman's address to Congress on March 10, 1947 gave it tardy recognition by the United States. He proclaimed the vital interest of the United States in stopping further expansion of totalitarian power. The world was staggered by the courage and the implications of the "Truman Doctrine." But in fact it was quite in keeping with American tradition. The Truman Doctrine of 1947 was merely a belated return to the Wilson Doctrine of 1917. Once more the United States recognized that "the world must be made safe for democracy" if peace and international order are to be possible. Here rather than in the Monroe Doctrine is the true analogy with the American past. The point is simply that a society of nations, like a society of individuals, must rest on the acceptance of a common code of morality.

In 1918 this ideal seemed to be attained. The German Republic had accepted it, the founders of the Soviet Republic had not yet embraced militant terrorism as the main instrument of domestic and foreign power. They did not reject in principle the rules of the democratic game even though they had to suspend them for the duration of the civil war and foreign intervention. A few years later the new problem emerged: the obliteration of the borderline between domestic and foreign policy. The "Third

International" soon became a weapon purposely used in Russia's international struggle, and a generation of Russians grew up ignorant of and hostile to the Western world, a generation that began to speak a language strange to members of Western civilization. With Lenin's death Russia was definitely lost to democracy. The Soviets had ceased to be potential partners in a democratically organized peace. They soon became an active source of international trouble.

None of the governments in the democratic world showed the slightest awareness of the new problem in 1933 when Hitler came to power in Germany. To them it was purely an internal affair of the Germans. To them it remained an internal affair until September 1, 1939. Hitler had almost seven years to organize his Fifth Columns all over Europe with many not altogether harmless branches overseas in the United States, in Canada, in considerable strength in most Latin American countries. For seven years Hitler benefited from the principle that he was a strictly internal affair of the Germans, to the point of undermining and sapping the strength of all democratic governments on the globe.

With the outbreak of the war the enemy to the Western world was not Hitler and his accomplices in crime, the enemy was Germany. Hitler was merely its true representative, his government what it deserved, and the Germans were not only responsible for his war and his crimes, but for all wars and all crimes ever committed in the past. *Inter arma silent musae*—the silence was frighteningly general. Intellectual integrity was sent on a holiday for the duration. Historians became propagandists and propagandists became the sole counsellors of governments. In this atmosphere the fundamental mistakes were conceived with all the consequences under which we still suffer and labor. These mistakes shaped in particular American policy toward Germany and Russia. Teheran and Quebec, Yalta and Potsdam were their offspring. The governments of the victors had not yet become aware that the historical notion of thinking and speaking of a nation as a single personality had become obsolete. The horizontal split, which under the impact of such international ideologies as fascism and bolshevism had taken place across the nations of Europe, still remained hidden to them. Long before Hitler's

power crumbled there had been no one German nation, and to a greater or lesser degree the same national disintegration had occurred in all countries where these ideologies had found fanatic champions. It is this disintegration that makes the European problem perhaps unmanageable and that certainly precludes an early, genuine peace in Europe.

But on top of the misconception of the national personalities with whom we have to deal as enemies or allies this country developed a curious schizophrenia in its economic thinking. These same United States which at home remained staunch believers and supporters of free democratic capitalism adopted curious economics of conquest and imposed them on their Western Allies. What makes the Morgenthau Plan (and for that matter, most of the work done by the defunct Foreign Economic Administration) such an amazing document is not that it is cruel to the Germans (they may have deserved it), or impracticable (because in conflict with economic realities) but that such a concept of the dynamics of economic life could have been promoted by a man who for twelve years had been Secretary of the Treasury of the United States. That this country, which during its whole history had performed miracles of production and surpassed all its previous accomplishments by the breath-taking expansion of its productivity in the war, could be presented by one of its most important officials with a "peace" plan ordaining the wholesale destruction of the second biggest industrial plant of the world—this is an intellectual experience historians will have some trouble to understand. That a country like the United States, whose greatness is predicated on its missionary belief in the liberty and equality of all men, could produce a suggestion that American power be used to force on a large part of Europe a primitive agricultural economy and permanent servitude—this is a spiritual phenomenon that deserves more attention than any detail of Mr. Morgenthau's or the F.E.A.'s proposals. Those details may quickly sink into oblivion; in fact they have already been forgotten by the American public (not by the rest of the world). But the spirit of these documents is the great puzzle because it is the complete negation of everything for which the United States has ever stood and for which it waged the war. It confused the

outside world much more than the American public itself which, with the exception of a minor sector, rejected it, ignored its implications or plainly showed no interest.

Yet, this spirit was not only adopted by the President of the United States as the guide of his German policy. It found its unqualified expression in the Quebec Agreement of September 15, 1944 between President Roosevelt and Winston Churchill, which was never officially made public, and was the sole responsibility of Washington since it preceded the Yalta Declaration by five months and Moscow had no share in it. It determined also the political, social and economic philosophy of the notorious JCS 1067 of April 26, 1945 (released on October 17, 1945), the Joint Chiefs of Staff "Directive to the Commander in Chief of United States Forces of Occupation in Germany" which followed the Yalta Conference after two months. (Although it was "anticipated that substantially similar directives will be issued to Commanders in Chief of the U.K., U.S.S.R. and French Forces of Occupation" the directive had, as far as is known, no parallel in the other zones of occupation, particularly not in the British.) Not until June 1947 was this fatal document finally replaced by a new directive after it had compromised—in many respects irreparably—America's foreign policy toward liberated Europe.

Here is the Quebec Agreement:

At a conference between the President and the Prime Minister upon best measures to prevent renewed rearmament by Germany, it was felt that an essential feature was the future disposition of the Ruhr and the Saar.

The ease with which the metallurgical, chemical and electrical industries in Germany can be converted from peace to war has been impressed on us by bitter experience. The Germans devastated a large portion of the industries of Russia and other neighboring allies, and it is only justice that these injured countries be entitled to remove machinery they require, to repair losses suffered. The industries in the Ruhr and the Saar would therefore be necessarily *put 'out of action, closed down*. [Author's italics.] The districts should be put under some body under the World Organization which would supervise dismantling the industries, and make sure they are not started up again by some subterfuge. This program looks forward to converting Germany into a country

principally agricultural and pastoral. The Prime Minister and the President were in agreement on this.

O.K.

(initialed) F.D.R. (Franklin D. Roosevelt)  
w.s.c. (Winston S. Churchill)

This Quebec Agreement was signed only one month before President Roosevelt's address to the Foreign Policy Association in New York assuring the world that "we bring no charge against the German race as such. The German people are not going to be enslaved—because the United Nations do not traffic in human slavery." (The President apparently had never heard of Russian concentration camps and slave labor.)<sup>2</sup>

The memorandum quoted reveals a definite, consistent set of notions about history and economics. All political decisions are based on such notions. Successful policy depends on their grasp of realities. Political failure is inevitable when these notions are imaginary.

What are these notions in the Quebec concept?

1. The Quebec policy assumes that the complete closing down of the Ruhr would be immaterial or even beneficial to the rest of Europe; in other words, that the future wealth and prosperity of Europe and the world would not be affected by the destruction of its most highly developed and most efficient industrial area. Germany's loss is everybody else's gain: a unique triumph of mercantilist ideas almost three hundred years after the British Navigation Act. It makes funny reading, indeed, in the days of

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<sup>2</sup> The Quebec memorandum was negotiated in the absence of the American Secretary of State and the Secretary of War, but in the presence of the Secretary of the Treasury. Mr. Morgenthau's book offers authentic evidence that this document originated in the proposal he submitted to the President. There is equally strong, although less authenticated, evidence that it was imposed on Mr. Churchill by force of Britain's financial dependence on the American Treasury's goodwill. It is on record that while Mr. Churchill insisted on the participation of Foreign Secretary Anthony Eden in the responsibility, not even Mr. Eden's arrival induced the President to summon his Secretary of State to the Conference. The document establishes clearly American responsibility for the resulting German policy. It led from Quebec to Yalta, from Yalta to Potsdam, from Potsdam to the collapse. President Truman's enunciation of the New American Foreign Policy in his historic speech of March 10, 1947 had to make a new start.

the international debate on the Marshall Plan, in the days of world-wide famine of coal, steel and machinery. But there is nothing funny about the misery an American policy based on this concept has created or helped to prolong and perhaps to perpetuate.

2. The program envisages Germany as a country principally agricultural and pastoral. It accepts without audible doubt the theory that a country in the center of Europe with an average density of population of roughly 200 per square mile can intensify without industrial basis its food production sufficiently to assure the survival of its people. No word reveals any awareness of the problem of how peace and prosperity in Europe could be built around an area where hunger, disease and anarchy reign. Certainly the alternative that this region should be permanently subsidized by the victors had not been envisaged.

3. Germany has been and will remain the enemy. It has been responsible for the latest and all preceding wars of the nineteenth and twentieth centuries. All other nations are, have been, and will remain peace loving. With characteristic largesse the memorandum does not even mention Hitler or National Socialism, thus by implication relieving this most criminal regime in all history of special distinction.

4. The complete disarmament of Germany will solve the problem of establishing permanent peace in Europe. What was meant in Versailles as merely a first step in the direction of general disarmament is thus raised to a policy of unconditional and permanent virtue, the setting apart of one great nation in a subordinate class by itself. No consideration is given to the inevitable psychological effect of such a policy on both Germany and its neighbors. There is no hint of any worry about the consequences of such a complete destruction of the European balance of power on the status of the victors themselves.

5. The idea is accepted without question that the disarmament of Germany can be made permanent only by the elimination of its metallurgical, chemical and electrical industries; in short, its industrial war potential. It is taken for granted that direct military control or control of production or of the importation of key materials would not do. The whole economic history of Ger-

many between the two world wars is regarded as one continuous conspiracy for world conquest.

6. It is assumed that the damages Germany inflicted on its neighbors can be repaired to a substantial extent by removing and transferring German industries. In fact, to this reparations should be confined. The authors of the Quebec Agreement reveal no remembrance of the Atlantic Charter which promises to "endeavor to further the enjoyment of all States, great or small, *victor or vanquished*, of access on equal terms to the trade and to the raw materials of the world which are needed for their economic prosperity," and expresses their "desire to bring about the fullest collaboration between all nations in the economic field with the object of securing for *all* improved labor standards, economic advancement and social security." And they appear to have completely forgotten their "hope," expressed in the Atlantic Charter, "to see established a peace which will afford to *all* nations the means of dwelling in safety within their boundaries, and which will afford assurance that all the men in all the lands may live out their lives in freedom from fear and want."

When in this secret agreement Mr. Morgenthau's ideas scored their triumph over the dissenting advice of the State and War Departments, the battle of the Ardennes had not yet been fought and won. But Germany's collapse was already certain and near. What made the acceptance of those ideas disastrous, because irreparable, was the Yalta Declaration of February 11, 1945. The Yalta Conference was the climax of American self-delusion about the nature of both the German and the Russian problem. The supreme importance of this Yalta Conference is often underrated because it was soon overshadowed by the more palpable folly of Potsdam. We do not know whether and when the full history of Yalta will be written, what in particular were the motives for President Roosevelt's complaisance toward Soviet Russia at that moment.<sup>3</sup> The German armies were in full flight and dissolution.

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<sup>3</sup> Mr. Byrnes' *Speaking Frankly* appeared after the above was written. But this book, significant in many respects, throws little light on our question. The explanation offered by some of the most competent observers, that Mr. Roosevelt relied almost until his end on the charm of his smile in personal contacts with Mr. Stalin to solve the stunning complexities of this world, is too insulting to the memory of the late President to be accepted.

Within a few weeks American and British divisions were sweeping over the land, overriding the most important parts of Germany which are now in the Russian zone. American troops occupied Leipzig and Jena; within hours they could have been in Dresden and Berlin had they not been stopped on highest orders. The triumph of conquering and sacking Berlin was reserved for the "strange ally," as General Deane has aptly characterized him.

At no time during the war had there been genuine mutual confidence and cooperation between Washington and London on one side and Moscow on the other. It was a one-sided courtship which Moscow exploited to the limit. Why President Roosevelt persevered in that courtship, even in the final hours of the war, is one of the many mysteries in which the history of recent years is still shrouded. However, the crucial error, the error that may decide the future of the world and in particular the future of the United States, was the fundamental misconception of the nature of the Soviet Union and its aims in world policies.

This error was merely the corollary of the equally fateful error about the nature of the German problem. Hitler indeed did a thorough job in ruining Europe, and above all Germany and its people. However, instead of arresting the furies of Hitler's war at once, American policy deemed it wise to continue the war by other means beyond unconditional surrender. This and little else was the meaning of JCS 1067/6, the logical sequence of Quebec. For more than two years it was, next to the partition of Germany into four zones, the bane of America's European policy. What Hitler's crimes and madness had spared was destroyed by that directive.

"You will take no steps," says the directive to the Commander in Chief, "(a) looking toward the economic rehabilitation of Germany, or (b) designed to maintain or strengthen the German economy." This was the order issued to an army that assumed the responsibility of governing a conquered country from which all other government had been eliminated. The Army was entrusted with the "preparation for an eventual reconstruction of German political life on a democratic basis," but this preparation consisted in the implicit disavowal not only of the international rules of the Hague Agreement on Land Warfare, but in suspen-

sion of habeas corpus and all other safeguards of individual rights and liberties. Here was the army of the one great power representing a democratic system of free enterprise and private property, yet its commander was ordered to carry out measures of a class warfare such as only Soviet Russia had ever designed. The Communist interpretation of National Socialism was swallowed by the official American policy hook, line and sinker. National socialism, according to this theory, was the product of capitalism, therefore all capitalists were responsible for Hitler's crimes and especially for the war. When the American armies swept over Germany, a dragnet was thrown out in which leaders of German finance, industry and commerce were caught and arrested. Beside leading Nazis and certain specified ranks in Party formations and police, the arrest categories included:

(8) Nazis and Nazi sympathizers holding important and key positions in (a) National and Gau civic and economic organizations; (b) corporations and other organizations in which the government has a major financial interest; (c) *industry, commerce, agriculture, and finance* [author's italics]; (d) education; (e) the judiciary; and (f) the press, publishing houses and other agencies disseminating news and propaganda. It may generally be assumed in the absence of evidence to the contrary that any persons holding such positions are Nazis or Nazi sympathizers . . .

*"It may generally be assumed in the absence of evidence to the contrary that any persons holding such positions are Nazis or Nazi sympathizers."* Never before in history has a sacred spiritual patrimony of a country been betrayed to such a degree as America's was betrayed by this document. Never before have the ideals of democracy and liberty been so effectively compromised by their champions. Under this directive, in autumn 1947, almost two and one half years after the unconditional surrender, American authorities still held thousands of men in prison whose only proven crimes consisted in having kept leading positions in German banking or industry, who in two and a half years had not been granted even a hearing, not to speak of an indictment or a trial, and of whom many were held only as potential witnesses in a country from which escape, if to escape they wanted, was virtually impossible. And it was an American, not a Russian di-

rective that ordered the Commander "to take under his control *all property*, real and personal, owned or controlled . . . by all persons subject to arrest."

Public opinion demands that stern justice be meted out to all criminals, big and small, who were scattered over the whole economic and administrative organization of Germany. But public opinion must not become insensitive to the fate of hundreds of thousands of innocents caught in the crude process of denazification and war crime prosecution. It would be a calamity of the first order if the Nazi crimes were permitted to sink into oblivion in either Germany or the outside world before the German people themselves realize the moral implications of what they have done or suffered to be done to the world. But nothing could have retarded the renaissance of a German realization of guilt or responsibility more effectively than the spirit in which the democratic conquerors went about denazification and demilitarization. Denazification as instituted by JCS 1067/6 and practised by the military government has in effect meant renazification. To innumerable Germans disappointed by the discrepancy between ideal and reality, as they see it, JCS 1067 looked like a vindication of what they had been told by Hitler and Goebbels.

The other occupying powers cared little about American theories of occupation, including denazification and decartellization. Each power went its own way. The Germans may have less respect for the British and the French than for the Americans, but for different reasons. They had never expected as much from them as from the Americans, to whom all genuinely liberal elements had turned with their hopes for a better future, and whose overwhelming power made them in German eyes chiefly responsible for the behavior of all the Allies. It was no secret that most of the ideas of Yalta and Potsdam (followed soon by the notorious Level of Industries Plan) were American inspired.

What has happened in Germany and in Europe ever since VE-day had the force of irresistible logic behind it. One by one the illusions and delusions with which German and European problems had been approached by the American policy makers blew up in accelerating succession. The price this country will have to pay grows by the hour. The final bill will not be presented for years. Meanwhile, the German problem in particular

may have become insoluble. Whatever happens to the Marshall Plan, however many billions Congress may appropriate for European relief, the specter of this unsolved problem will haunt this generation for the rest of its life. The partition of Germany was decided upon at Yalta "in a fit of absent-mindedness." Neither President Roosevelt nor Mr. Churchill wanted partition. But no evidence is yet available that Mr. Roosevelt—despite Churchill's warning opposition—realized how irreparable the split must become, once the occupation of Germany by zones of the individual powers was decided. If he harbored any misgivings on this score, no record of it has come to light. Despite the experience during the war he went on pretending that Russia would play the game by the same rules as the West.

At long last, two years later, the United States has abandoned this pretense. This in itself marks great progress. It is at the moment the only comfort in an otherwise dismal world situation. In summer 1947 two decisive steps were taken to correct as far as possible some of the worst errors committed in the past. One is the new Directive (published July 15, 1947) to the Military Government in Germany superseding JCS 1067. The other is the bizonal agreement between the United States and the United Kingdom concerning the new Level of Industry, by which the striking absurdities of the March 1946 Plan will be removed. The new agreement was published with some delay, caused by French objections, on August 29, 1947. These two documents do not cut entirely loose from the past. They still carry part of the burdensome old heritage. But if executed without weakness and vacillation they may retrieve a large part of the moral ground lost by the English-speaking world. They reveal an appreciation of what we cannot afford morally, politically, economically, financially. They do not yet recognize the price we must pay if we want lasting peace in Europe. The German realities are still surrounded by thick wads of the haze created by the passions of war. To contribute to the comprehension of these realities, of the nature and magnitude of the German problem, is the purpose of the following chapters.

## II.

# BIOLOGICAL DESTRUCTION

GERMANY as a nation, as it was known to the world throughout its history, has been destroyed and cannot be resurrected. Most notions about the political, military or economic power Germany may regain, notions that still permeate unchallenged the debate on the German problem, have little basis left in facts. The German nation is ruined. It is fatally weakened in its biological substance, in its cultural and technical environment, in its moral fibre.

Let us start with the first, the biological substance left to the German people, the matrix of its future.

According to the census taken by the occupying powers on October 29, 1946 (Allied Control Commission Law No. 33) the population registered by the occupation authorities was 65,907,817. Of this total, 1,125,885 were prisoners of war, displaced persons and civilian internees. This leaves about 64.8 million Germans. The German population in the four zones of occupation was 8.4 per cent larger than in 1939. The census significantly did not cover the German territory east of the Oder-Neisse line although it is not yet Polish by right, but merely under "temporary Polish administration." If the Western powers ever wanted to make a strong case for returning part of this territory to Germany, they have indeed failed to support their case by avoiding administrative acts prejudicial to their policy. The population is distributed as follows:

	(ooo's)	Percentage Changes in Population Since 1939
British zone	22,795	+ 12.0
U.S. zone	16,679	+ 21.8
French zone	5,940	- 4.2
Russian zone	17,314	+ 14.2
Berlin	3,180	- 26.4

These figures tell a tragic story. By far the largest increase is in the American zone. From 9 million the population of Bavaria, e.g., has increased 28 per cent or almost one-third. Most of the Sudeten Germans from Czechoslovakia were dumped into the American zone. In the French zone alone has the population declined. It is the smallest and least densely populated, least urbanized of the Western zones, but the French have closed their doors to refugees and expellees and refused cooperation on this point of the German emergency just as on most others.

The totals, however, obscure a great variety of problems. First, the seeming increase of the total population does not specify the natural growth in population between 1939 and the end of the war. We do not know exactly how much this was, but Germany's population increased normally about 350,000 a year. In the six years of war the population would have grown by roughly 2,000,000. This is of about the same order as the German war casualties in dead and missing officially estimated by Secretary Marshall at 2,850,000 (*Encyclopedia Britannica*).

More significant are the changes within the zones. The population of Schleswig Holstein in the British zone has grown almost 67 per cent, more than two-thirds; that of Hannover 36 per cent, more than one-third. At the same time Hamburg, which still houses over 1.4 million human beings in its hopeless ruins, has lost 18 per cent. In the Russian zone the bulk of the increase, over 45 per cent, is in Mecklenburg-Vorpommern, while the population in the Land Saxony has remained almost stationary. Berlin has lost over 26 per cent of its inhabitants.

What has brought about within a few years these revolutionary changes in the number and distribution of the German population? In the main, four factors are responsible.

1. Even during the war Germany resembled a stirred up ant hill when, one by one, in inexorable crescendo, the German cities were destroyed from the air. Some people were evacuated by the authorities, some fled to the country for safety, others again had to go because they had no place to stay. How many Germans left their homes, voluntarily or not, during the war has never been established. The agencies, Allied and German, that take care of the refugees and expellees register only those who moved *after* the armistice. But it must be realized that the flight during the

war was from west to east. When the air war hit with utmost violence the western, most thickly populated provinces, the east (including the western part of German-occupied Poland and Bohemia) was still a haven of comparative safety and abundant food. Very few of these refugees returned to the shattered west before the end of the war when the direction of this unprecedented *Voelkerwanderung* was reversed.

2. As the victorious armies approached and invaded Germany, a large part of the population, particularly in the east, again fled to escape wholesale slaughter, rape and fire. Eastern Prussia was found by the Russians almost empty of its indigenous population. The few thousands who dared fate lived to regret it. The small remnants of, for example, Koenigsberg had to atone for the worst atrocities inflicted on Russian towns by the S.S. As long as any section of Germany remained unoccupied and there were German-occupied neighboring countries where refugees were free to go, they fled as far west as their bodily strength would carry them. For instance, after the war 250,000 German refugees were in Denmark.

3. By the end of the war the greater part of the German armies had surrendered to the Americans and the British who within a short time released most of their prisoners of war. (The United States forces alone freed over 8 million.) However, though "the United Nations do not traffic in human slavery," about 620,000 of them were "loaned" by the United States government to France for reconstruction work (many as miners). England retained several hundred thousands largely for agricultural work. But a few million German soldiers fell as prisoners into Russian hands. The official Russian press at one time estimated the number of prisoners taken during the fighting and the German retreat at 5 million, and there is no reason to brush this off as a vain boast for in the last phases of the war the German armies were utterly demoralized and the conditions of the Russian railroads and roads rendered fast escape impossible. On May 4, 1945 the Supreme Command of the Red Army had reported that 3,184,000 German soldiers were Russian prisoners. But when the American delegates at the Moscow Conference in March 1947 insisted on precise official Russian information, Tass news agency reported that only 890,532 prisoners were still held. In other words, Russia

pretended to retain far fewer prisoners than France and England together. What happened to the other millions we may never find out. The Italian Prime Minister has informed his parliament that over 90 per cent of the Italian prisoners of war taken by the Russians have perished. There is little reason to assume that the German prisoners were treated more kindly. No Russian explanation has been forthcoming.

By the middle of 1947 the official total of German prisoners of war was thus 2 million. Under the Moscow decision of the Allied foreign ministers they are supposed to be completely repatriated by the end of 1948. By then we shall know how many really return and in what physical, mental and moral condition they rejoin their national community. The French government makes serious and apparently successful efforts to induce as many suitable prisoners as possible to settle permanently in France. Equality of terms with French industrial and rural workers and eventual naturalization are promised.<sup>1</sup> On the other hand, the condition of the prisoners returning from Russia is appalling. An American Military Government report declares "all those being returned unfit for employment."

4. The largest of the population movements set in after the armistice. The entire German population was expelled from the German land east of the Oder-Neisse line, from old Poland (where a considerable German minority had lived in the eastern part of Upper Silesia assigned to Poland by the Versailles Treaty and in certain industrial districts such as Lodz), all German-speaking inhabitants of the restored Czechoslovakia, as well as the German minorities from Hungary, Rumania, Yugoslavia. The German population east of the Oder-Neisse was 9,251,000 in 1939, over 10 million by 1944. There were 3½ million Germans in Czechoslovakia, at least 1½ million in pre-1939 Poland and probably about 1 million in the other countries mentioned. On the other hand, these parts of Germany (after 1938 Sudetenland was legally a part

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<sup>1</sup> By the end of August 1947 there were still 468,000 German war prisoners in France. Of 200,000 replies to questionnaires sent out to the prisoners no less than 90,000 accepted the offer of the French government to become "free workers" on one year's contract. Quite a few of them may eventually settle in France. (London "Times," August 26, 1947.)

of the Reich) had their share of war casualties. In total, the sudden calamity of expulsion befell about 15 million persons.

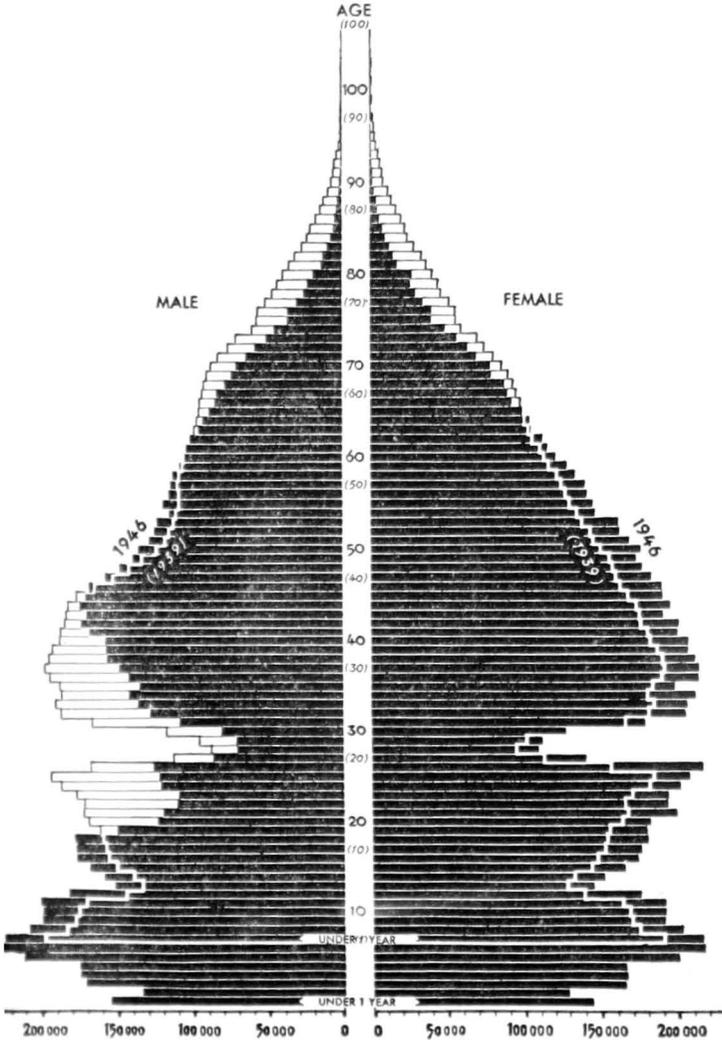
Where are they? What happened to them? Where have they gone? Are they alive or dead? If alive, where and how do they live? If dead, how and where and at whose hands did they die? We do not know. All we do know is that the occupying powers have registered a total of about 8 million expelled from the area east of the Oder and Neisse Rivers, from Czechoslovakia, and so-called Swabians from Hungary. We may assume that about 1 million were spared expulsion by the Poles and Czechs because they offered proof of Slavic origin (and were useful workers). The rest, roughly 6 million, is unaccounted for. The figure is about equal to the maximum estimate of Jews exterminated by the Nazis. The greatest crime against humanity in modern history has been answered by another crime of equal proportions. We are free to draw from this fact our moral conclusions varying with our ethical principles. But the point should not be overlooked that for the friends, neighbors and relatives of those "unaccountable" millions of Germans (over and above the millions of war casualties and prisoners of war) the statistical aggregate, devoid of human significance, dissolves itself into just as many unforgettable individual tragedies.

In dry and sober figures this is the overall picture. When we begin to analyze it, we at once meet frightful anomalies.

First of all, Germany has become predominantly a nation of women and old people. Of the 66 million 29 million are males and 37 million females. This proportion will change slightly if and when the prisoners of war return, although this accrual to the male population will be partly offset by the gradual disappearance of displaced persons among whom males predominate greatly. The males that are left are the old and the children. The middle group, between 18 and 50, the men needed for the regeneration of the race and the reconstruction of national life, has been decimated. This is true especially in the Russian zone, but the picture in the western zones is not much different. The *Statistische Praxis*, a Berlin publication issued in November 1946, gives the following analysis of the population in the Soviet zone:

# THE POPULATION BY AGE AND SEX

ON 29 OCTOBER 1946 AND 17 MAY 1939



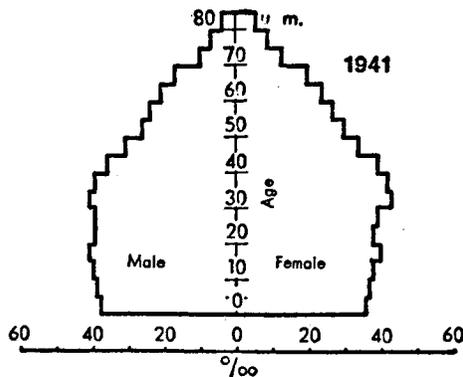
## GERMAN REALITIES

Age Group	Percentage of Population			
	males		females	
	should be	actually are	should be	actually are
Under 1	1.8	1.4	1.7	1.0
1 to 14	20.4	29.5	19.1	19.5
14 to 18	5.4	7.3	5.1	5.4
18 to 50	49.5	31.8	47.0	47.0
50 and beyond	22.9	30.0	27.1	27.1

The first line, of course, reveals the shrinkage in the birth rate and the increase in infant mortality. The children that were not born or died in these years of the German disaster will by their absence determine the German population thirty years hence. And the layer above 50, normally one-fourth and now about one-third of the population, will die off with increasing rapidity because this age group has least resistance to hunger and disease.

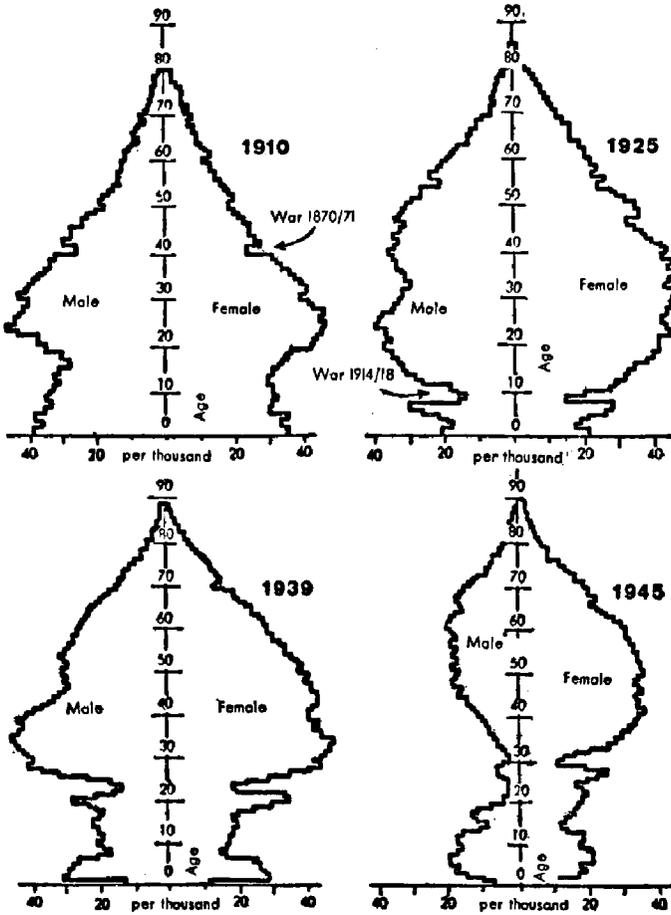
While the age distribution among women has remained virtually unchanged, the age pyramid among men is completely distorted. The very young and the old (up to 18 and over 50), who normally constitute roughly 50 per cent of the male population, are now close to 70 per cent.

What the two wars have done to the German race is, better than by words, illustrated by the following two graphs. The first presents the most densely populated British zone of Germany, the second the age pyramid of Switzerland as a neutral in both great wars who thus has been spared their cost in blood and health.



Source: *Neue Züricher Zeitung*: December 13, 1946

The Swiss population is about the same as that of Berlin before the catastrophe. Compare with the Swiss picture the following graphs which tell the story of what has happened to the people of Berlin since 1910.<sup>2</sup>



For two decades the population structure has differed from the normal pyramid. By 1925 the blood-letting of the war years appears in the form of a deep cut, caused by the children not born during World War I. By 1939 that cut has grown into a column

<sup>2</sup> Taken from the Berlin newspaper "Telegraf."

on which the pyramid of the higher age group rested. The graph takes the shape of a jar with a broad base and a still broader stand, because during the Nazi years the birth rate increased while the war losses of 1914-18 and the subsequent years of inflation and unemployment showed their effect on the layers between 5 and 20 years of age. By 1945 the graph no longer has any resemblance to anything normal or viable.

In the American and British zones expellees and refugees form 16½ per cent of the total population. In Schleswig-Holstein no less than 37½ per cent of the population are refugees, in Bavaria close to 20 per cent. It is obvious that such an upheaval must strongly affect the character of the people that suffered the sudden influx of unwanted refugees. The big cities, overcrowded in their ghostly ruins, did not remain free from such visitors. Their main goals, however, were the small towns and villages where they hoped to find some barn or nook or corner in the attic of a farm house as shelter and some crumbs from the farmer's table for food. But rural communities, in Germany as elsewhere, are conservative, closely knit, hostile to strangers. And strangers these refugees were although they spoke the same language—in most cases, by the way, with a dialect the farmers found difficult to understand. The farmers in Schleswig or Holstein, very much kin to the Danes or Dutch, had little kinship with the people from the east and none with the Germans who had lived for centuries among Magyars, Rumanians and Yugoslavs, in foreign civilizations, under foreign laws and institutions. These people came penniless, mostly women and children or old men—most of the younger men were dead or retained as slaves for work in the countries that had expelled their parents, wives and children. Their possessions were rolled up in bundles which they carried on their bare backs, and even of these bundles all too many had been relieved before they reached the border. Into regions that had suffered little from the war and were anxious to return to peaceful ways of life these refugees brought their experiences, their bitterness, their hatred. How deep and savage that hatred is should be easily understood by Americans among whom, after more than eighty years, the memory of the Civil War is still very much alive. These refugees came from all walks of life: farmers,

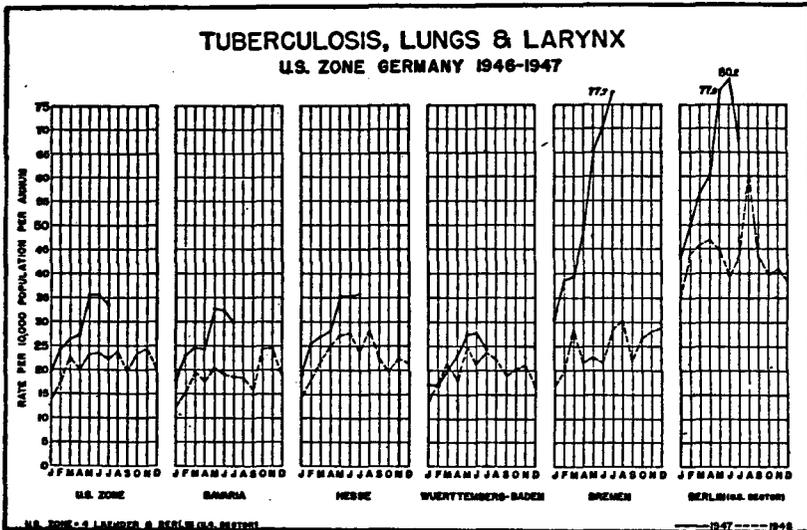
laborers, bankers, artisans, lawyers, doctors, industrialists, artists, civil servants—people who in the middle of the night had been chased out of beautiful homes with elaborate libraries, expertly collected paintings, from farms which through the generations had developed into models of agricultural skill, treasures of experience and scientific knowledge. Their crime consisted in by far the largest number of cases only in the fact that they were Germans, just as the only crime of the Jewish victims of the gas chambers had been that they were Jews.

But the German population is not only distorted in its age pyramid and sex distribution; it is physically weakened by years of hunger. Living in a country blessed with plenty like the United States, it is easy to read that the "normal consumer" ration for the Anglo-American zone is set at 1550 calories, but that this quantity has been actually supplied only in exceptional weeks, while for a long time in 1946 and 1947 it dropped to between 700 and 1200 calories. The figures do not register on the mind of the reader who has never in his life experienced one day of real hunger. But it might be worth an effort to realize how living on such rations must affect not only the physical strength but the mental and moral reactions of a people.

A country exposed to such a way of life, not for a day or a week but now for almost three years, with very little prospect of improvement to a normal level, loses much of its capacity to work, its capacity to think, its capacity for normal moral reactions. Whoever has watched the behavior of a group of people exposed to protracted undernourishment notices quick fatigue, ever-present irritability and appalling shrinkage of their mental scope. Their memory grows dim, curiosity dies, whatever effort can still be summoned up is stubbornly concentrated on one subject—physical survival. And the longer the whole German nation remains exposed to such living conditions, the more the lasting effects of the catastrophe will be felt—early death, increased incidence of all kinds of disease, stunted growth of the young, and with all this, loss of energy and efficiency, and finally demoralization in both the public and the private spheres of life.

A graph from the August 1947 report of the American Military

Government<sup>3</sup> illustrates the cataclysmic rapidity of this development more clearly than any words can. In the Anglo-American zones there were in summer 1947 at least 40,000 cases of open infectious tuberculosis for which hospital facilities did not exist.



The charts show uniformly that tuberculosis in the American zone has shot up alarmingly in the first half of 1947 above the shockingly high level of 1946. (The slight improvement during the summer months is seasonally conditioned.) They show furthermore that health conditions in the big cities (Berlin and Bremen are singled out as samples) seem to be getting out of control.

In the summer of 1947 the average weight of the German population was considerably lower than in summer 1945. "The German health officials [the American Military Governor reports] are now faced with the problem of furnishing health services with health supplies and equipment and motor transportation to a population that is in a poorer nutritional condition than at the same time last year. . . . All forms of tuberculosis increased, reach-

<sup>3</sup> These reports are as such praiseworthy and much too little publicized documents. They have unfortunately no adequate parallel among the other occupying powers.

ing the highest rates yet attained since reporting was reestablished. . . . The average weight of German adults as recorded in both street weighing and nutrition survey team data reveal further evidence of deterioration of the nutritional status of the population during March. All age groups of adults showed average losses of 1 to 1½ pounds. . . ." A nation in this state of health of course lacks both physical and mental capacity to work. Its labor efficiency and output inevitably remain low.

Conditions in the more industrialized and urbanized British zone compare with the Berlin and Bremen chart rather than with the zonal average. It is not surprising to learn that in the United States sector of Berlin in the first quarter of 1947 the death rate (28.5) was almost three times as high as the birth rate, 10.7 per 1000 population per annum, and that infant mortality soared from 70.9 in the third quarter of 1946 to 116.2 in the first quarter of 1947 (it had already been 135.4 in the second quarter of 1946). To understand the meaning of these figures we must remember that in New York the death rate in 1946 was 10.1, the birth rate 19.6, the infant mortality 27.8. Two worlds indeed.

The full meaning of these figures can be grasped only against their general background. They open a vista of a German decline in number which, within one or two generations, will reduce the Germans, today second only to the Russians on the European Continent, to the rank of the fifth nation in Europe behind the Russians, the British, the Italians and probably even the French. This fact is easily the most important element in our appraisal of the future of Europe. It will determine not only the fate of Germany but of Western civilization in Europe. It will determine in particular the potentialities of a European economic recovery. Yet, this by far most important factor in the European calculation, political and economic, has been altogether overlooked by the makers of Allied European policies.

It is not all the consequence of the last war. The blood-letting of World War I had only begun to make itself felt in the German population trend when Hitler ignorantly hallucinated about the 200 million Germans for whom he had to conquer living space (and he meant Germans, not conquered populations). While he did it, the German race was already shrinking. The total of the

German population was currently registered up to May 16, 1943. Even by then, when war casualties were still rather small, the 1.6 million increase over 1939 was exclusively in the age groups above 40 in line with the general tendency in the Western world toward growing longevity. Even then the rising generation (between 14 and 20 years) had declined from 14 to 13.1 per cent, and the 25 to 30 years group from 8.9 to 6.2 per cent. This was of course the group on which the armies drew most heavily.

Between 1875 and 1915, the German population had grown from 43 to 68 million, an increase by 25 million in four decades. It was in those decades that Germany overtook in big leaps all its western and southern neighbors. This spectacular growth of the German people from the founding of the Reich to the outbreak of World War I was due to several factors. 1. The average number of children per family was 5 in the seventies and on the average 4.3 in the decades preceding the First War. 2. Infant mortality dropped sharply between 1875 and 1915. 3. During that period Germany changed from a country of emigration into a country of immigration on balance. 4. With rising prosperity and improved social and medical standards the age limit moved upward. As a result of all this the net annual number of births rose from 578,000 in the late eighties to 910,000 in 1906. The total number of children born in those four decades was 73.5 million or an annual average of 1,840,000. This was the huge base from which the 68 million people of 1915 had grown and from which the present age groups between 30 and 70 are descended. Within the next thirty to forty years they will have died out.

With the war of 1914 the trend suffers an abrupt break. In the thirty years between 1915 and 1945 only 30 million children were born in Germany, an annual average of 1 million (against 1,840,000 in the preceding generation). How large the birth rate will be from now on can be estimated within limits. The most optimistic guess is 800,000; a less optimistic but more realistic estimate will not go beyond 600,000. As soldiers (demobilized and released prisoners) return the number of German marriages and births may rise for a few years, as it always has after a war everywhere. Unquestionably, for obvious reasons, the spurt in Germany will be much weaker than in other countries. But within a few years the birth rate will fall off sharply. How ever that may

be, the size of the next generation will be determined by the surviving generation born between 1915 and 1945. In the four decades between 1915 and 1955 the total number of births will at best rise to 37 or 38 million, or approximately half of the 73.5 million born in the four decades between 1875 and 1915. In other words, the base of the next generation has shrunk to one-half of the base on which the power of the Wilhelminian era was built.<sup>4</sup>

This generation will be hit by the full impact of the lost World War II, by all effects of that political, social and economic disaster. Of those born between 1875 and 1915, 54 per cent were able to marry and to raise a family. The number of marriages from now on will be a fraction of that figure. We have seen to what extent the generation of males born between 1915 and 1927, that is, the males of marriageable age today between 18 and 45, has been decimated by the war. Of the survivors at least 3 million live as invalids in need of life-long medical care—if they can get it. Those still physically fit are hungry, unemployed, unhoused, unclad—certainly not in a position to rush into marriage and rear children. The number of abortions with all the physical consequences is enormous. But even if the young women so preponderant in number are willing or even anxious to bear children out of wedlock, they have to satisfy their urge for motherhood with one child because they certainly cannot carry at the same time the burden of a large family and of its economic support. On the women in Germany rests today the heaviest load. This means that in the foreseeable future the marriage rate must fall way below the over 50 per cent of those born in the preceding generation which was, as we have seen above, the normal rate. And the number of children per family will not be maintained at the 2.2 per cent rate, the minimum requirement for reproduction. From this we can derive a pretty safe forecast for the generation beyond

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<sup>4</sup> That trend had already been noticed in the twenties. See, above all, "*Der internationale Geburtenstreik*," by Ernst Kahn, Frankfurt/Main, 1930. Since 1915 the average number of children per marriage had declined to 2.2 from 4.3 in the preceding generation.—I am indebted for most of this statistical material to Dr. Fritz Harzendorf, Goepfingen, editor of the *Neue Wuerttembergische Zeitung*, and Professor Dr. Heinz Sauer mann of the University of Frankfurt/Main.

1980. It will see the total population of all Germany reduced below forty million.

This estimate has not taken into consideration two major factors which will tend to accelerate the dismal process of depopulation in Germany. One is the probable partition of Germany into a western and eastern zone, at best as a long-term interim solution. This partition will intensify the overcrowding of the West, and enhance the urbanization of more than two-thirds of the German people living in the Western zone under the most unfavorable conditions. Most of them for many years will have to live in rubble and ruins. The second factor will be an overwhelming tendency on the part of the younger generation to emigrate. At the moment the whole world is still closed to Germans, but that will not remain so very much longer. There are too many continents and countries in dire need of additional population, and the Germans have always been regarded as desirable immigrants by underdeveloped parts of the world. What proportions German emigration will assume in the lifetime of the next generation it is impossible to predict. But it is certain that the pressure will be enormous, greater than at any time in any country of Europe. At best, conditions in Germany will be bleak enough to offer few attractions to hold the young at home.

However, the practical social and economic effects of the revolutionary change in the German population structure will not wait for the next generation. They are very immediate. If we define the employable population as the age groups between 14 and 65 and add to the unemployable (the very young and very old) the roughly 3 million permanent invalids, we are faced with the extraordinary fact that 100 employables in Germany today must take care of 75 unemployables. And with the terrific rate of infant mortality there is little hope that this proportion will improve within the next fifteen years. The situation will rapidly deteriorate as the older groups still at work disappear.

What this implies for western Europe is strikingly evidenced in the age distribution of the German coal miners.<sup>5</sup>

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<sup>5</sup> Source: Ferdinand Friedensburg in *Die deutsche Wirtschaft Zwei Jahre nach dem Zusammenbruch*, published by *Deutsches Institut fuer Wirtschaftsforschung*, Berlin 1947.

AGE DISTRIBUTION OF THE MINERS IN THE RUHR

<i>Age Group</i>	<i>Percentage of Total</i>		
	1913	1943	1945
Under 19	14.9	5.2	4.8
20 to 29	30.1	15.9	8.3
30 to 39	30.1	34.7	21.9
40 to 49	14.9	30.9	39.7
over 50	10.0	13.0	25.3

It appears that in 1945, 65 per cent of the Ruhr miners were 40 years and older against less than 25 per cent before World War I, while the number of the youngsters up to 29 years dropped within one generation from 45 to 13 per cent! (Unfortunately no exactly comparable figures are available for the United States coal mining industry because the American census has a somewhat different breakdown of the age groups. But according to the latest census only 167,530 out of a total of 523,869 males employed in the coal mining industry, i.e., less than one-third, were 45 years and older, and this figure included the whole white-collar personnel.) Twenty years ago persons above 40 would have been employed in underground work in Germany only in exceptional cases. Now two-thirds of the total work in the pits is done by this group. Moreover, coal mining in the Ruhr operates entirely in pits of great depth, while a considerable part of American coal is won in surface mining. The conclusion from these figures is serious. Within ten years Germany will no longer be able to keep its coal mines at a production level anywhere near the prewar normal—another item which probably was never mentioned in the endless debates of our statesmen over the future of Germany in general and the future of the Ruhr in particular.

The labor shortage in the Ruhr is only the most critical aspect of the general phenomenon that even now hampers industrial progress in the German west. General Clay in his June 1947 report speaks of the "critical proportion labor shortage assumed in five or six branches of industry"—at a time when German industry was operating at little over 40 per cent of its sharply reduced capacity! We shall see in a later chapter how the pitifully low coal production in the Ruhr is gained by a sharply increased crew. This applies to all industries. In the words of General

Clay's report, "a part of the increased demand for labor was due to the effort of employers to compensate for reductions in efficiency, working hours, stamina and health of their undernourished employees by means of numerical additions to their staffs. . . . Manpower shortages were recorded particularly in iron and steel mills, all mining other than coal, all kinds of construction work, production of building materials and repair of railway rolling stock. These are the very industries in which the low level of food rations, lack of adequate clothing and footwear, wage inequities and primitive working conditions combine to keep the workers away, as the conservation of energy, health and clothing have become paramount considerations in accepting jobs."

The little attention paid by public opinion in the world to the German population problem is a grave mistake. It is exceedingly important to raise coal production in the Ruhr and to try to make at least the western zones of Germany self-supporting. On this goal all efforts have been concentrated since early in 1947. But it would be a fateful delusion to disregard the human problem which eventually may decide whether Europe survives or perishes. The lightheartedness with which the fate of Eastern Germany was settled by the Allies defies all historical comparison. This decision, too, must be traced back to the Yalta Conference. It was there that the Big Three agreed that "Poland must receive substantial accession of territory in the north and west. . . . The final delimitation of the western frontier of Poland should await the peace conference." Poland was to be "compensated" for the acceptance of the Curzon Line as its border with Russia, i.e., for the cession of about half of Poland's pre-1939 territory.<sup>6</sup>

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<sup>6</sup> Stalin insisted on his share of the loot Hitler had conceded him in their agreement on the partition of Poland which preceded Hitler's attack and invasion. That in itself was shocking enough in view of the nature of the Hitler-Stalin Pact, the very origin of Hitler's aggression—and in view of the horrible devastations Poland had been suffering for almost six years. The shock at the partition was mitigated even to not completely obtuse minds by the fact that Poland east of the Curzon Line had been incorporated against the advice and without the consent of the Western Allies in the Russo-Polish war which followed the Treaty of Versailles. In that territory the Polish-speaking population was never more than a small minority (this was only half an excuse for Russia because the majority of the inhabitants were not

The thinly populated country had still fewer inhabitants after the Nazis had exterminated millions of Jews and hundreds of thousands of Poles, and the Russians had driven out and let millions of Poles perish in the vastness of Siberia. No nation in Europe was in less need of land than the Poles thus pathetically reduced in number. However, compensation of victors with the land of the vanquished has been the traditional rule of peacemaking since time immemorial. It was thought—erroneously—that the new age the world had entered in 1918 had abrogated this rule. American statesmen in particular should not have completely ignored Wilson's unforgotten words addressed to Congress on February 11, 1918: ". . . that peoples and provinces are not to be bartered about from sovereignty to sovereignty as if they were chattel or pawns in a game." President Roosevelt and Winston Churchill seemed still to remember those words when they signed the Atlantic Charter in 1941, but they were apparently forgotten at the Yalta Conference in February 1945 and not recalled in Potsdam six months later.

The Czechs had lost no land to be compensated for. They were compensated for moral, not economic, suffering. Their "compensation" consisted in ridding them of their German fellow-citizens, over 25 per cent of their total population, whom they bitterly disliked. This compensation converted some of the richest parts of Czechoslovakia into a semi-desert. Of this tragedy the casual visitor to Prague sees and hears nothing. But the effect of the expulsion of the Sudeten Germans on the future of both Germany and Czechoslovakia as the most thriving and most highly developed nations of Central Europe will be no less lasting and serious for that. Of this more will be said in the last two chapters.

What is altogether new and unprecedented is compensation in land without the "human chattel." In former times the conqueror wanted men with the land because the men represented wealth and power. Mankind had to advance to Hitler's gospel to separate the two and to want land without men. In the semi-obscurity

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Russian either). But this argument deprived the case for "compensation" of its material basis. If the Poles had lost only what never should have been theirs, for what were they to be "compensated"?

that still surrounds the diplomatic history of the war these matters have remained covered by ambiguous phrases. This ambiguity reached its perfection at Potsdam where the Big Three agreed that "pending the final determination of Poland's western frontier" German territory to the east of the Oder and Neisse Rivers should be "under the administration of the Polish state." And the agreement was carried to the point that

"the three governments, having considered the question *in all its aspects* [author's italics] recognize that the transfer to Germany of German population or elements thereof remaining in Poland, Czechoslovakia and Hungary will have to be undertaken. They agree that any transfer that takes place should be effected in an orderly and humane manner. . . . The Czechoslovak government, the Polish provisional government, and the Control Council in Hungary are at the same time . . . being requested meanwhile to suspend further expulsions."

These sentences will be remembered by future historians. Some day they may supply the text for the obituary on European civilization.

### III.

## *MORAL DESTRUCTION*

THE MORAL (in the broadest sense of the word) destruction of Germany equals the biological and material. This moral destruction is as unique as the all but complete destruction of the cities and the decimation of the nation's manhood in its most vigorous age groups.

Ever since the advent of Hitler the German problem has instinctively been felt by the Western world to be a moral problem. The instinct was right, its expression and rationalization has for the most part been wrong. To most Western observers the Germans were always a strange, puzzling people. Not that Americans and Englishmen and Frenchmen and Italians embrace each other in love and sympathy and understanding. But somehow the Germans as a nation (not the individuals) always remained outsiders to the Western world. This was a paradox because in the last century and a half the German contribution to Western civilization was prodigious, lavished on the world on a stupendous scale. In art, science and technology Western civilization would be unthinkable without this German element. One may argue in each case which nation may claim the laurels for the top performance. Taste and prejudice here enter the contest. But for sheer quantity and universality of accomplishment few will doubt that civilization owes the Germans a gigantic debt. It is in part this very fact that explains the shock the world suffered when Germany became responsible for crimes and barbarisms beyond human capacity to comprehend. And the Germany that won its unity in three short wars between 1864 and 1871 and rose with meteoric speed to the pinnacle of its power in 1914 never ceased to fill the world with a sense of fear.

This mixture of admiration and fear was still the reaction of all too many people to the phenomenon of Hitler, and it was this reaction that made the threatened world waver in its attitude until it was too late. Was not here the hero who commanded

"the wave of the future"? Did he not abolish unemployment? Had he not—how often one had to hear or to read that nauseating phrase—restored dignity and unity and self-respect to the German people? Had he not achieved discipline and order in the midst of a world struggling with a growing lack of discipline and spreading disorder? Oh yes, he was a strange animal. His voice sounded raucous, his hair lock and his gestures were not quite gentleman-like, the arguments he used were not quite suitable for an academic debating society. But after all, this was the age of the masses, wasn't it, and the man who undertook to domesticate that beast had to use some unconventional techniques. Concentration camps? Oh well, the tourists who flocked by the hundreds of thousands to Berlin and Munich and Nuernberg before and after the Olympic Games of 1936 saw about as much of them as the flocks guided by an Intourist shepherd saw of the Soviet camps. Besides, the inmates were "*only*" communists and Jews, so why bother? Few of the statesmen, bankers and industrialists who went to Berlin and accepted and enjoyed the marvels of hospitality showered on them by Goering and Himmler and many of the other criminals rarely revealed afterwards a sense of shame and repugnance for having consorted with the scum of the earth. They were impressed, flattered, doped.

How many of these statesmen and visitors gave much thought to the moral disintegration that was sweeping the German nation under their eyes? The conquest of the German people by the Nazi terror had to be completed before the conquest of the outside world could begin. The German people were Hitler's first victim. This campaign lasted from 1933 to 1938, almost six years. The conquest was sealed and legalized in the unforgettable meeting at Munich in September 1938, the days of Europe's deepest humiliation. On September 29, the German people with the rest of the Continent were forced into capitulation.

But these external events explain only part of the story. The fact remains that Hitler had acquired the power to organize his terror system in 1933; the fact remains that his party had won, though not quite a majority, yet by far the largest number of votes, which gave the usurper a semblance of legality; the fact remains that no resistance was offered to the putsch of 1933; the fact remains that the spiritual and intellectual leaders of the

nation, the upper strata of the German social pyramid, just as much as the Marxist-trained proletariat, could be *gleichgeschaltet* (coordinated) with a minimum of friction; the fact remains that the lack of spontaneous revulsion, the lack of moral disgust was so general that acts of individual heroism and decency performed in hundreds of thousands of instances remained futile, did not kindle a flame of revolt. The truth is that Germany was already a morally sick country when Hitler started on his road.

What specifically was the origin and nature of this moral sickness? The origin can readily be traced to 1918, to the utter defeat in the First World War. Misled by the phoenix-like resurgence of Germany's economic and cultural strength in the late twenties, the world has never grasped the deadly lasting effects of the shock of 1918 on Germany's moral and intellectual status. Stephen Spender in his *European Witness* makes the trenchant observation that of Goebbels' incredibly crude and cruel novel *Michael*, published in 1929, not a single mention, still less a review, could be found in any English-language newspaper or magazine. He should have added that it was ignored in Germany too. The book lacked the most primitive literary qualities. Yet it probably reflected more of the intellectual and moral complexion of his generation than a hundred highly praised novels which enjoyed the favors of the Berlin press and were discussed in the carefree salons of the upper class as remote from the rumblings in their own nation as from the moon.

It has often been observed, and correctly, that the German Revolution of 1918 was no real revolution. A regime believed to be founded on granite, unshakable, unchallengeable, broke down. It buried under its fragments a society which with its specific standards of behavior, its specific moral and intellectual values, had been responsible, was entitled to the credit and burdened with the guilt, for the catastrophe.

That Prusso-German society<sup>1</sup> of pre-1914 was a prodigy. It

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<sup>1</sup> The pattern of society was about the same in Saxony. It was somewhat different in the South: Bavaria, Wuerttemberg and Baden had a different historical background and exercised, after 1870, a liberalizing and democratizing influence on the Reich regime. Here we need not go into that aspect of modern Germany; it was not decisive for the course of events. (For the problem of Prussia see Chapter X.)

rested on a few solid pillars. To each a special task was assigned. The task was performed to perfection. There was a government under the Crown. It had to govern, i.e., administer the laws. The government was responsible not to the people, not to parliament, but to the monarch. It recruited itself and its helpers largely from a certain class—it was a government by Junkers. This class had been trained for the task by a tradition of more than two hundred years. This class was poor, conscientious, hardworking, highly educated, honest, efficient and strictly conservative. Germany had a smoothly functioning, dependable civil service long before any other European state, including England, built up a comparable machinery.

The second pillar was the army. It too was under the absolute command of the Emperor-King, not integrated into the government. The army was kept outside the political game. It was supposed to stay aloof from party squabbles, ideological debates, from any kind of publicity. It was a perfect machine in itself. Its tradition had the same roots as that of the bureaucracy. The caste from which it recruited its leading officers was the same as that on which the civil service drew, except that the more talented sons joined the army, the less talented went into civil service. The officer, too, hailed from the landed gentry with which, even after several generations of army careers (it was in large degree an hereditary calling), he observed and cherished family and social ties. As a rule the life of an army officer followed a rigid and dull routine: drill in the barrack courts of some small or medium-sized provincial town by day, social gatherings in the local officers' casino among comrades and social peers in the evenings, interspersed by some excitement on the occasions when some outside general appeared for inspection or some Royal Highness from some neighboring little court honored the garrison by his visit.

The third pillar was the upper bourgeoisie, *das Buergerthum*. Its function was to make money, to develop industry and commerce, thereby contributing to the glory and power of Germany. That bourgeoisie, however economically powerful, however rich, was quite a few rungs lower on the social ladder. Its sons were at best admitted to the rank of a *Reserve-Leutnant* (and even

this not to all regiments—some regiments were restricted to the nobility); its daughters were generously permitted to gild the poverty of their noble husbands by a rich dowry while often father and mother-in-law were discreetly kept in the background. However, this bourgeoisie too had its strict traditions and standards. It was conscious of its place in the social hierarchy and conscious of its function in national life. It set its pride by no means on money alone. It devoted its time and energy to the acquisition of cultural goods (*Kulturgueter*). Sons and daughters had to receive the best all-round education. Chamber music ennobled leisure hours, paintings—good or bad, varying with the taste of the times—covered the walls of solidly built, high-ceilinged, spacious houses or apartments. The one thing from which this bourgeoisie held aloof was politics and government. This was left safely in the hands of those to whom God had entrusted it, unquestioned, uncriticized, except in order to enliven drawingroom conversation.

The fourth pillar was the intelligentsia as represented by the official academic world. In social rank it was somewhere between the bourgeoisie and the civil service. Civil servants after all had to go through university training, just as the bourgeoisie received its knowledge and skill in science and technology in the sacred halls of the various alma maters, the ancient universities and schools of technology, the pride of Germany, admired by the entire civilized world. This pillar too derived its social standing from the Crown. A professor was appointed by the monarch. He had to take the oath of loyalty, and he was supposed to have the conventional views on all fundamental matters of the history of his nation. Republicans or revolutionaries were not only not tolerated; they never had much chance of joining academic circles, whatever their scholarly record or achievement. It was useful for a young man who wished to embark on an academic career—at least at some universities—to be a *Reserve-Leutnant*. It was a matter of course that he had to belong to a family free from public or private blame. These scholars could set up monuments to their own fame and to the fame of their country by their work as long as they remained in their special field. It was not wholesome for their career to express publicly dissenting views on

public matters unless and until they were established as famous figures.<sup>2</sup>

These four pillars carried the German state, the German nation and society. The rest were *das Volk*. The people, the masses were well taken care of, but they were object, not subject of government. It was a government by the Junkers, but not for the Junkers, a government for the people, but not by the people. It had the first comprehensive social insurance system, long before Great Britain. It undertook large-scale nationalization and municipalization of public utilities. It was anxious to protect the people against over-exploitation. It assumed—much earlier than any other state—and retained a position of control over the driving forces of the capitalist system when this burst into full bloom. But it remained an *Obrigkeits-Staat*, an authoritarian state, which sometimes accepted and asked for advice, but was immune to political pressure from below.

A towering genius like Bismarck early realized the advisability of broadening the basis of government, of integrating the masses into the governmental system. It was the Junker Bismarck who performed the revolutionary act of having the first German Reichstag in 1871 elected by universal equal secret ballot. No other great nation in Europe dared at that time to adopt that electoral system, to abandon privileges of birth and property in the composition of their parliaments. But Bismarck, besides being a genius, would not have been a conservative Junker had he not at once provided for balancing powers. The Reichstag, elected by universal suffrage, had limited rights. It could pass or reject laws, but it could not overthrow the government any more than the United States Congress can. The Chancellor and the members of his cabinet derived their power from the con-

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<sup>2</sup> This analysis is rather sketchy on purpose. There were always rebels in the academic world. Men of the calibre of Max Weber, Hans Delbrueck, Lujo Brentano, Theodor Lips, to name but a few, were often anti-governmental. The competition among the administrations in charge of the universities which were under the Laender, not the Reich, helped, as competition always does, to preserve a comparative independence for academic teachers of rank, provided they were not Social Democrats and kept their public remarks respectable.

fidence of the Crown, not of the people. The emperor alone could appoint and dismiss his ministers.

But more important than in the federal government was the position of power the ruling classes retained in the state of Prussia (and after its example in most of the minor federal states). Not until the days of the Republic in 1918 was the Prussian diet elected by universal suffrage. Until then it was composed of representatives of landed and urban property according to a tax census, and, the king of Prussia being the emperor, it was in Prussia that the real power rested.

This system went all the way through from the Reich to the federal states to the counties and municipalities. The *Oberbuergermeister* (lord mayors) and *Buergermeister* (mayors) were not elected politicians, they were appointed technicians, civil servants trained in public administration. Untrained in the arts and problems of politics, they ran their big and small realms with equal success. The beauty and cleanliness, honesty and efficiency, the amazing cultural standards of the German cities were one of the wonders of European civilization. With taxpayers' money these cities subsidized several dozens of year-round opera houses—many of them on the highest artistic level—theaters, museums, schools, hospitals, highways, housing developments and sports arenas. But this too was performed on a strictly bureaucratic level. The citizen was a beneficiary or a victim (according to his position), not a responsible partner in local government.

All in all, it was a monolithic system of government, seemingly built on rock, with firm standards, moral and intellectual, so generally accepted that it could grow in an atmosphere of spiritual freedom that was the envy of traveling Americans and Englishmen. To the English of the Victorian age and before, Germany was a paradise of intellectual and moral liberty. Topics that were tabu in the corresponding circles of Britain or New England<sup>3</sup> could be discussed freely in the best circles. The youth of both sexes enjoyed a degree of independence within the fam-

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<sup>3</sup> "Love and Liberty are interpreted by those simple Germans in a way which honest folks in Yorkshire and Somersetshire little understand; and a lady might, in some philosophic and civilized towns, be divorced ever so many times from her respective husbands and keep her character in society." (Thackeray, *Vanity Fair*, Part III, chapter XIII.)

ily that the nineteenth century denied the youth of the English-speaking world. But all this remained strictly outside the political sphere, and no pressure was needed to keep it there. The freedom of the press was unchallenged; the theatres produced plays on revolutionary subjects. But in almost half a century (between the founding of the Reich and the outbreak of World War I) of undisturbed peace and overwhelming rise of political power and economic wealth, even the Marxist-trained Social Democracy, which organized a rapidly growing industrial proletariat into a powerful political movement, became after revolutionary origins a conservative force. It too accepted consciously or otherwise the moral and intellectual standards of the traditional ruling classes. "Revisionism" had conquered the party before the generation that was going to fight the First World War had grown up.

We have to let the picture of that pre-1914 Germany sink into our minds if we want to understand and to appreciate what defeat and collapse in 1918 did to the German people. It was not a revolution, it was an earthquake.<sup>4</sup> It covered with its debris not only Germany's military power. It buried all these inherited, accepted, unquestioned standards, leaving the people in a moral, intellectual, social, political vacuum. Ever since 1918 the German people have been uprooted, in confused search for a new style of living, for a new order, for a new system, a people without an instinct for values and without tools to measure values—an easy prey for an organized gang of criminals determined to conquer power and to impose their power on a defenseless mass.

In the fifteen years between the earthquake of defeat and the earthquake of Hitler's coup, Germany never ceased to be uncanny to the world, but the world never understood why. It looked at

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<sup>4</sup>In what direction Germany would have moved politically without the war of 1914 is a fascinating speculation. Germany, without doubt, was on the way to being transformed into a parliamentary monarchy on the British pattern. Sooner or later the citadel of Junker power in Prussia would have fallen and the power passed to the middle classes and organized labor which were strongly in the political ascendancy in the decade prior to 1914 and dominated the Reichstag although not the government. But fate denied to Germany the gradual political evolution by reform with which insular Britain was blessed.

the surface (as it has been looking ever since) but it never saw or understood what was going on beneath the surface. The scattered remnants of the former ruling classes were still alive, but they were not much in evidence. The world was satisfied that the German Army, for several decades an object of fear and admiration, was destroyed. But the hundreds of thousands of officers who had lost jobs, position, personal resources and their self-esteem in an ordered society were still around, earning a meagre livelihood as bank clerks or salesmen of insurance policies or in some nondescript career where patriotic businessmen placed them out of charity rather than for their usefulness. These men, many of them still in the prime of life, had to survive in a world they did not understand, which filled them with despair and to some was utterly despicable, a continuous betrayal of all they held sacred. This *Generation der Frontkämpfer* (generation of front soldiers) had only one desire, to break out of their humdrum, narrow, unbearable environment, to find some opportunity for adventure that would restore the world they had lost. These were the men who long after the armistice of 1918 fought in the free corps in the Baltic and Silesia, and when there was nothing to fight abroad or on the borders, returned home determined to fight the "enemy within." They had their secret *Buende* (leagues) where the old titles, the old uniforms, the old phraseologies (emptied by history of all reality) were strictly observed. They were the first to flock to the beer halls where a quaint Austrian private first class roared out his vile indictments against the evils and dishonor of the "system."

The armistice had broken the strongest of the pillars, the army. The inflation reduced another pillar, the bourgeois middle classes. By 1923 the formerly propertied classes were largely pauperized. Savings accumulated in generations had evaporated, old family properties changed hands, and the new hands more often than not were those of persons who "did not belong." The *Schieber* (racketeer), *Kriegsgewinner* (war profiteer), the politicians who suddenly wielded political power: they were—or so it seemed—the illegitimate heirs to the power torn from the traditional classes. These new faces represented republic and democracy to the disinherited, the uprooted. On them hatred, contempt, envy concentrated with fanatic, pathological intensity. They were

the victims of political murder (Erzberger, Rathenau and others), something altogether new in German political life. They were the targets of Hitler's crusade. They had to be exterminated root and branch.

The moral chaos, spread and intensified during the inflation, seemed to recede for a short five years between the stabilization of the mark in 1924 and the American crash in 1929. But it reached a new climax, submerging the feeble renaissance of the forces of republic and democracy, in the following years of depression. Hitler never promised war; he promised peace and work. He did not conquer Germany with the prospect of a new blood bath; he conquered Germany with the prospect of full employment and the restoration of the old values—honor, discipline and national power. He cashed in on the widespread nostalgia of a despairing people for a paradise lost, of a people that had never known self-government, never known the meaning of democracy; had never depended on individual responsibility in public life, never regarded public activity as the supreme civic duty.

Against this background the complete moral devastation of what is left of Germany today must be understood. The casual foreign visitor, usually unfamiliar with the language and almost always with the history of the country, may be a truthful and reliable observer of facts but utterly incapable of interpreting them, of understanding what that moral devastation means and presages. One of the worst absurdities in which the Allied victors indulged was to believe that they could simply dictate "democracy" to a shattered nation with the historical antecedents of the Germans, that they could order "re-education" by a few directives backed by an army of occupation (itself very much in need of political education for its own country), that they could enforce "denazification" by a simple surgical operation. Only the utter naïveté of civilians devoid of a historical mind and of army men trained to rely on orders could conceive such a scheme. Rauschning's poignant, precise term, "the Revolution of Nihilism," was either never heard or never comprehended by the authors of JCS 1067. Otherwise it would not have occurred to them to subject nihilism triumphant in disaster and chaos to a treatment of army medi-

cine dispensed by the conqueror. It is, as an eminent Japanese scholar pointed out to a visiting educational mission from America, really embarrassing to intelligent individuals on both sides.

Hitler had only to complete what the First World War and the "fourteen shameful years" (as he dared denounce the period of the Weimar Republic in his first manifesto as Chancellor) had prepared. He did a thorough job. Just as a virus or germ lingering in a body needs a propitious weakening to sprout, an abrupt change in temperature or diet to become virulent and deadly, so the political system organized by the Nazis brought all the weaknesses in the body of the German nation into violent bloom. The Nazis proceeded according to a carefully laid out, long discussed plan. They had studied with care both the Russian bolshevist and the Italian fascist systems and, while adopting their basic methods, particularly the techniques of secret police and terrorization, they improved on them considerably.

One secret of Hitler's domestic success was the gradualness of his encroachment. Step by step he advanced, never taking more than one measure at a time in order not to arouse concerted resistance. He began with emphatic assurances to the world, with promises of work and peace. The first year was devoted largely to measures of *Gleichschaltung*. Industry and commerce, unions and farms were *gleichgeschaltet*, that is, subjected to the "leader-principle," and the leader was, of course, a trusted Nazi. Concentration camps were filled with "Marxists," the Communist party was outlawed, social leaders usually still had a chance to flee abroad. Jews and "unreliable elements" were eliminated from the civil service, from the industrial organizations, from the universities, from the professions. But because they were permitted to remain in some economic activities many did not seek refuge abroad while there was still opportunity to go. Not until 1938 were German Jews subjected to pogroms and deportation; the wholesale slaughter began only after the conquest of Poland.

The same method of gradualism was applied by Hitler to his political allies and even his own party. The Hitler regime began as a coalition with the Nationalist party of Hugenberg and the veterans' organization *Stahlhelm* (steel helmet) of Seldte. Within a few months both were dissolved and the leaders either bribed

into connivance or condemned to obscurity and impotence. It was enough to see to it that they could not write or print or address the public in any form. Besides, their personal movements were closely watched by the police.

Soon after, Hitler purged his own party in the blood bath of June 30, 1934. The purge (this euphemistic expression for mass murder of political opponents borrowed from the Bolsheviks) excluded once and for all any opposition to Hitler's whim from within the Party. Until then he had several times been faced with serious revolt from the rather unruly gangsters and adventurers who in its early days formed the core of his party. There was only one potentially serious enemy left, the army. As long as Hindenburg lived, a frontal attack on the army would have been too risky. After Hindenburg's death it was easy. Hitler, by the grace of God and by popular will, was the "legitimate" supreme commander in chief, with power to promote and demote, to shower honors and privileges on the deserving and to wipe out the undeserving in the army. We now know that he never conquered that part of the army in which the old tradition remained alive. Generals and conservative staff officers steeped in the ethical traditions of the old army became the backbone of a widespread, however frustrated, German underground. But they were the older men. The younger men, from lieutenants to majors, belonged to the generation grown up and corrupted in the twenty years after the outbreak of World War I, although one must not disregard the thousands of young men who, especially in the early years of the regime, joined the army because it seemed to offer a haven of comparative freedom and decency against the morally suffocating atmosphere of the Party.

The cancer had already eaten too deeply into the moral fibre of the nation to be checked. The generation of young people who flocked into Hitler's camp was the generation born after 1910. It has been called "the fatherless generation." They had spent their childhood in the years between 1914 and 1919 when their fathers were away in foreign lands and their mothers too absorbed in the dire struggle for survival (or in more pleasant diversions) to care for them. When the eyes of these kids were opened in 1918, they saw a defeated country in the grip of political, social and economic disorder, culminating in the apocalyptic

whirlwind inflation of 1923 and, after less than half a decade of boom and miraculous achievement, found themselves thrown into the fangs of the worst depression on record.

To this generation Hitler offered many appealing hopes. First of all, these millions of boys and girls, grown up without faith, without belief in binding values, were organized in a discipline that relieved them of struggle and doubt. The shiftless were told where they belonged, how their day was to be spent, what to do with themselves. In the S.A. (Storm Troopers) they met their equals, contemporaries with the same background and the same fate. They did not resent the discipline, they did not yearn for a freedom that had meant to them squalor and poverty, the humiliation of joblessness and a future without hope. And there were great compensations which to that generation gave a real sense of liberation. Hitler liberated them indeed from all the ties, restrictions and inhibitions in the private sphere which an orderly society imposes on its youth. There was, above all, the tremendous lure of sexual freedom. The importance of this feature for Hitler's success among the young cannot be overrated.

The emancipation of the young German generation in this respect had advanced very far before Hitler. The youth movement, the *Wandervogel*, the revolt against home and parents, had spread irresistibly all over Germany in the years of the decomposition of the old bourgeois society. But it was Hitler and National Socialism that sanctioned the revolt, extolled and glorified libertinage into a virtue, gave the taint of sin the glamor of national duty. What had formerly been done clandestinely was now proudly paraded in full daylight. (This sexual element played a very significant similar role in the early phase of the Soviets.) Loss of political freedom? That generation did not even know what the words mean. Most of them had not begun to participate in the political life of their nation. Politics was a ridiculous, contemptible pastime of old professionals who made a living at it, the *Bonzen*. The young had all the liberties they really cared about. They felt strong and enjoyed their bodies. They marched and hiked and camped and sang together, carefree, with a growing sense of lust and power, conquering Germany today in order to conquer the world tomorrow (as one of their provocative songs taught them). To them democracy meant unemployment. Eco-

conomic virtues meant despised capitalism, an economic system discredited by inflation and depression, a system they had been trained to disdain by generations of Marxist socialist teachers.

But loving, marching and singing were not enough to forge reliable bonds of loyalty and readiness for sacrifice. The sense of superiority of these youngsters over the bourgeois world had first to be sublimated into a ubiquitous ideal, racial nationalism, and directed against a ubiquitous enemy. That enemy was the Jew, the non-Aryan, the inferior races. Religion, family, property, justice, all the ties that hold Western society together by firmly established and strongly safeguarded institutions, had to be wiped out or subdued in order to make supreme the criminal basic instincts implanted by an abstruse philosophy. The words were retained but were given a perverted meaning.

The war and chaos of defeat brought all this to its ultimate climax. To the moral decomposition were added the miseries of physical destruction, mental despair, hunger and helplessness. Not only the criminal element present in every nation became rampant. So widespread was the disintegration of moral barriers and inhibitions, so thorough the breakdown of all cohesion within German society that a vast number of the so-called decent people lost the sense and notion of criminal guilt. The millions who within a few minutes were bombed out of possessions accumulated during generations had little regard for the private property of others. Looting, robbing, thieving became a matter of course, a legitimate form of self-preservation, a sort of compulsory primitive communism practiced on a highly individualistic basis. A good child is the one that brings home a few pilfered potatoes or pieces of coal, bad the one that keeps the loot for himself. At a time when millions were killed indiscriminately—women, children, the old—human life dropped deeply in value. People to whom suicides among their friends and neighbors were common daily events, who saw human beings dying by the thousands through enemy action or starvation or sickness that would have been minor under normal circumstances but became lethal with the lack of food, medicine, doctors, retained little respect for the sanctity of life.

The foreign journalists and Gallup pollers who swamp Ger-

many and interview the man in the street about his sense of guilt only to find out that the Germans remained "unregenerate" by the defeat are engaged in a tragic-comic occupation. Their methods are pathetically incommensurate with the problem. They assume tacitly (consciously or not) that history is a sort of training course. When a chapter or term is completed, nations have to go through a test and examination, after which they are accorded points. They either pass or flunk. The Germans seem to be flunking once more. He—the representative German as established by Gallup methods—refuses responsibility for the war, lacks self-criticism; he pleads that he is a victim of coercion and does not score his own active or passive connivance; he still regards government as something outside himself which is responsible for his weal and woe; he is indifferent to or contemptuous of the existing parties; he, particularly the youngsters and the females, does not participate in political activities; he is ignorant of the outside world; he does not even hate his conquerors; he is servile, obedient to all orders and, this is the most general observation, obsessed by self-pity.

All this is true and correctly seen; but the interpretation is absurdly slanted. All foreign observers sent to Germany should be subjected in an advance training course to live on 800 or 1000 calories a day for several weeks and to watch their own mental and emotional reactions, if possible in the bleak environment in which the great mass of Germans live today, in windowless, airless cellars or in an overcrowded garret overlooking miles of bizarre ruins. What they will notice in themselves will be a rapid shrinking of all mental and moral energies, intellectual indifference, incapacity for strong emotion, and above all a fast growing obsession with the thought of food to the exclusion of anything else. People become tired and apathetic, indifferent to all activities except the animal-like search for food and shelter. The instinct for self-preservation, the struggle for survival become all important.

The physical effects of starvation and undernourishment are accurately measured and published in the form of statistics and reports by experts in medicine and social hygiene. The psychological effects of starvation and malnutrition are consistently ignored. The realm of moral and intellectual behavior is treated

as something entirely independent of and apart from these basic material conditions. The Latin wisdom of *mens sana in corpore sano* is accepted as a valid rule for everybody except the Germans. The moral debate on Germany will have to be postponed until the Germans are back on a regular diet of a minimum of 2500 calories a day. Only then shall we be able to ascertain the moral fibre of the German people. And about the degree of their political maturity and their capacity for democratic self-government, we shall know if and when the victors, instead of prescribing the forms and motions of a democratic machinery, permit the Germans to govern themselves and not only shift on them responsibilities the victors have found too heavy and complicated to bear themselves. Parties may begin to mean something to the Germans when they are no longer "licensed." The Germans will regard democratic governments as their governments when they are more than dependent tools and executive organs of the very undemocratic military governments of the victors.

The spirit of democracy cannot be acquired and spread without public discussion, free debate and free information. More than two years after the armistice there is not a single daily newspaper in western Germany, and the Berlin daily newspapers cannot be shipped in numbers to the country. The newspapers in the rest of the country consist of two to four pages issued twice or thrice a week. Germans are still not permitted to import foreign books, are kept in ignorance of what is printed and read in the free world, if we disregard the microscopic trickle of books which may now be sent as gifts, like food parcels, by foreign friends. German "democracy" is not yet allowed to teach its children history and geography in the American and British zones. These subjects are banned from all schools as an essential of the "re-education" of the Germans the victors have undertaken. It is thought preferable that the German children learn no history and geography at all than that they learn "the wrong kind." Only, what the right kind of German history and geography is, about that Americans have different notions from the French and Russians. Unless unification is achieved some day, Germans will have to learn four different kinds of history and geography. To such lengths can the absurdity of "denazification" and "demilitarization" by order of the victors be carried.

Even a short sketch of Germany's present moral condition would be faulty were it to ignore the havoc worked by "denazification." Denazification means one thing in the American zone, another in the British, a third in the French, and a fourth in the Soviet zone. In the last it is a favorite instrument of class warfare and sovietization. "Nazi" and "militarist" for the authorities is every member of the propertied classes. If somebody's factory or shop or house is to be expropriated he is simply denounced as a Nazi or war criminal, and that settles it. He may escape his fate by joining the Communist party; then he has redeemed his soul and enjoys all temporal benefits of such blessed conversion. The French—under vacillating practises—represent the other extreme. They do not care too much about denazification since they had no share in formulating the Potsdam principles. Besides, they are little inclined to discriminate between the black and the white sheep among the Germans. To the French all are just *boches*. So their yardsticks are the most lenient of all. The British believe that in their zone denazification is most earnestly carried out. The Americans claim this distinction for themselves (so do the Russians) and they have certainly made the biggest mess of it by meticulously systematic codification.

There are good reasons to believe that between the writing and the publication of this book the worst mistakes in our denazification policy may be corrected. But effects of these mistakes will not. They will persist for a long time and form one of the most deplorable elements in shaping the new Germany. It is unfair to accuse the American policy, as it has been done, of undermining and violating the idea of justice in Germany. This was done only too thoroughly by the Hitler regime. This regime was lawless in itself and its leaders were criminals by the standards of any written or unwritten code of justice. It was inconceivable that these crimes should go unpunished. But the very nature of the problem was misunderstood by those in Washington who had to plan in advance the occupation policies. Their mistake was—and this rendered their task insoluble—that they made war not on the Nazis but on the Germans on the theory of collective guilt. Were the theory valid, denazification would be senseless. The whole nation would have to be criminally prosecuted—an obviously absurd proposition. The fact that the vic-

tors set out to denazify was a refutation of their own theory. ("Germany will not be occupied for the purpose of liberation, but as a defeated enemy nation." JCS 1067, #4b.)

This theory was bound to throw the whole German people into an unmanageable moral confusion. Countless millions of Germans—toward the end of the war unquestionably the overwhelming majority of the nation—hated the Nazis, and as misery mounted, with an increasingly devouring passion. The psychological situation in Germany was essentially the same as in the Nazi-occupied countries, though there were two great differences. The one was that Germany was cut off from the rest of the world. The illicit and deadly dangerous listening to foreign broadcasts kept them somewhat informed about the progress of the war, but it gave them neither moral nor material encouragement, and it left them uninformed about the full extent of Nazi crimes. The second, still more portentous difference was that the accumulated passion in the liberated countries was permitted to explode in one fiery outburst with all the ugly concomitants of every revolution, but with the wholesome effect of satisfied justice and atonement. That happened in France and in Italy, in Holland, Belgium, Denmark and Norway. Local outbursts and quick justice (or injustice) soon quenched the desire for vengeance. This was not permitted to happen in Germany. The twelve years of the Nazi regime were a continuous revolution. But the counter-revolution was not allowed to take place in Germany. The military authorities responsible for the maintenance of order saw to it. Millions had been waiting and praying and scheming for the day of liberation from the Nazi monster; millions had made up lists of their enemies, thought out catalogues of measures to eliminate those at whose hands they had suffered. But they never got a chance. Nazis and anti-Nazis were equal under the reign of bombs and they remained equal under the order established by the occupying armies. Again the revolution did not materialize.

What did materialize was an eerie bureaucratic scheme to cope with an essentially revolutionary situation, a scheme that began with questionnaires containing 150 questions (some of them stupid or mischievous) every German had to answer. It proceeded to divide the population into several strictly defined categories by

the criterion of membership or non-membership in the Party, the former again divided by membership before or after May 1, 1937. Yet everybody in Germany knew that many obnoxious crimes had been committed by people who had never acquired or had bestowed upon them a membership card while on the other side millions of party members were innocent and honorable human beings whose only fault was that they were not heroes. Yet, while awaiting trial, they were removed from their posts by the millions. They could not be given new jobs except as ordinary laborers and either they were not qualified for the jobs available or the jobs were unavailable. Meanwhile their property was blocked. The administration of the whole denazification program along these lines soon proved impracticable. Consequently, at the beginning of 1946 the Military Government washed its hands of it and transferred responsibility for denazification to the German authorities on the basis of a law against which practically all German political leaders and organizations had protested, the Law No. 104 of March 5, 1946.

All warnings expressed before the law was issued have come true with a vengeance. One effect of this law was that hundreds of thousands in the American zone alone, completely innocent, have been thrown into misery and destitution and with them millions of women and children, aged and sick because the various courts have not yet worked their way through to their cases, or the cases have been decided but not yet reviewed, or for some reason, good or bad, the trial is being resumed. Widows of Party members long ago deceased are deprived of pensions although they themselves never belonged to the Party. Meanwhile the denazification procedure is spreading over the whole country like an irresistible poison. Informing—always a German vice and actively fostered by the Gestapo—is as rampant as at the height of Nazi terror. Since the burden of proof—contrary to the most fundamental principle of Anglo-Saxon justice—rests on the defendant, not on the prosecutor, a thriving trade has developed in whitewashing certificates (popularly called *Persil-Scheine* for the best known laundry soap). Butchers and bakers require their customers to certify good behavior during the Nazi regime. It is easy to imagine what refusal would mean for the poor customer. But the administration of justice itself is breaking down. It is

becoming rapidly more difficult to man the so-called *Spruchkammern* (tribunals) with proper judges and prosecutors. Members of the legal profession, be they lawyers, judges or public attorneys, who were not implicated in the Nazi regime are few indeed (since the whole administration of law in the Nazi period was a strictly Party-controlled business). The few who would meet the new qualifications are not at all anxious to serve and to antagonize either the majority of their local fellow citizens or the all-powerful Military Government. Thus the tribunals have been rapidly degenerating in quality and quantity until they have become an object of negative competition among the political parties which vie with one another in discrediting the law and discouraging their members from serving on the tribunals.

The most intolerable effect of the procedure is that the denazification status of each individual is meant to be permanent and thereby the whole nation is split into a permanently frozen civil war. In the summer of 1947 a new Executive Order to the Denazification Law instructed the police to mark on all identification cards (which each German is enjoined always to carry on his person) the special status of the bearer.<sup>5</sup>

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<sup>5</sup>To convey a notion of this fantastic procedure it must be explained in some detail. The card contains 15 fields. Field 1 is to be punched for main culprits, field 2 for medium cases, field 3 for the minor culprits, field 4 remains free. All not affected, not incriminated, acquitted, amnestied, pardoned or mere followers are punched in field 5. A punch in field 6 proves assignment to a labor camp; field 7, assignment to specially heavy work; a punch in field 8 implies that the bearer may be employed only for ordinary labor; field 9 that he is unfit for public office, deprived of franchise or the right to political activity or to membership in a political party, a trade union, or a professional trade association. A punch in field 10 indicates restriction of residence, field 11, loss of all licenses, concessions and the right to keep an automobile. Field 12 is punched for people who are forbidden to be teachers, preachers, editors, writers or radio commentators; field 13 indicates business and property restriction for paroled individuals; field 14, restriction in the exercise of a profession and in the training of apprentices; field 15 is punched for those forbidden to continue any business enterprise, sentenced to sell their business interests, to increase the delivery of agricultural or other products, or to perform special services.

Since these identification cards have to be presented on innumerable occasions they have the effect of the caste system in India, of setting German

No wonder that what was initiated as a denazification policy has become the surest, most effective vehicle for re-nazification. It is the former leaders in the fight against the Nazi regime who are today most worried, because this method of denazification has brought only discredit to the prestige of democracy in Germany. Far from restoring a sense of liberty and justice, without which no democracy can come into existence and grow, denazification has created or perpetuated moral chaos.<sup>6</sup>

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against German. A man who enters a hotel has to show his identification card, a man who applies for a job, a man who is questioned by a police patrol in a public place—perpetual hell.

This order was modified before it was put in force.

\* In February 1947 Bishop Wurm, the head of the Evangelical Church in Wuerttemberg and one of the noblest anti-Nazi heroes in the hierarchy of his Church, submitted to the American Military Commander a memorandum on conditions in internment camps from which we quote the following statement:

"In the internment camps all around Ludwigsburg alone there are hundreds of internees, cases of 'automatic arrest,' who despite all promises are not released yet.

"In many instances internees now, after 15 to 20 months, have not yet been questioned, some do not even know why they have been deprived of their liberty.

"Those who have passed the tribunals without having been condemned to the work camps are still not set free because the Americans have not yet confirmed the judgment.

"Alone in Camp No. 74, approximately 500 internees are 'frozen' because they figure on an IMT-list (International Military Tribunal List). Nevertheless, no reproach whatever seems to have been levelled against them; they have been detained for now more than one and a half years only because perhaps in the course of some criminal proceedings they may be wanted as witnesses or informants. In the same camp some 55 'detainees,' also without intelligible reason, await liberation.

"The promised freeing of the dying eight weeks before their prospective demise has to pass so many instances that in the meantime the sick often die.

"In Camp No. 74 there are still three double amputees, one blind amputee and countless severely maimed.

"Numerous women have minor children waiting at home from whom they have been separated for almost two years. In most of these cases, crimes that would require condemnation to work camps have not been committed.

"Decent, innocent persons are detained together with criminals (homosexuals, prostitutes, etc.).

By autumn 1947, more than two years after the armistice, fewer than one-fourth of the big Nazi cases (categories I and II) have been handled. We have not mentioned the economic consequences of this policy which has deprived German industry of much of its managerial, financial and technical talent when it was bitterly needed, and we have not gone here into the problem of dealing with war criminals. The trials of the latter are going on in Nuernberg, and it seems proper to wait for their outcome and not to comment on pending cases. General Clay is now instructed to bring them to an early end, presumably by spring 1948. The public is practically excluded, although these trials are open. Neither the foreign nor the German press prints more than sporadically a few lines on them. They have ceased to be news since the most prominent Nazi criminals have been hanged or have committed suicide. Lack of publicity deprives these trials of their real significance, which is to shape a new law of international justice and gain acceptance for it by an appeal to the democratic conscience of the world. No such appeal issues from Nuernberg. In fact, the official material, indictments and sentences are not even available to the law faculties of the German universities which must certainly be called upon to instil that new sense of democratic justice in their students who for twelve long years—almost half a generation—were trained in the criminal nonsense of Nazi justice. But this is only another light on the picture of chaos and devastation from which no part of German life is exempt.

All this is of course no problem for the Eastern zone of Ger-

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"Hundreds of youths are not being freed despite the amnesty.

"Applications for the freeing of innocents have to pass so many officers that most of them are never brought to a decision.

"Although nothing about guilt or innocence of the internees has yet been established and the duration of the internment in most cases is out of all proportion to their possible guilt, the internment has the direst consequences for entire families. The dependents generally have hardly any subsistence, they often lose their dwelling, their furniture, even their livelihood, and besides their funds are blocked. With all this, they have no way of knowing how long the calamity may last. Thus, these measures intrinsically have very similar consequences to that national-socialist measure condemned for its special cruelty, the *Sippenhaftung* (collective responsibility of the families of incriminated persons) . . . ."

many where the transition from one totalitarian regime to another has been effected in almost unbroken continuity, including most of the paraphernalia, such as concentration camps, secret mass arrests, individual disappearances, deportations. But it is significant that by decree of Marshal Sokolovski in early October 1947 the Nazi followers in the Russian zone were not only amnestied but with a big fanfare reinstated in their political rights.

## IV.

### *MATERIAL DESTRUCTION*

THE DESTRUCTION of the biological and the moral substance of the German nation has taken place amidst the ruins of its material environment. While the biological substance is irreplaceable as far in the future as historical judgment is of any relevance, the material ruin may some day be repaired. But the two are closely interrelated. For many years to come Germany will suffer economically from shortage of manpower, shortage of skill. Reconstruction will be undertaken by a rapidly shrinking population—a fact without precedent since the start of the industrial age. For years to come the economy will be retarded by an atmosphere of impotence, helplessness and frustration hovering like a thick, impenetrable pall over Germany.

But few, even among those who live and work with the best intentions in Germany itself, realize how complete the destruction of the material basis of Germany is. How much less is it perceived by the statesmen with whom the ultimate decisions rest and whose knowledge of German affairs is gathered chiefly from written and printed reports. One of the most appalling experiences of the open-minded traveler in Germany is that people there—Germans and foreigners alike—seem to have become so completely inured to the sight of the ruins that they no longer notice them. It is shocking to watch children playing their games among those ruins. Psychologists will probably discover that obtuseness to the sight of destruction is more apparent than real. Just as living in a beautiful and orderly environment shapes the soul, mind and character, so the environment of debris, ugliness, disorder will produce traits of character among a people doomed to live there that some day may horrify the world. God help us all if the world permits a whole generation to grow up in Germany without the restoration of some of the former beauty of its towns and working plants. As long as there is a generation alive (it is rapidly dying out) to which the memories of the pre-

war and particularly the pre-Hitler Germany are a cherished treasure, that reconstruction must be begun with vigor. Once this generation is gone, the values to be preserved and restored will be gone too. There are enough people still in Frankfurt to whom the memory of Goethe's birthplace is an integral part of their lives and who would sacrifice much to rebuild it in its old form. The children born in Frankfurt since 1933 have grown up in a world of intellectual nihilism and physical destruction. Few have been implanted with a notion of what Goethe meant and how the Goethean tradition was interwoven with the history and growth of their home town.<sup>1</sup>

Almost every German city and town has its own historical background which formed its soul and will die with the old generation since the monuments of that tradition have disappeared.

We have to keep these lasting psychological effects of the German destruction in mind if we want properly to evaluate the reports and statistics about it. The condition in which Germany was taken over by the invading Allied armies defies ordinary imagination. Never before has an urban industrial civilization in a densely populated country been razed flat. It is true that Warsaw was systematically demolished, that most towns in Southern Russia fell victim to savage acts of war. But those towns were rare exceptions in largely agricultural, technically backward countries. However precious some of their buildings were, the great mass of the urban population in Poland and even more in Russia did not live in a much more prosperous and pleasant environment than the peasants that formed the large majority of the people. The urban civilization of Germany was of the western, not of the eastern type. The German towns were not only museums of historical treasures, they were spiritual centers, workshops of a highly individualized and decentralized intellectual, artistic and industrial life. Their universities, their research institutes, their newspapers, their orchestras and opera houses were deeply rooted in local traditions, yet many of them were of national and world importance. All were part of a closely integrated system that had

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<sup>1</sup> Twelve- to fourteen-year-old children found playing in 1945 by American officers within sight of the Wartburg above Eisenach had never heard the name of Martin Luther, still less that he had accomplished right there his translation of the Bible.

performed the miracle of raising, in a small country with few natural resources and an inadequate food basis, without overseas possessions, with an inclement climate, nearly seventy million people to a standard of living higher than that of any other great nation on the European continent. (It is of a significance usually overlooked by the worshippers of the Great-Power complex that only the small countries in Europe, such as Switzerland, Holland and Scandinavia, surpassed Germany in level of prosperity although not in creative accomplishment.)

All this was smashed before the armies, American and British in the west, and Russian in the east, occupied Germany. After Sir Arthur Harris became chief of the bomber command early in 1942, Allied air power was concentrated on the destruction of cities to break down not the industrial power but the will to resist. The attack on the German morale chose as targets the material signs of German civilization, the habitations of the people. The work had been finished with precision and thoroughness before the Anglo-American armies crossed the border. It has been established that the German resistance would have collapsed within a matter of weeks even without the invasion of Germany proper. "The German army is heading for an inevitable collapse within four to eight weeks," wrote the man responsible for the German war economy, Albert Speer, on March 15, 1945, before the Rhine was crossed, because the whole economic life was rapidly coming to a standstill.

The victorious armies took over a country seized by utter paralysis. From the smoking ruins of their towns the representatives of government, most of them Nazis who had good reason to worry about the safety of their skins, had fled. Railroad trains had ceased to run, the roads were blocked, the bridges wrecked, vehicles that could be used for road traffic had largely broken down or disappeared. Since there was no coal there was no gas or electric light, no current supply of food. With the authorities, civilian order had dissolved; in many instances the prisons were opened and with the innocent political victims the criminal elements escaped never to be apprehended again. Banks were closed, and since there was no regular employment the normal sources of income dried up. Few factories could afford to continue to pay wages to employees who had nothing to work on. Most plants,

even those physically intact, had worked for, and were dependent on, regular payments from a government that had vanished. All this took place in the midst of debris and rubble, in a country where sporadic fighting was still going on, where smoke was still rising from the countless fires incendiary bombs had started, amidst a population without medical services, hospitals, doctors or any organization to combat epidemics.

It is a miracle that a disaster involving perhaps a score of millions of human lives was prevented by the invading armies, a miracle improvised with imagination and energy beyond praise by the American and British armies and their military administrations. That within hours or days a minimum of civil order was restored out of the complete chaos, and life kept going amidst the ruins, for this the German people owe the Western victors a debt of gratitude which has rarely been recognized in the distress and disappointment of the following months and years. Most of what was destroyed in Germany was destroyed by the victors, but that a German people is still alive—this Germany owes to the victors too. Besides, the wanton, ruthless self-destruction ordered and committed by despairing Nazi leaders on the last retreat—perfectly senseless under any military aspect—was still enormous. In numerous instances the egocentric Nazi fanatics who knew that their own dirty lives were forfeited prevented by a last flare-up of terror the orderly surrender of cities offered by patriotic anti-Nazi officers and citizens. So complete was the collapse the Hitler regime bequeathed to Germany that only Allied ingenuity and generosity could salvage remnants of a Germany that Hitler and his accomplices in crime were resolved to drag with them into the abyss.

However, a great part of what was actually spared in 1945 of material resources and moral strength was squandered in the next two years of Allied policy. In the summer and autumn of 1947 the German people were in many respects not better but worse off than at the time of the collapse. Then they were still relatively well fed, there was fat on their bones on which they could draw, reserves of energy that could be summoned for immediate reconstruction, an eagerness of spirit ready to start a new life. There were still substantial reserves of material goods left. Most Germans still had some shoes, dresses, suits, shirts and underwear,

they had their household utensils, their furniture, or whatever of all this had been saved from fires and bombs. Thousands of shops and stores had stocks of raw materials and semi-finished goods, spare parts for their machines. The farmers in the countryside, which was physically almost intact except in the few areas of actual fighting, had their livestock, their plows and harrows, their hoes and scythes, their ropes and straps, their hammers and tongs, nails and chains, their harnesses and all the little things a farmer needs for his daily chores. Most of all this is now gone. The best shoes wear out in time, the best suit or dress turns into rags, the last shirt some day disintegrates and there is no needle and no yarn to mend threadbare spots. A shoelace becomes a treasure the sight of which evokes delirious joy or envy. Soup plates or kitchen pots are beyond the reach of those lucky housewives who still have something to cook and serve in them. For the farmer the loss of a nail or the breaking of a leather belt may frustrate the performance of a day's work. Whatever stocks existed in industry, retail shops or on farms are on the point of complete exhaustion.

In these two years the United States and Britain have spent over one billion dollars to keep the German people alive. (Russia and France have extracted hundreds of millions from what was left of the German substance in their zones.) But all the money that was poured into Germany was not enough to prevent the decay of productive energies, much less to make the German economy a meaningful whole that could produce even enough to offset the progressive depletion of existing stocks.

The basic needs remain food and coal. Coal miners were given much higher food rations than other people, but their families were forgotten. So the miner shared his food with his wife and children and went on starving. When his family was included in the benefit, this aroused not the kindest reactions among less privileged categories of workers. The higher food ration was not enough to supply the miner when he needed shoes to walk to the pit. And since few of them lived within walking distance, most of the miners remained dependent on regular transportation from their homes to the mines. But transportation had broken down because there was no steel and no workers and no repair shops for locomotives and cars. Above all, to increase the number of

miners one had to provide first a roof over the heads of the miners and their families. But the industrial towns of the Ruhr where the miners live were the most systematically bombed, most thoroughly destroyed of all. The degree of overcrowding is beyond description.

The paper scheme of building the life of a nation on elaborate statistics does not work. Germany needs much more than adequate food and it is very far from receiving that. An industrial civilization cannot be rebuilt without at the same time bringing back a minimum of the amenities this civilization has created and without which it cannot live. The notion hatched by certain American statesmen, aided and abetted by resentful intellectual and semi-intellectual amanuenses, that 65 million people can be forced into a permanent slave system on a level of bare physical survival and still supply indefinitely immense quantities of goods of highest quality for reparation and foreign consumption is disarming in its fatuity. A nation cannot maintain a productive machinery on a level different from the one on which it lives itself. Man produces goods in order to enjoy them or other goods, not for such abstract purposes as export markets or reparations. Unless the domestic market is restored, unless there is substantial production for domestic consumption, no monetary system can be restored in Germany. Of all this, more is said below. Here we must confine ourselves to a description of what the German reality looks like at this moment.

Some production is going on in Germany all right. Farms and industry and, above all, small artisan shops are busy and turn out as much as they can. The Military Government registers conscientiously every month the percentage of pre-war output attained. In the American zone 46 per cent of the 1936 level was reached in May 1947, the highest since the armistice, and only 33 per cent in the British zone. But these figures do not mean much. They certainly do not indicate that the body of the German economy is putting on fat and gaining strength. These 46 or 33 per cent are attained to a large extent from material salvaged from the war, with machines and tools that cannot be replaced and all too often not even repaired. In other words, what appears as current production is in large degree still further liquidation and consumption of capital stock. On balance it is neither new

capital formation nor increased satisfaction of consumer needs. Germany is still living on its substance, and a daily growing number of Germans can in anguish figure out the hour when they will reach the end of their tether.

In the meantime the gap between the eastern and the western zones is widening. The productive machinery in the eastern zone, or what of it has survived war and invasion, is partly dismantled and partly sovietized. In a state of "full employment" it is rapidly losing its asset value for the occupying conqueror and turning into a liability. The area of Germany that was the bread basket of the Reich is barely producing the meager rations the Russian armies living on the land have accorded to the population. And what is left of its industry is permitted to work full blast on reparation deliveries for Russia; the Germans see no more than a thin trickle of their own product. Conditions in the eastern zone will be expounded in a later chapter.

The contrast between East and West becomes more drastic every day. But the West includes the smaller *French zone* which so far has kept aloof and successfully escaped international publicity. Yet what is going on in the French zone is, from the economic point of view, not very pleasant. The French zone numbers about 6 million people. But these people are on the whole hungrier than those in the other three zones. Unlike the Americans and the British, but like the Russians, the French have succeeded in making their zone self-supporting. They exploit even its poverty. They keep a disproportionately large army of occupation amply endowed with relatives and other dependents.<sup>2</sup> They organize from their zone German "exports" to France, for which the three Laender governments have to pay and which actually amount to a capital transfer from Germany to France in the guise

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<sup>2</sup>In late summer 1947 neutral observers estimated that 160,000 Frenchmen lived in the French zone of Germany, among them 11,000 officials and 40,000 dependents. They live far better than they would in France, and draw a large part of their food from their starving zone. Eighty per cent of German wine, a major German export before the war, is made from grapes grown in the French zone. But by the middle of 1947 no German wine could be sold directly overseas, particularly to the United States. An Alsatian firm has the exclusive license to buy up the vintage of the Palatinate and the Moselle Valley.

of commercial transactions. And they use their military power to transfer as much equipment as possible from their zone into the Saar region before it becomes formally incorporated into the French economic system. Few exact figures are known because nobody is authorized to look into the handling of the French occupation policy. The German press may not utter a whisper of criticism or ask questions. And the French press shows little eagerness to disagree with the occupation policy of its government.

But the French not only take for their own use what they please from their own part of Germany. They also produce foreign exchange from the sale of products and capital assets of their zone to countries with hard currency. According to figures on the trade of the French zone with Switzerland from April 1946 to the end of March 1947 Switzerland was billed Sw.Frs. 54.28 million for imports from the French zone, and Sw.Frs. 21.48 million for exports to that zone. Where the difference, Sw.Frs. 33 million, went is not known. The export surplus is simply explained by the fact that Switzerland has no food to sell—as though the German population in the French zone, as in all others, did not lack everything Switzerland has to sell in plenty! (This blessed little country has in recent years become a major factor in world trade.) But while the proceeds in Swiss francs, one of the few freely convertible currencies in Europe, are not put to full use for the German population, the French zone is the only one in which inflation is still rampant, to the benefit of the occupying power.

To fight inflation the British and American zones have expanded their system of taxation to a point where both in the last fiscal year produced a considerable fiscal surplus. The French, however, in the fiscal year 1946-47, burdened their Laender Rheinpfalz, Sued-Baden and Sued-Wuerttemberg) with a compound deficit of nearly  $1\frac{1}{2}$  billion marks. The money to meet this staggering deficit is raised by issuing Laender bonds, treasury bills and treasury certificates or direct loans from the Laender central banks, the legal successors of the defunct Reichsbank, on both short and medium term. A part of the money is used to strengthen the position of the Saar. Thus all three Laender have to pay subsidies to the Saar coal mines and to the Saar railroads.

For the purpose of foreign trade a special organization, Oficomex, has been created to which the central banks—until the

summer of 1947—had to grant credits of 400 million marks, supplemented by credits of the importing firms, who in their turn borrowed from their banks. The French authorities are not squeamish about buying on black markets for the purpose of export since money does not matter, and they exchange some of these goods for raw materials and semi-finished goods from the Anglo-American zones and immediately assign them to French factories. Thus it is not surprising that even in 1946 Germany was again fourth among the exporters to France (after U.S.A., Britain and Argentina) with a total equal to 1938 (last pre-war) imports figured in francs. (The French import statistics include reparations but not war booty and restitutions.)

The French are, of course, severely pressed by their own difficulties. But so are the British who are struggling with problems basically more serious than the French and have in Germany the biggest task of all occupying powers to cope with. Both have equally understandable reasons for hatred and revenge against their former enemy. Yet while the British cooperate closely with the Americans to approach a solution of their German problem, the French not only obstruct cooperation but treat "their" part of Germany like an annexed colony. And that is done with a bureaucracy, military and civilian, which despite several "purges" is not free of graft and petty tyranny.

The two English-speaking powers are responsible for about two-thirds of the German population. Though members of their armed forces committed unpardonable excesses just as much as others did in the early phases of the occupation, they have never tried to exploit Germany for their own benefit. In fact, they have done something paradoxical—they have, as mentioned before, by quick, improvised action literally saved the German nation from the lethal effects of the chaos Hitler's exit bequeathed it. And they are pouring in growing amounts of dollars in the form of food and raw materials in order to keep life going and to prepare the paralyzed production in their zones for a new start.

Why have they not been more successful? It was certainly not lack of good intentions on the part of the military governments, and only to an inevitable degree lack of ability on the part of the officers in charge of the economic administration, many of whom

do a superhuman job and are worthy of the pride of their compatriots (although handicapped by a good sprinkling of incompetents, fanatics and crackpots). But the job with which they have been charged was from the outset impossible, even in a better political climate than the one in which they had to work. This climate was not of their making. It was created by distant governments and the shapers of public opinion in their distant home countries.

This climate has long since begun to change in the United States and the United Kingdom. On our side there cannot be many participants in the Potsdam decision who are not filled today with profound regret for what they did. But the change in practical policy, even where sufficient freedom of action is left to bring about this change, is necessarily painfully slow. It was hard enough to persuade the American Congress to appropriate the sums to feed a beaten enemy for whom to feel hatred and contempt was so long urged as patriotic duty. It was no less hard on a British government that has not yet solved the problem of feeding and keeping Britain itself going. More could not be expected than that these two countries—and they alone, not their partners in occupation or the other liberated beneficiaries of the Allied victory—would make a great effort to discharge their responsibility toward their own conscience and prevent famine and epidemics in their zones. Yet it was not enough, and because it was far short of adequate the solution of the German problem became more complex, more costly, more baffling, and perhaps—we do not yet know—more impossible with each passing day.

For a short time, around the turn of 1946 to 1947, things looked a little more hopeful. On January 1, 1947 the merger between the American and British zones became effective. This merger had been arranged in autumn 1946 between Secretary of State James Byrnes and Foreign Secretary Ernest Bevin in a tower apartment of New York's Waldorf Astoria, when once again patient, drawn out discussions with Mr. Molotov on German economic unification had proved futile. High hopes were evoked by that merger agreement, at least among and for the forty million Germans starving in that region. On January 10, 1947, General William H. Draper (now Under-Secretary of the Army), one of the finest and ablest of the American administrators, at a War Department press

conference declared, ". . . by July 1 of this year it is hoped that the present 1550 level in both the American and the British zones of Germany can be raised to 1800 calories for the normal consumer which for the first time would reasonably meet minimum standards and prevent the slow physical deterioration of the past." Well, by that date the average rations in the Ruhr were less than half the promised and sincerely hoped for "minimum," exactly 846 calories!

In the American zone the rations were a little better. Where such microscopic quantities are involved, slight statistical differences do not matter. The Anglo-American agreement also held out the promise that the 1947 import-export deficit of the two zones would be cut in half in 1948 and eliminated in 1949. By the end of 1949 the two zones were supposed to be self-sustaining. Only six months later this hope too was shattered.

What went wrong? First of all, it took more than a year and a half after the surrender—a tragically long time—for Washington and London to make up their minds whether or not to put Germany back on her feet. During all that time the ominous JCS 1067 was still in force, directing the Commander in Chief—we quote it again, because it sounds so incredible—"to take no steps (a) looking toward the economic rehabilitation of Germany, or (b) designed to maintain or strengthen the German economy." The Stuttgart speech of Secretary Byrnes, it is true, tried to pull the dragon's teeth of this directive. But it still met sharp criticism in the United States and its spirit was not implemented either by practical measures or even by a formal change of the directive.

The really decisive turn in American policy came after Herbert Hoover's reports were published in March 1947. They were the result of his mission to Germany in February. These reports not only circumscribed with precision the essence of the German problem, but demanded unequivocally the break with Potsdam and "Morgenthauism" which in Washington and on the Military Government in Germany still wielded considerable influence despite the radically changed political constellation on Capitol Hill. But the Hoover reports found already warmer and much more general approval with the American public than Mr. Byrnes' Stuttgart speech. The world had not stood still. It now moved slowly but steadily in the right direction. Nevertheless,

almost another half year passed before the new "level of industry" plan and the new Directive to the Military Government could be published. Meanwhile, American and British aid was too little to restore the German capacity to work which, as was clearly realized by the authorities, both Allied and German, rose and sank in direct correlation with the quantity of food. Yet it was probably all that could be done in view of the world shortage, the political and moral climate in the United States and the strain and stress of the British situation.

As usual, when hopes are disappointed and widely heralded plans go awry, people cry for a culprit. The moral prestige of the English-speaking powers fell to a new low among the Germans who felt only that once more promises had not been kept. At the same time the leaders of the occupying forces issued strong indictments against the Germans, that they had fallen down on their duty of self-help, had not delivered all the food they could, and from sheer greed and unpatriotic selfishness had diverted a large part of their produce to the black market. Each side was right from its angle. However, this controversy remained on the surface of the problem.

The root is in the gruesome fact that German economic life has been kept in a strait-jacket which stifles the best intentions of the occupying administration and the most intelligent German initiative. To study a "planned economy" and bureaucratic regulations gone mad, one merely had to visit the Anglo-American zones of Germany in 1947. Here, as on homunculus in the retort, we can study what happens to a bureaucratically directed economy once the regulating forces of money and the market are abandoned.

The Military Government in 1945, in an effort to restore as quickly as possible some semblance of order and normal social life, took over and kept in force, subject to later modification, all existing laws and regulations of Hitler's war economy. This was perhaps inevitable. To have acted differently might have perpetuated chaos for a long time. Yet as scarcities and distress grew, the rigidities of the war economy were not eased but tightened. The bureaucratic organism has an innate tendency to spawn until it overgrows the last cranny of its field. With each day it grows

more powerful, more independent, more pretentious, with each day it becomes more impossible to uproot it without a revolutionary upheaval. But beneath that suffocating web of bureaucratic activities, exercised either by members of the occupying forces or to a much larger extent by Germans in the service of these forces, the life of the people in its limitless variety of activities tries to go on. Resistance stiffens with the pressure, the distortions become second nature with the increase of the unnatural pressure, demoralization spreads with orders which run against the normal moral faculties of their objects. A planned economy of hunger requires a society of saints to whom mortification is a moral aim in itself.

The Military Government started out by freezing the status as they found it—prices, incomes and rations. What they froze was already a relationship full of discrepancies and maladjustments, for the status they took over was not of recent origin. It had been created by Hitler at the outbreak of the war, almost six years earlier, in part on the basis of still older regulations, such as the wage fixing in 1936. This freezing, the international mainstay of a war economy, worked during the war about as well in Germany as in the United States and Great Britain. The rations were ample enough during the war to keep all people going, some rather prosperously. The hourly wages of 1939 afforded a sufficient income to a worker in a 60- to 70-hour week (which prevailed in the German armament industry), and since besides the adequate rations nothing else was to be bought, the German worker, like the American and the British, accumulated considerable money savings.

But much had changed in the meantime. Rations have fallen way below minimum nutritional standards, and the worker works half-time if he works at all. Thus he has to draw on his savings if they still exist to buy in the black market some additional food to keep himself and his family alive, or he is forced for the same purpose to find somewhere and somehow some other income, which does not increase his efficiency in his regular job. In January 1947 the occupying powers made up a cost-of-living index. It told the German public that living costs were only about 25 per cent above 1938 and about 15 per cent above 1945. Everybody in Germany was bitterly amused at this ingenious product

of statistical witchcraft. Everybody knew that to mend an old suit or coat or even have alterations made would cost more than a new suit or coat before the war. Or a patch on the sole of his shoe would cost more than a pair of new shoes had cost not long ago. No question, the statistical methods of the Military Government will improve. But meanwhile the whole artificial structure of prices and wages may have blown up.

Already the income of the average worker barely covers the cost of rationed food. The average worker earned in the summer of 1947 about 35 marks per week; in the metal trades more, in the building and consumer industries less. He needed 29 marks to buy rationed food for himself, a wife and two children, and 16 marks for rent, electricity, gas, shoe repairs and his ration of tobacco. These 45 marks do not include street car, bus or railway fares or his regular contributions to his party or trade union (practically compulsory) or anything for household utensils or any apparel.<sup>3</sup> The difference comes from savings or the sale of old belongings, pieces of furniture or a rug or a kitchen pot or what-not. A general sellout, the liquidation of the accumulated reserves of centuries is going on all the time. One-third of the interviewed Dortmund families admitted purchases on the black market. These are the realities in an economy where everything is scarce except money.

Of course, wages are not altogether frozen either. There are not only black market prices, there are also gray and black wages. In many instances black wages are paid by refunding traveling expenses when no trips have been made or, particularly in the building industry, by making severance payments whenever a job is finished although neither the employer nor the employee thinks of separating. The reality has long made a farce of the pretensions of the Military Government of maintaining the appearance of stability when, under the pressure of the sheer struggle for survival, the joint effort of the whole population is directed at destroying that stability.

But the octopus of bureaucracy does not limit its field to price

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<sup>3</sup> For Dortmund, one of the most populous towns of the Ruhr district, it was computed that wages cover only 41 per cent of the minimum expenditures of a worker's family, and this computation included predominantly families where the man worked at least 48 hours.

and wage control and rationing. It has invaded every field of economic activity, it has seized upon every motion a German makes to get somewhere.<sup>4</sup>

<sup>4</sup>The following table is taken from a serious German weekly, *Wirtschaftszeitung*, May 2, 1947, not from a comic paper. It registers the official fees a manufacturer employing 240 men had to pay from April to the end of December 1946:

17 April 1946	Manufacturing permit for mowers	RM 1400
9 May	Manufacturing permit for cars	1350
3 June	Purchasing license for tires	300
5 June	" " " "	117
11 June	" " " "	90
11 July	License fee to price control office	100
29 July	Purchasing license for iron and steel	57
23 August	" " " " " "	35
25 August	" " " " " "	762
28 August	" " " " " "	15
28 August	" " " " " "	37
17 September	Purchasing license for tires	252
4 October	" " " "	101
8 October	Purchasing license for batteries	20
8 November	Purchasing license for tires	81
8 November	License fee for branch office	1000
12 November	Fee for price fixing for parts	100
29 November	Purchasing permits	73
28 November	Technical test office	150
18 November	Delivery permits	30
2 December	Purchasing permits	28
6 December	Purchasing license for tires	124.50
10 December	Dues for Chamber of Industry and Commerce *	6
13 December	Delivery permits and purchasing stamps	11
13 December	Delivery permits	8
17 December	Delivery permits	26
18 December	Dues for Chamber of Industry and Commerce *	10
22 December	Fees	11
<i>Total</i>		6294.50
<i>Expenses for travel on order</i>		2055.
<i>Grand total</i>		RM 8349.50

\* An official authority in Germany.

This computation is conservative because the man does not include the salaries and overhead required to fill out the forms and keep the books in order, and, of course, the general tax bill the nation has to pay in compensations to the army of bureaucrats at the ordering and receiving end. All this reads like a document from a lunatic asylum, but it properly expresses the German reality more than two years after the Nazis have been replaced by the enlightened Western democracies.

The result of such a policy is exactly what it must be, general disorganization and deepening despair, a growing and spreading sense of frustration which overcomes the best and most conscientious members of the Military Government itself and makes the recruiting of good personnel for the Military Government a more and more insoluble problem. Most of the ablest men try to escape the madhouse at the first opportunity.

To reduce the material exhaustion and destruction of Germany to a meaningful, comprehensive, statistical picture is impossible. In most essential respects data are not available and in the few fields where they have been established they are often unreliable or insignificant because their economic value depends on the functioning of correlated economic processes which in their turn are uncertain or variable within wide limits. If this is true of quantitative figures, it is even more true of monetary values, such as the reduction in national wealth or war damages expressed in marks or dollars. Such estimates have been made by German experts but they are not very helpful. Only to convey an idea of the order of magnitude of destruction and loss at which these estimates arrive, they may be reproduced here for the principal categories of national wealth.<sup>5</sup>

	DAMAGE AND LOSSES	
	<i>Total</i>	<i>Due to Territory East of Oder-Neisse</i>
	<i>In per cent of 1939</i>	
Agriculture and Forestry	25	18
Mining and Industry	50	5-7
Trade (inclusive tourist industry)	70	10
Transportation	45-50	18
Public Buildings	50	10
Residential Buildings	40	14
Furniture and other personal effects	55	11
Foreign Investments	100	—

No amount of imagination can form from these figures a sensible notion of the degree of pauperization to which the German

<sup>5</sup>"*Die Deutsche Wirtschaft zwei Jahre nach dem Zusammenbruch*," published by *Deutsches Institut fuer Wirtschaftsforschung* 1947.

people have sunk. Statistical methods have not been developed to express the effects of an earthquake of continental proportions. The damage wrought by the war and its consequences is not evenly distributed. It is little comfort to the inhabitants of a town in Westfalia that may be 80 to 90 per cent destroyed to know that several towns in Bavaria may have lost only 15 to 20 per cent of their dwellings. They cannot move from Westfalia to Bavaria, first, because even a 15 per cent loss means overcrowding; secondly, because the less damaged towns have in the meantime been overrun by hundreds of thousands of refugees and expellees; thirdly, because there is no chance of finding or building up a new livelihood in a strange environment, and above all, because of insufficient facilities to move from one place to another, even for the purpose of searching for opportunities. When they arrive at a new place they are denied ration cards without which they cannot buy the minimum that can be bought by the legitimate residents. There are no hotels, even for those who have the money to pay. In fact, the most destroyed towns have regained a very large part of their population which fled at the height of the bombing.

Hamburg is a striking example. Through the war Hamburg lost over half of its housing units. Of 555,655 dwellings, 295,654 were destroyed, the equivalent of 45 years of pre-war construction. Yet the population of Hamburg, which in 1939 was 1.7 million and had dropped below 1 million before the capitulation, is back to 1.4 million. Since the armistice the number of repairable units has declined 15 per cent through natural decay! This example could be multiplied throughout the Western zones. In the Russian zone the picture is worse because the dismantling and removal of industries and the lack of support by the occupying power drive the people from their home towns. Berlin in particular is a dying city. With most of its important industries gone, its population is nearly one-third smaller than in 1939, and those who remain are starving even more than in the industrial centers of the Ruhr. Other major cities have been hit still worse. Kassel lost about two-fifths of its population, and one who has seen its ruins has difficulty in comprehending where the other three-fifths live. No wonder that the few towns that survived the war relatively intact are still more overcrowded than the destroyed cities.

Thus the population of Flensburg near the Danish border is today 50 per cent larger than before the war, that of Heidelberg almost one-third, Luebeck almost two-thirds.

The great mass of fleeing, homeless people swept over the countryside. The small towns and the villages that look so untouched and peaceful from the window of a railroad car or a low-flying plane may in many instances harbor the worst calamities. There is little idyll left in country life. The German housing problem cannot be measured by the units destroyed. It is a problem that affects literally every one of nearly 70 million, including the lucky handful of families who still live in comparative housing comfort. They cannot escape the atmosphere of despair that surrounds them, their economic and social basis is just as much in jeopardy as that of the others.

The one exception to the picture of desolation is the farming community. The food basis of the German nation was fatally reduced by the surrender of the East to the Poles. But the farmers, particularly in the Western zones, have suffered much less than their urban compatriots. A great many farmers are today more prosperous and living on a higher standard than ever before. Their houses and farms were little ravaged by the war. The annihilation of the currency will relieve them of the bulk of their debts. To them flows the broad stream of precious personal belongings from which their less fortunate co-nationals must part to provide the minimum of food necessary for survival. Most of the bartered treasures eventually land in some farmhouse. But German agriculture too has not escaped severe losses. The farm families bore, of course, their share of the casualties, and they too suffered material damage on a large scale. Since 1938 their land has been starved of fertilizer. During the war they had to compete with the demand for explosives. Their equipment is run down, replacement during the war years was insufficient and since 1944 has become almost impossible. Their livestock has been reduced in number and has deteriorated in quality and weight owing to shortage of feed.

Even at the peak of Germany's prosperity, its farmers could supply only 80 per cent of the food. Since 1945 Germany has lost about 25 per cent of its crop land and must still feed the same

population. Nothing is available from the Russian zone to feed the three Western zones and the latter cannot raise more than 50 per cent of their needs. The over-all decline in German agricultural production appears from the following figures:

	1938	1946
<i>Acreage</i>	1000 hectares	
Wheat	2,038	1,384
Rye	4,263	2,442
Together	6,301	3,826
Fodder Grain	4,961	3,069
Sugar Beets	502	343
Potatoes	2,893	1,820
<i>Harvest (per hectare)</i>	100 kilograms	
Wheat	27.4	16.4
Rye	20.2	13.1
Sugar Beets	309.8	203.2
Potatoes	175.9	122.7

The loss of livestock is still more drastic:

	In thousands	
Cattle	19,934	13,877
of which: milk cows	9,992	7,000
Hogs	23,567	7,531
Milk per cow (liter)	2,492	1,600

Apart from the loss of the East, which is largely responsible for the decline in acreage and livestock, though not for the concomitant collapse of the yields, there are significant differences in the fate of agriculture between the zones. The number of cattle in the British and the American zones shows little decline. In the British zone it was 4.62 million against an average of 4.91 in the five pre-war years 1935-1939; the corresponding figures for the American zone are 5.28 against 5.42, while in the Russian zone the drop was from 3.71 to 2.63 million head, and in the French from 1.93 to 1.35. The number of hogs has shrunk more than two-thirds in the Soviet zone, 60 per cent in the French zone, but less than one-third in the Anglo-American zones. In every respect, in the size of the planted acreage and the yield per hectare, the

picture is most dismal in the Soviet zone, the French zone is second, the Anglo-American zones holding up relatively well.

The figures for 1947 will be generally worse. The record cold of the winter was followed by an extreme drought in the summer. Germany in this respect shared the misfortune of most of Western Europe. The cruelty of the climate cannot be charged to man. How long it will take to regain in what is left of Germany the food production of 1939, no one can say. It was one of the naïve assumptions of the American planners for the post-war treatment of Germany that the agriculture of a country can be kept in a sort of separate compartment from the rest of the economy. In fact, even if a more benign Heaven spares Europe, and Germany in particular, more weather calamities, German agriculture can recover only together with the rest of the country, with its industry, its transportation, its mining, and, above all, its financial stability.

The farmer needs fertilizer, but fertilizer needs coal. Not all fertilizers are available or can be produced in Germany even after we have lifted the restrictions of the original "level of industry" plan of 1946. Of the three basic fertilizers needed, Germany produces only one in sufficient quantity, potash, of which it was a large-scale exporter before the war. But two-thirds of the German potash production belong to the Russian Zone while two-thirds of the requirements arise in the three Western Zones. In this respect the partition of Germany inflicted a particularly heavy blow on the economy.<sup>6</sup> As for nitrates, German capacity production, although one-fourth above 1936 in the Anglo-American zones, still falls one-third short of the minimum needs of the Western zones. (The shortage in the Russian zone is probably much greater since the biggest nitrate plant—the famous Leuna Works in Saxony—after bomb damage and demontage is operating at a fraction of its former capacity.) The weakest point in the supply of fertilizer is phosphates. In phosphates Germany was always sadly deficient. What phosphates it could produce came largely from the basic slag of its furnaces, the residue of phosphorous iron ore. With the paralysis of the German steel plants,

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<sup>6</sup> All the "Russian" potash happens to be concentrated in that part of Germany that was first occupied by the American armies—and later yielded to the Russians.

even this source of phosphate fertilizer has dried up. But since, to be effective, all three fertilizers must be available in a certain quantitative relation, the phosphate shortage is the most pressing.

The farmer needs implements, but implements are made of steel. He needs harness and ropes, bricks and tiles, and so on over the entire circuit of industrial output. Above all, he will not produce and will not sell unless the money he receives for his produce can buy what he needs and still leave him a reward for his sweat. And recovery to the pre-war level will not be nearly enough. Germany, either with or without the Soviet zone, will never be able to feed its entire population from the produce of its soil. But German agriculture is capable of considerable progress beyond its 1938/39 status. German farmers produced much more than those of Eastern and Southern Europe, but they stayed far behind the Danish, Dutch and Swiss farmers. Intensification of farming, like intensification of industry, requires investment of capital, and if anything is certain about the German future, it is that Germany will remain a poor country for many years to come.

The transport system was hit even harder than agriculture. It is no longer able to carry the burden for which it was built. Railroad bridges and tunnels were special targets for both Allied bombing and the maniacal scorched earth tactics of the retreating Nazis. In the repair of this damage the Western Allies have done an impressive job, but it is far from completed. In contrast to the Americans and the British, the Russians treated the transport system in their zone as a source of "reparation." The whole Russian zone—with the exception of one trunk line—is reduced to a one-track system where two to four tracks were the rule. Rails and ties, screws and bolts were shipped east. In the Anglo-American zones alone no less than 2,340 bridges, 3,400 kilometers of tracks, 12,800 switches, 1,600 signal boxes and 4,600 signals were destroyed. The rolling stock held up comparatively well in numbers. In 1946 Germany still had 22,800 locomotives against 23,500 in 1936, and 475,000 freight cars against 590,000. But of the locomotives even in the American zone fewer than 40 per cent are serviceable, of the freight cars fewer than 60 per cent. The proportion in the other zones is much worse. The situation is still

deteriorating. Repair is lagging ever further behind breakdowns. The repair shops are in bad order—they themselves were among the favorite targets of precision bombing. More and more the railroad administration is resorting to so-called cannibalization, i.e., it takes parts out of broken-down locomotives and cars to repair others, since materials, especially steel and machinery for the manufacture of spare parts, are lacking. But in the long run cannibalization aggravates the evil it is meant to alleviate. It is an ingenious stopgap which accelerates the final dilapidation.

There is one peculiar complication in the German railroad picture it will take much ingenuity to unravel. During the war, when Hitler's armies had overrun nearly the entire European continent, the railroads of all the conquered countries were treated as a unit. German and foreign rolling stock had to serve equally the directions of the German High Command. By the end of the war, German locomotives and railroad cars were scattered all over Europe and formed legitimate booty of the liberated countries, while almost half of the freight cars in Germany (a much smaller proportion of locomotives and passenger cars) were foreign. Since the German railroad equipment on the whole was far superior in quality to that of most other Continental countries (except Holland and Scandinavia) this resulted in a poor bargain for Germany. Moreover, it also created legal uncertainties since the other European countries claimed the return of their cars. Although the Military Government had to refuse, tens of thousands of German cars that crossed the borders with export or transit freight never returned.

Germany lost its entire merchant marine. Of its 4 million tons the war has destroyed 2.6 million or two-thirds; the rest was surrendered to the Allies. Of immediate practical effect is the damage to inland navigation. The tonnage of the river and canal boats and barges is about 50 per cent of pre-war. Since relatively few vessels were sunk, a part of the damaged tonnage may still be salvaged.

Coal is far and away the most important natural German resource. In 1936 German output was 158 million tons of hard coal (bituminous) and 162 million tons of brown coal (lignite). The calorific value of lignite being one-third of that of hard

coal, total output in hard coal units amounted to 213 million tons. Of these, 26 million (almost all hard coal) were mined in the country east of the Oder-Neisse, essentially in Upper and Lower Silesia, and are lost. The distribution of the remainder over the four zones of occupation was as follows:

	<i>Hard Coal</i>	<i>Brown Coal</i>
	<i>million tons</i>	
British zone	117.0	46.5
American zone	—	5.1
French zone	11.7	—
Russian zone	3.5	109.0

Hard coal is largely concentrated in the British, brown coal in the Soviet zone. The American and French zones depend on what they can get from the others. Hard coal and brown coal present basically different operational problems. The great bulk of brown coal is dug in surface mining and therefore less dependent on the human factor; hard coal in shafts which in Germany are usually sunk much deeper than even in Britain (not to compare with the incomparably more favorable conditions of American coal mining). Consequently, brown coal production has held up much better than hard coal. But despite harsh discipline, brown coal production, even in the Soviet zone, has fallen off in 1947 from the level reached in 1946 (and the trend by the end of July 1947 was still downward).

The crux of the problem is, however, what happens in the Ruhr. This may be gleaned simply from the following figures:

	<i>1936</i>	<i>April</i> <i>1946</i>	<i>June</i> <i>1947</i>
<i>Output (1,000 tons)</i>			
Total monthly	9,747	3,889	5,467
Daily average	384.4	162	218.7
<i>Total Workers (1,000)</i>	275.8	291.1	344.9
<i>Output per Shift and Man</i>			
Total employed (in tons)	1.64	0.81	0.84
Underground	2.11	1.12	1.17
Total employed (1936 = 100)	100.00	49.4	51.2
Underground     "   "	100.00	53.1	55.5

The Western German production of hard coal, which in 1936 was 384,000 tons a day and during the war reached a peak of 440,000 tons and had come to an almost complete stop during the invasion, was down to 219,000 by the end of June 1947. In the subsequent two months it could be lifted painfully above 240,000 tons, but is despite some progress still far from the immediate goal of 300,000 tons. To produce less than 60 per cent of the pre-war output, 345,000 men were employed in June 1947 against 276,000 on the average in 1936. In other words, the output per man and shift has dropped one-half.

The reason is chiefly hunger. The correlation between food calories and tons-per-man-and-shift is close indeed. But this is not nearly the whole story. More than restoration of adequate food rations and supplying of clothes and shoes and even tolerable housing will be needed to restore the Ruhr to normal production. The three most important improvements to bring this about are rehabilitation of the transport system, renovation and repair of the mechanical equipment, and above all rejuvenation of the mining workers. Of these, the third will probably be impossible. England faces a similar problem, but England has not suffered nearly such a depletion of its male youth as Germany. As we have seen in Chapter Two, of the total workers employed in the Ruhr mines, 65 per cent were over 40 years of age in 1945 against 25 per cent in 1913. The return of soldiers and prisoners of war has not altered this picture much. The mines do not attract or hold the few vigorous youngsters. As for the transport system, it is at present not able to handle with the utmost effort the daily output of much more than 250,000 tons, and the mining equipment will have to wait for the indeterminable day when the German machine shops run again and particularly when alternative plants can be built for the big electrical machinery concentrated (and largely destroyed or dismantled) in Berlin.

The damage inflicted on the manufacturing industry is visually more spectacular, but still less susceptible of exact statistical appraisal. All we know is that bombing was less detrimental to concrete and steel than to human habitations. Men died, but machines survived to a surprising degree. Yet machines without men are useless. We have learned that from bitter experience

since the reconstruction, not the destruction of Germany became our problem.

The Ruhr in particular, as the center of Germany's industrial power, has caught the imagination of the world. The problem of the Ruhr has several aspects which are not always, as they should be, kept separate in the great international debate on the German problem and its solution. In this chapter we are concerned solely with the Ruhr as the heart of German industry. There is no future for Germany unless its heart can be made to throb again with firm and regular pulse. But there is a Ruhr problem as part of Germany's war potential, a Ruhr problem in Germany's capacity to pay reparations, a Ruhr problem presented by the struggle for and against socialization of Western Germany which may decide the future social and economic structure of the European Continent. All these aspects of the problem will be dealt with in later chapters. We must first define the Ruhr problem as the central issue of German reconstruction.

What justifies the wonder about the accomplishment of these few square miles near the western rim of Europe is also the source of its weakness and despair. It is the complexity of an industrial organization which in its compactness and intensity is unparalleled in the world. Pull out one cog from that mysteriously complicated mechanism and the whole thing comes to a stop.

Here, as on so many other occasions, we are in danger of becoming the victims of over-simplification. The Ruhr is not just coal and steel. The Ruhr was an industrial and social microcosm in itself. Coal and steel were only its foundation. This microcosm consisted of a vast agglomeration of most diversified industries which over decades, as science and technology advanced, grew on that foundation. These German concerns and cartels, combines and trusts were not the product of stock market manipulations. They were, with a few insignificant exceptions, the outgrowth of industrial, technical scheming. It matters little from this point of view whether they went too far in some cases, created political power complexes incompatible with a free society in others. It supplied some weapons for war, true enough (much less, as we shall see, than generally assumed), but it supplied first and foremost the most ingenious products of engineer-

ing and chemistry. It was the domain of the power of the coal barons and steel magnates, some of them as reckless as the founders of America's industrial empires. But it was also the laboratory for new forms of social or socialistic organizations without whose example such an American venture as the TVA or the British Coal Board would be unthinkable. It was there that the mixed (private-public) corporation was first called into life in a working cooperation of private capital and state and municipal ownership, such as the Rhenish-Westfalian Electro Works which produced and distributed a large part of the huge power supply of that region and beyond. The Ruhr included the most reactionary and the most progressive elements of Germany. It included the tough moneymakers and the most expert, devoted art collectors. It included such ostentatious atrocities as the Villa Huegel of the Krupp dynasty in Essen and the most beautiful, artistically perfect municipal developments in housing, public buildings, museums, theaters and concert halls. It was purgatory and social utopia closely intertwined.

Now all this is one vast rubble heap. How much can be recovered from it, at the price of what effort, time and money is beyond reasonable planning. We are still in the unhappy phase of improvisation.

What, more precisely, is this Ruhr District? In the popular notion, assiduously cultivated by all antagonists and competitors of Germany, it has for many years been one vast arsenal, fiendishly designed and disguised for the sole purpose of producing the weapons needed for the German conquest of the world. This is caricature on the realities of both the historical origins of the Ruhr and the most recent war. Even according to French estimates, certainly not biased in favor of the Ruhr industries, the whole district at the peak of World War II contributed no more than 25 per cent to the total German output of war material.<sup>7</sup>

It is the peace industries, not the war industries, that gave the Ruhr its industrial significance. This is true not only of the chemical and textile industries, which are of outstanding impor-

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<sup>7</sup> *L'Economie de la Ruhr*, published by the *Ministère de l'Economie Nationale (Institut Nationale de la Statistique et des Etudes Economiques, Paris, 1947)*.

tance in the Ruhr District, but even of iron and steel. According to the latest census of industrial production (published in 1939) the total industrial output of the province of Rhineland-Westphalia in 1936 amounted to 8,500 million Reichsmark (1 Reichsmark equals approximately 25 cents). Of this total, coal and coke made up 1,190 million Reichsmark, iron and steel and non-ferrous metals 1,275 million; but no less than 950 million came from hardware, 661 million from machinery and tools, 686 million from chemicals and 820 million from textiles! More than half of all German screws, locks, cutlery, bicycles, heating equipment, tools of all sorts came from the Ruhr. Remscheid and Solingen, the world-famous cutlery centers, were economically more important than Essen with the giant Krupp plants, Wuppertal (Elberfeld-Barmen) and Muenchen-Gladbach as centers of Western German textile and chemical industries more important than Duesseldorf and Dortmund with their furnaces and rolling mills (apart from the coal). The Ruhr was first in boilers and turbines, but way behind other regions (Berlin and Saxony, now in Russian hands) in locomotives and other railroad equipment, textile machinery, vehicles, and above all electrical equipment, the bulk of which always came from the Berlin plants of Siemens and A.E.G. (the German General Electric). This explains the limited contribution of the Ruhr to the war machine. Its contribution consisted primarily of heavy artillery and armor plate. But the Ruhr delivered no more than one-tenth of the tanks and armored cars and did not have a single airplane plant.

The first furnace was installed in Muelheim in 1849. By then the Ruhr was already an industrial and commercial center by the standards of the time. The basis for the phenomenal growth of the Ruhr is of course coal. The coal reserves of the Ruhr have been estimated by geologists at 43 billion tons down to 6,000 feet below surface as certain and double this quantity as probable. Since the loss of the Saar and Silesia, close to 90 per cent of German coal reserves are concentrated in the Ruhr. These coal reserves are exceeded in Europe only by Great Britain and Poland, although they constitute merely a small fraction of the known coal reserves of the United States. Coal output of the Rhenish-Westphalian basin was developed relatively early. It was already 60 million tons in 1900 and had its most spectacular expansion

in the first decade of this century. By 1913 it had risen to 114 million. In the First World War it suffered a setback (to 88 million in 1920) and reached a new peak in 1939 with 130 million tons. The expansion in the last quarter of a century before World War II was relatively modest compared with the huge growth before 1914. (These figures do not include the lignite of the Cologne district, which is practically all used to generate electric power, and is clearly approaching exhaustion.) The Ruhr excels not only by the quantity but by an exceptionally great diversity of the quality of its coal.

Besides coal there exist only two natural resources needed for the local industry, large salt deposits and plenty of water, of which huge amounts are required for washing the coal and for central steam heating. But curiously enough, no industrial center in Germany or anywhere else is more dependent on the import of foreign raw materials. Iron ore tops the list. At best German ore, inferior in quality, could not provide more than one-fifth of the requirements of the Ruhr steel industry. Almost two-thirds of the required ore came from Scandinavia and (contrary again to widespread notions) only 10 per cent from France, whose phosphorous ore (minette) must undergo special treatment. But in addition to iron ore copper is needed from South Africa, the United States and Chile, tin from the Dutch East Indies, chromium from Turkey, magnesium from Russia, nickel from Canada and Finland, pyrite from Spain and Norway, phosphates from the United States and North Africa, bauxite from Hungary, and so on down a long list. Even the pit props have to come from outside the region, although the forests of Western Germany may be able to supply them for some years. But large quantities of wood are needed for the vastly expanded rayon industry while the other branches of the textile industry, of which the Ruhr is one of the principal centers, live and die with the availability of foreign material—cotton from the United States, wool from Australia and Argentina, silk from Italy and Japan. All this proves abundantly the dependency of the Ruhr upon foreign supplies and its vulnerability to blockade or shortage of foreign exchange.

The Ruhr has the densest and most integrated system of transportation in all Europe. It could never have mastered its enor-

mous shipments without the closest cooperation of railroads and waterways. The railroad system in the Ruhr is four times as dense as the German average, which was the highest on the Continent. The main artery for water transport is of course the Rhine, on which barges of over 4,000 tons capacity can operate and be loaded and unloaded in the big ports. Into the Rhine flows the Ruhr River, connecting the Rhine ports with Essen and the neighboring coal and steel centers, the Moselle carrying the ore from Lorraine. A system of canals connects the Rhine and the Ruhr with the Ems and the Weser, carrying goods to and from Holland, Belgium, and, above all, the interior of Germany. Plans for connecting the Rhine with the Danube have been under consideration for many years, long before Hitler. It is from the Ruhr and Rhine traffic that not only Hamburg and Bremen, but even more Amsterdam, Rotterdam and Antwerp gained their importance as ports and commercial centers. These countries, Holland and Belgium, know that they are economically doomed unless their German hinterland is rebuilt.

Most of the port installations and barges in the Rhine-Ruhr system have been destroyed. But three-quarters of the normal traffic of the Ruhr was handled by the railroads. It is in their destruction that the Allies were only too successful. The famous railroad center of Hamm was bombed no less than eighty times. The Germans repaired the damage quickly, but could not keep up with the devastation. There were no fewer than 42 shunting stations in this little spot of Europe which had to handle 150,000 cars daily. One-fifth of all German locomotives were concentrated in a region covering less than 2 per cent of the German pre-war territory. Rolling stock was always abundant and in good order. Germany could not afford congestions and delays in the very heart of its industrial system.

In the Ruhr district, about 7 million people live, over 10 per cent of all Germans, concentrated on 3,200 square miles, over 2,200 persons per square mile. Most of the people live in large cities, three of which have over 500,000 inhabitants (Essen, Dortmund and Duesseldorf). In fact, in the center of the district the borders between the various towns are hardly distinguishable. One drives for hours through settled urban land, and only street signs tell you when you have entered another municipality. This

mass of humanity has to be fed from outside; there is no space for farming of any worthwhile proportions. And these hard-working people must be fed larger-than-average quantities. Like the raw materials for its workshops, three-quarters of the food imported into the Ruhr came from abroad, grain and meat from the Americas, milk and vegetables from Holland, eggs from China, fruit from France and Italy. Over half of the total value of imports into the Ruhr were foodstuffs. Today the Ruhr is practically cut off from all its normal sources of supply.

What exactly gave that miraculous region its extraordinary development? It is rich in coal, but there are several other coal regions in the world none of which has developed anything like the industrial system of the Ruhr. Its unique position was due to the early and thorough combination of scientific research and industrial technique. The greatness of the Ruhr industry was rooted in its research laboratories. For coal and coal derivatives they had their centers in the Kaiser Wilhelm Institute in Muelheim, for pharmaceutica in Wuppertal (Elberfeld-Barmen). What Alfred Krupp, the founder of the dynasty, did for coal and steel one Doctor Bayer did for pharmaceutica and dyestuffs, the basis of Germany's chemical industry whose center remained in the Ruhr even when its administrative center had been transferred to Frankfurt and its financial center to Berlin. It was left for the last generation to perform the marriage between heavy industry and chemistry, to witness the miraculous transformation on a large scale of coal from a fuel into the raw material of the most precious chemical products. It was Bayer in Elberfeld who gave to the world aspirin, phenacetin, pyramidon, veronal, synthetic camphor and a long line of other pharmameutica, but it was also Bayer who discovered the process for synthetic indigo. The second revolutionary invention occurred during World War I: the Haber-Bosch process for synthetic nitrate, the product of the collaboration between a Jewish pacifist scientist and a violently anti-nationalist and liberal industrial scholar who, although head of the I. G. Farben A.G., tried—eventually in vain—to keep the liberal *Frankfurter Zeitung* out of Nazi hands.<sup>8</sup> It was in the

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<sup>8</sup> Professor Haber died a refugee in Switzerland, soon after he had left Germany. Carl Bosch died before the end of the war in virtual retirement. The writer has strong reasons to believe that Bosch ended his own life.

laboratories of the Ruhr that the Fischer-Tropsch process for the transformation of coal into oil was developed which may yet revolutionize the fuel and power system of the United States. It was in the Ruhr that coal was converted into synthetic rubber, without which neither Germany nor, on the basis of German patents, the United States could have waged a long war.

These laboratories too are now a shambles. Whether Germany will be able to rebuild the research system without which the coal of the Ruhr would have remained just a crude fuel is open to grave doubts. The buildings may be restored and even the equipment for research. But two kinds of damage are probably irremediable: one—perhaps the minor loss—is the wholesale expropriation and dissipation of the German patents by the Allies in clear violation of all solemn international pledges for the protection of private property in war time. The expropriation of these patents and processes without compensation went far beyond anything explainable or justifiable by Germany's permanent disarmament. The profits gained from that booty are absurdly small compared with the damage inflicted on German industry for whose reconstruction American and British taxpayers are now forced to pay a multiple of the advantages possibly derived from that inglorious act. But the second—much more fatal—damage is the dissipation of the brains. The scientists and technicians whose education was the product of centuries of cultural evolution are scattered to the four corners of the globe. Hitler's Thousand-Year Reich started with the expulsion, murder or forced suicide of the Jewish scholars and scientists who played such an eminent and honorable role in Germany's intellectual life, and it ended with the diaspora of the remnants of Germany's "Aryan" scientists. History alone can tell what fruits this transplanting of German genius to foreign soil will bear.

## V.

# *COUNTRY WITHOUT CURRENCY*

As 1947 draws to an end Germany is a country without a currency.

This is a social phenomenon very different from the whirlwind inflation of 1923. At that time the German mark was traded against other currencies, on legal and illegal markets. It was possible to establish at any time how many marks a dollar was worth, and commodity prices followed suit, for a long time with a big lag, until in the last phase of the devaluation they overtook the depreciation of the mark in enormous leaps. The old mark was put out of circulation when the dollar was finally quoted at 4.2 trillion marks and the paper cost considerably more than the nominal money value printed on it. At that phase all available private printing shops had been taken into the service of the government to supply the necessary quantities of money, yet the demand rapidly exceeded the technical capacity of the presses. The story of 1923 has often been told, and similar stories have been coming in recent years from Hungary, from Greece, from China and other countries. But they have not become general. The reason is that, in contrast to the aftermath of World War I, some governments have learned the techniques of controlling markets, and these techniques work to a certain degree wherever governments are functioning with a somewhat effective administrative power at their disposal.

The Hitler regime, during the war, wielded such power almost to perfection. It was aided by a relatively ample supply of goods. The Germans, we know now, suffered little from scarcities during the war and certainly had no privations. All essentials, particularly food and clothing, were rationed, but the rations were ample. There was little black marketing because the risk was immeasurably greater than the need of obtaining additional supplies illegally. The dread of getting involved with the Gestapo was a

very effective deterrent. This does not mean that whatever there was to distribute was equally distributed. The Gestapo itself organized its black markets by lavishing favors on government and Party functionaries of all ranks. Goering's table always compared well with the legendary delicacies the Roman Lucullus offered his guests. None of the leading Nazis or their friends ever noticed in their private lives that there was war and suffering.

When this nefarious regime disappeared, the Allies inherited, with a very ingenious code of regulations about collection, marketing, rationing and pricing, the deeply rooted discipline of the German masses and their fear of authority into which twelve years of Nazi terror had bludgeoned them. The military governments that took over from the Nazis were the beneficiaries of almost automatic instincts and habits involuntarily acquired in half a generation. But it was a highly significant and instructive process, worth study by mass psychologists, how these instincts and habits relax and change with the loosening grip of terror, how with lessening fear the normal instincts and reactions of the homo economicus begin to reassert themselves, how the economic motives, ever present, grow in strength, increasingly undermining the authority and efficiency of the government and its organs, both military and native civilian, until the whole system is paralyzed.

This we have been watching ever since 1945, which early suggested to the Americans the urgency of a currency reform. That the system of a controlled economy has not yet entirely collapsed in Germany is due to the fact that the rationed sector of the economy is not only distributed, but also largely supplied by the government, and that so little is to be had outside this rationed sector that the black markets are still relatively insignificant. All the lurid tales about them in the newspapers are true, but they are still of minor quantitative (though not moral) importance. If all the food on the black market (vaguely estimated at 20%) could be distributed equally, the German people would still starve. There is also little illicit trading in foreign currencies, particularly since the military governments removed the bad gap through which members of the armed forces profited from shady deals. Most of the black market consists in barter deals of second-hand goods, from old precious fur coats to kitchen pots

and worn-out shoes and galoshes, against cigarettes, chocolate, potatoes or flour.

In the big cities, particularly in the West, organized exchanges are open day and night on which simply everything can be traded, including railroad tickets for long distance trains (to which you need special admissions) or interzonal passes, or other faked documents which may be of some use in obtaining certain official privileges. The crowds in these devastated towns are perpetually on the move. Never before did Germans travel so much, never before were German trains so shockingly overcrowded (we used to read similar stories in reports from Soviet Russia and China). Dark, unheated passenger cars with broken windows carry as much freight in bundles and trunks and baskets and containers of all sorts as persons, a nation spending a large part of its life in searching for the means of survival rather than working. Needless to say, black markets breed and attract a strong criminal element. The habitués and brokers are mostly young lads who have organized a regular defense system against molestation by the police. Since profits are very high they contrive to gain the help of quite a few members of the occupying forces who supply them with information and give them timely warning. There is an intelligence service working with bicycles at its disposal for the quick dispatch of news and goods. Profits are high enough to extend these activities of the black markets over a distance of 60 to 80 miles, which in normal times would be absurdly uneconomical for the small quantities involved and substantially increases the costs of public administration because the railroads operate with enormous deficits.

But the currency-less economy has long since outgrown that sphere of ultimate consumption, of supplementing the official, utterly insufficient rations. It has intruded upon and is now covering most of the productive processes, like a cancer destroying the vital organs of a functioning economy. Absenteeism up to 25 per cent of employees has become almost the rule. In four days of work a man in some regular jobs may earn nearly enough to pay for his rations, but what he actually needs and much more he may earn in the two or three days he takes off, getting for himself and his family those badly required extras, or working for black marketeers. The workers may maintain regular jobs in

order to get ration cards and the social benefits dependent on regular employment. The bulk of their income may be derived from obscure sources.

This process of disintegration has become so widespread that a rapidly growing number of employers have to organize a black market of their own in order to keep their employees. To an ever greater extent they pay their employees in their own products. The employees get pocket knives in a cutlery plant, shoes in a shoe factory, leather from a tanner, clothes from a textile man, and so on, which they sell or exchange for the articles they need. This is, of course, illegal because, as described above, production and distribution of goods is thoroughly "planned" and presumably controlled. One of the effects of the enforced dodging of the law is that in many firms there is besides the official cash a black cash, and the official books and accounts have a rather arbitrary relation to the reality of business transactions.

But not only the employee is paid in kind. This sort of payment has more and more become the rule in all trade. Official prices have merely a nominal validity. Since they are largely frozen, over-prices are demanded and paid in kind in an infinite variety of ways. The manufacturer may need a few machine parts or utensils; he may need cement or bricks or glass to repair his shop, to maintain or restart his production or to supplement the uneconomically small official assignment of raw materials and semi-finished products; he may need an automobile or truck tire, a battery or a ton of coal, or a few rolls of string, wrapping paper, or what not. The energy and ingenuity spent on this process of survival in a currency-less economy are almost unbelievable. It is equal to the general demoralization it entails for both private and business life. The businessman himself has by necessity become a black marketeer in trying to buy and sell as much as he can outside the regular channels; yet the quantities involved in all these officially crooked transactions, which can never appear on the books, are out of all proportion to the tremendous effort and strain they require.

The Duesseldorf Chamber of Commerce estimated in summer 1947 that about one half of all transactions take place outside the regular channels and thereby escape both the tax authorities and the statistics, frustrating all attempts at real planning. So

generally accepted have these "compensation deals" become that they are now officially tagged as "gray market."<sup>1</sup>

With the paper mark largely repudiated by the German economy—its validity still rests on rations distributed by the government, on salaries paid by the government, and taxes collected by the government—the favorite substitutes for money have become cigarettes, coal and coffee. Coffee is in most restricted supply. Since none is imported by the regular purchasers it becomes available only by gift packages from abroad or through members of the occupying forces. Coal finds its way into the black market either through individual firms in the Ruhr which are relatively well supplied (no transport problem!) or through the coal miners who receive—as incentive—certain quantities of coal, so-called *Deputat-Kohle*, which they exchange on the black market for additional food or other coveted goods. The third major source is outright theft—in dark winter nights many thousand tons of coal disappear from the loaded cars on unguarded railroad sidings.<sup>2</sup>

As by far the most important currency—one of the most fascinating innovations in economics—the cigarette has emerged. It owes its position undoubtedly to hunger and habits acquired in the war. Nicotine dulls the pain of gnawing hunger and acts as a stimulant under strain. As for the specific requirements of a "currency": the cigarette is durable, not easily perishable, it is divisible into small quantities, it is of little weight and not bulky, and above all, it is internationally marketable and accepted. The tragic aspect of this new "currency" is that it has become the principal means of plundering of the remnants of German wealth

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<sup>1</sup> Characteristically, the socialist Minister of Economics in one of the southern Laender came out in his first speech with a strong blast against those deals, only to wonder the next day in his second speech how this "gray market" could be made legitimate for the common good. The wonder is still unsolved.

<sup>2</sup> Two examples gleaned at random from the German press: Two fitters doing repair work under orders of their firm at a coal transport plant in Rhineland on their return home received a car with 200 hundredweight briquettes declared as "machine parts"—shipped over a distance of 180 miles! Or: A wholesaler in furniture orders in a South German small town furniture for Ruhr miners to be paid for in *Deputat-Kohle*. (*Wirtschafts-Zeitung*, August 1, 1947).

by the occupying armies and the hundreds of thousands of displaced persons. Soldiers and D.P.'s bought up with worthless cigarettes they received all the valuable things they could get hold of, diamonds, jewels, photo sets, furs, watches, paintings, books, china and glassware. For the American zone General Clay tried in May 1947 to stop what *Stars and Stripes* aptly called "the biggest black market in which Americans ever participated." He simply forbade private imports of cigarettes. Such a measure, laudable for its intent, may have improved the morale of the American troops, but it hardly contributed to the solution of the German currency problem. For the Russians, the Poles, the French were less squeamish and several D.P. camps organized a thriving business in the twilight of a dying economic system. The very last reserve of German wealth, often treasured for generations in the same family, literally goes up in smoke.

Experience with black markets in all countries, at all times, shows that a system of even draconic penalties is ineffective unless it works in an already terrorized society under the complete domination in all its activities of a secret police. Under governments tied to humane principles, respecting life and liberty of their citizens, the threat of penalties is ineffective. In the Anglo-Saxon political climate death penalties cannot be imposed for economic misbehavior. But nothing less will deter a mother who sees her children starving, or even a businessman who struggles against economic ruin and the destruction of the basis of his own life and that of his indispensable trusted helpers.

It is a vicious circle. Scarcity requires controls, controls beget black markets, black markets intensify the scarcity and the need for ever more controls. Out of this vicious circle, recognized and deplored generally, has come for a long time the cry for monetary reform. For many Germans this demand for a "new money" has become a sort of obsession. They see in the new money the *arcana* with which to cure all their ills and evils.

Yet monetary reform is about the most intricate and risky problem with which the military governments have to grapple. Monetary reform does not consist in printing new little pieces of paper with a new denomination under a new name and exchanging it against the old money. This would be simple enough. It

has been tried many times and has invariably and inevitably failed. A monetary reform that justifies its name requires much more than such a simple technical operation. It requires first of all the restoration of a disturbed equilibrium between monetary supply and national wealth. In all countries whose currency has been destroyed this equilibrium had been destroyed either because, through deficit financing, the amount of money in circulation had multiplied, or because national wealth and national product had shrunk so much that a mad scramble for the few available goods becomes a struggle between life and death.

In Germany both have taken place to an excessive degree. Its national wealth has been reduced by the ravages of the war and by the economic deterioration after the war.

To the material losses Germany suffered at home must be added—significantly from the viewpoint of the foreign exchange scarcity—the complete loss of its high seas fleet and of its very substantial foreign investments. These investments, built up in part with the help of foreign loans since 1924, were enormously enlarged during the war when Germany occupied and controlled practically all Europe. Most, but not all of it, was loot. A considerable part was genuine, bona fide investment from which the foreign countries derived lasting benefit. In the debate on this issue it is shamefacedly agreed that, for instance, the Czech industry was enlarged and modernized during the years of German occupation, and to some extent that applies also to France, Belgium and other countries. Of course, the Nazis did not do it out of tender feelings for these conquered countries. They did it because they needed the industries as tributary to their war machine. But the economic effect of their actions has little to do with their motives. The outstanding illustration is Austria, where a most important part of the equipment of heavy industry was built under the Nazis with German capital, which neither the Germans of any political creed nor the overwhelming majority of the Austrians themselves regarded as foreign investment at all. Austria was by history and general conviction just a part of Germany.

To all this we have to add—from the angle of the monetary problem—the loss of property without compensation suffered in the ceded territory east of the Oder and Neisse where the Rus-

sians and Poles took over everything—farms and factories, palaces and shacks, doctors' offices, libraries, museums, silverware and jewelry, beds and linen, furniture, suits, shirts and shoes. They have not taken over as their charge a corresponding part of the liabilities based on that wealth. In fact, all property acquired by the Russians and Poles, both abroad and in the annexed territory, was assumed free of charge, which means that the debts incurred by the companies, firms or farms went into default. How much this amounts to, we do not yet know. The Russians have never supplied the Allies with a single figure.

Even the best experts could not estimate all these losses in terms of money without a large and dangerous margin of error. On the other hand, we know rather accurately the amount of money and monetary claims outstanding when Germany was occupied by the Allied armies. This amount had astronomical proportions. Hitler's war was expensive (he made it equally expensive for his enemies), but he was also very generous in his promises of compensation to the German war victims. He was confident that all Europe would eventually pay for his generosity. When the Hitler regime vanished, Germany had a total national debt of about RM 400 billion, to which must be added a similar amount of legal claims for war damages and other commitments of the war. This is the legacy of a war that reduced Germany's national wealth at least 40 per cent and cut Germany's national income (in terms of goods and services produced) to less than one-half, even after two years of recovery from almost zero at the time of the armistice.

These figures supply the framework within which a monetary reform must operate. But they give little inkling of the enormous complexities of a monetary reform under the present circumstances. Obviously, the broad aim must be to bring total outstanding money and monetary claims against the government into some approximate balance with the reduced wealth and national income. But this is not to be achieved merely by a mechanical device. Such an operation cuts deeply into the social and economic structure of a nation. In fact, in its effect it is tantamount to a social revolution. Germany went through such a revolution once before within the memory of the great majority of its people. Hitler was the hideous outgrowth of that revolu-

tion. Once before, less than a quarter of a century ago, war and inflation destroyed the social fabric of Germany. But when the German currency was finally restored (temporarily by the end of 1923, and cemented by the Dawes Plan in 1924) Germany was in an incomparably better condition than today. The country was physically intact, and its industry, operating at full capacity, had even been able to exploit the inflation for its own benefit and to a large extent to modernize and expand its plant. That capital accumulation was done out of the forced savings which inflation always means. Still, the inflation broke the backbone of the middle classes whose strength is the indispensable condition of a free society. Never since has Germany regained a sense of stability and faith in continuity. But that revolution was child's play compared with the one Hitler's war brought on the German nation. The effects of this war a forthcoming currency reform will have to ratify.

Those RM 700 to 800 billion to which government debt and other commitments amount are the private property of Germans (except a small part which were forced war investments of institutions in German-occupied countries). They were, just as in the United States or in Britain or any other belligerent country, the principal asset in which the deposits of the banks were invested. They were the principal asset of life insurance companies, of savings banks, of social insurance funds and, above all, they were the principal form of private savings of German individuals, including millions of widows and orphans. With the German State, the debtor of those bonds and those claims disappeared. Thereby the huge amount of what, there as everywhere, had patriotically been regarded as the most conservative form of saving was wiped out. Millions who had felt themselves rich or at least well-protected became paupers.

The American Military Government charged in an early phase of the occupation an able three-man commission with the drafting of a plan for monetary reform. This plan the details of which were kept secret from the German public was communicated both to the Allies and the competent German authorities. The discussion of the currency problem has been carried on with great intensity. In September 1947 the bizonal Economic Council appointed a Special Committee for Money and Credit which will

submit its own proposals for a monetary and financial reform. They will probably be less drastic than the original American plan, but the framework the experts have to fill with their ideas does not permit much leeway.

The general idea of this reform is that 70 per cent of the money in circulation including deposits and other monetary claims may be canceled, another 20 per cent blocked (to be used for payment of the planned capital levy) and 10 per cent remain free. The Economic Council has already accepted the principle that physical property of all sorts and real estate shall be treated in the same way as money and bank balances. This would constitute a decisive difference from the pattern of monetary reform in 1924. At that time the owners of cash and monetary claims had to bear almost the entire burden of the reform while the owners of physical goods and real estate preserved their wealth, which caused a great deal of bad feeling. But the principle is more easily proclaimed than realized. It cannot be the intention to wipe out all banks, insurance companies, social insurance institutions and the like. If the nominal value of deposits is reduced to 10 per cent, the banks must be enabled to retain assets to this amount. This means that either the old German national debt must be marked down to the required level, or, if the old debt goes overboard, a future German government will from the beginning have to shoulder a new debt required to support the reduced commitments of the financial and social institutions of the future Reich.

This is the simplest part of the operation. The incidence of the war has fallen on various people with various impacts. It would be unjust to leave the owner of a bomb-destroyed house or factory a beggar, and the owner of an intact house or factory a millionaire unaffected by the national catastrophe. It would be equally unjust to deprive a man who had put his savings in government bonds of his entire fortune and leave the man who had prudently or luckily stuck to some form of real wealth (such as real estate or commodities) untouched. It would be unfair to wipe out or to reduce to 10 per cent all mortgages and leave the benefit of that debt relief wholly to the fortunate debtor. In other words, there must be some equalization of the war losses. It might be in the form of a compulsory mortgage on intact and debt-relieved real estate and similar forms on other real property. But

such a measure, inevitable and socially just though it may be, entails a grave danger; by excessive equalization it may destroy the last remnants of a capitalist property whose owners will be indispensable for the reconstruction of German society and economy in other than extreme socialist forms.

The danger would be immensely increased if, on top of an equalization fund, a German currency reform were to adopt a progressive capital levy, as some socialized countries such as Czechoslovakia have done. This is one of the outstanding occasions when supreme justice would mean supreme injury. In satisfying an emotional bias for fairness and justice this would be wiping out the last sparse relics of an entrepreneurial class without which a highly industrialized country like Germany cannot be rebuilt. The all but confiscatory income taxation has already done much of this fatally destructive work. It limits in the highest brackets net income after taxes to about 12,000 marks a year which even at the official rate amounts to \$1200 and in real purchasing power to a fraction of this sum. This merely reflects, it is true enough, the fact that the Germans have become a nation of paupers. But no economic recovery is conceivable under such a taxation.

The most difficult part of the whole operation is its timing. No currency reform can be successful if the new money does not find much more to buy than the old. A successful currency reform presupposes an adequate minimum of available goods in a rising trend of production. It would certainly fail if undertaken before the German economy has started to become a going concern. The new currency would otherwise soon break under the pressure of hunger and black markets. And such a contingency would end all hopes for German recovery. In practice it means sufficient American dollars for food, raw materials, urgently needed machinery and transport equipment. They may be forthcoming within the framework of the European Recovery Plan. But no German currency reform is possible until the Plan is secured and has begun to work.

The technical and administrative intricacies of such an operation are enormous. In a country where a very great part of the statistical and legal records have been destroyed or have disappeared, where the bureaucratic organization, after complete disintegration in the days of collapse, is still largely improvised and,

thanks to war, nazification and denazification, depleted of its ablest members, a currency reform of that type is quite possibly an unmanageable proposition. Under present conditions, even the printing of the new banknotes is a long and costly affair. The Reich Printing Office, which happens to be located in the American sector of Berlin, is in large parts damaged and therefore of inadequate capacity. The only other plant equipped to print banknotes is in Leipzig, in the Russian zone. The Russians have insisted that Leipzig be used, but refused to offer sufficient guarantees against misuse. They have never revealed to their Allies how many occupation marks were printed by them. The Russians are in possession of all engraved plates of the Reichsbank and of the Reich printing shops. The alternative would be to print entirely new banknotes in London or New York, which would be rather expensive and would require at best quite a few months of preparation.

But this is not nearly all. No currency reform is conceivable without a new central bank, however centralized or decentralized, to control and regulate the new currency and the credit policy required to sustain its stability. Whether it is done by one central bank on the European pattern or a sort of Federal Reserve System on the American pattern, one common currency clearly demands one common fiscal and economic policy.

Thus a currency reform leads up straight to the most portentous political decision. One year after Potsdam it was still the official belief that reform plans could and should be based on the assumption of a unified currency for an economically unified Germany. Two years after Potsdam this assumption had to be abandoned. Was it ever realistic? Was it ever feasible to organize a currency common to a socialized eastern Germany and a free-enterprise (however modified with socialist elements) western Germany?

One of the first acts of the invading Russians was to close all banks in their zone, including all in Berlin. When the Western Allies were finally permitted to establish their offices, the closing of the banks was one act of the Russians that was never corrected. But the greater part of all German bank deposits was in Berlin banks, while the owners of these deposits were scattered all over

Germany. The Russians organized new Laender and Provincial banks which started new business, including the acceptance of new deposits, but this new business, for obvious reasons, is no more than a small fraction of that of the closed banks. We will have to come back to this in the next chapter.

If a common currency and a common central bank covered both east and west, the Russians would have to reopen the closed banks and restore title to both their assets and liabilities. Such a step would, of course, mean nothing less than a complete reversal of the policy of thorough socialization which the Russian Military Government and their political stooges in Germany have consistently pursued. It would be an act with a significance far exceeding that of a technical operation. It would be a major political manifestation with tremendous repercussions throughout the area of Russian domination. Since the Moscow Conference of Foreign Ministers in March-April 1947 and the Russian attack on the Marshall Plan, the chances that a common central banking and currency system will be set up have sunk virtually to zero.

However, since the monetary chaos cannot be permitted to spread and deepen indefinitely if Western Germany is to be made self-supporting, the only alternative left to the Western powers is to proceed with currency reform in their own zones. No one has any illusions about what that means politically. It might seal the political partition of Germany with all that implies for the future of Europe and the world. This aspect is frightening enough to explain and justify the hesitation with which the responsible men in the military governments of the United States and Britain—and most of them are, fortunately, men with a strong sense of responsibility—look upon that alternative. Two years after Potsdam, Washington and London have concluded that the break is unavoidable, for without it their own zones will sink into a morass of hunger, despair and social disintegration. Moreover it would be intolerably expensive for the Western powers and would hopelessly poison the political and economic body of all Western Europe which cannot be reconstructed without Germany.

But nobody has any reason to be elated over the prospect. The two parts of Germany, now separated by one iron curtain, will be separated by two. We ourselves will have to draw one by means of rigid exchange controls. The two parts of Germany will

rapidly proceed to speak a different language in their political, spiritual and moral terms. The beginning of that process becomes shockingly apparent when political leaders and journalists from the two zones meet on rare occasions. This estrangement between East and West within Germany will grow apace once the different political and social organization has been supplemented by a different money, particularly if in consequence of such a policy the Western Allies should be forced to withdraw from Berlin which has from the beginning been an almost completely isolated island in the Russian sea.

The common currency is—until then—the only link, however tenuous, that still holds the four zones together. Even now transfers of marks from East to West or West to East are subject to restrictions which have steadily grown more severe. But both the exchange of goods and travel and migration from one zone into the other are considerably facilitated by the fact that the mark is accepted as currency on both sides of the curtain. Once a Western and Eastern German currency are established side by side the two parts of Germany will be completely separated. It may then be more difficult for a German to finance a journey from Kassel to Leipzig than to New York.

## VI.

### THE SOVIET ZONE

IF THE Soviet Union ever had the intention of establishing a unified Germany in the meaning of the Potsdam Agreement, it has betrayed no sign of it. From the first moment of the occupation Moscow began to socialize the eastern zone. It has made such vast progress in that work that it is extremely doubtful whether it could be undone even if the political status were reversed. How could things have been different under the circumstances? After all, the Soviet way of life, of political administration, of social, financial and industrial organization is the only one the Soviet personnel has been trained in and ever known. In the make-believe atmosphere of the frank and friendly man-to-man conferences of the Roosevelt era the question of how a Russian administration in any part of the world could fail to destroy the existing social and economic order probably never arose. Voluntarily, not from military necessity, the Western Powers left Berlin and industrial Saxony and Thuringia to the Russian armies to occupy. Since Berlin was designated as the common center of the four occupying powers, it would have been of the utmost importance for all to occupy Berlin at about the same time. But once the Russians had conquered Berlin they kept the others out long enough to get a head start on their schemes. When the American and British armies were eventually permitted to enter the capital and to take over the sectors assigned them, they could not help accepting all *faits accomplis*.

The most important was the closing of all private banks and the blocking of their deposits. Only tiny amounts were released for individual emergency expenditures. (In a sense this was a conservative measure because it at once stopped the largest source of virulent inflation.) How much new money was, and is, printed by the Russians is not known. As a matter of fact, Russian officers and soldiers buy anything they can get hold of on the black market, from simple household utensils to the most costly jewels

and fur coats. (Incidentally, in Vienna too fur shops do a booming business with the Russian officers who are ready to pay exorbitant prices, often even in dollars.)

With the closing of the banks all securities, stocks and bonds which were held for their clients by the Berlin banks disappeared. They have probably been transferred to Karlshorst, the headquarters of the Soviet Military Command. The significance of this measure was enormous, owing to a peculiarity of the German banking and security trade. Most German securities were held in Berlin as the seat of by far the most important stock exchange in the form of so-called *Sammeldepots* (collective depots). What was actually traded were certificates or claims on securities of which as a rule neither the stockholder nor the banker got sight. How ever often the ownership of these securities changed, they remained in these *Sammeldepots* unless, a rare exception, the owner insisted on obtaining physical possession of the paper and on taking care himself of its custody and administration. As far as is known, the Russians have not left behind any lists of the number and quantity of the stocks and bonds they carried away. Thus chaos in ownership conditions was created even before large-scale socialization. Many of the owners of these stocks and bonds had been uprooted. Many had been bombed out and lost all papers with evidence of their claim or their correspondence with their banks. Others had fled or been suddenly evacuated and the place where they kept their property became inaccessible. This aspect of a complete upheaval of the legal foundations of a private property economy has rarely been appreciated but it will be a fundamental factor for the future economic and social order of Germany, whether united or partitioned. It is estimated that only about 10 to 25 per cent of all former securities outstanding are still in the hands of the individual owners in the Western zones and form the precarious basis for whatever trading takes place in the several security markets still permitted to operate.

But the negative measure of closing the private banks did not suffice. The Soviets need banks in Germany just as much as in Russia. So they founded a *Landesbank* in each of their five Laender, in Dresden, Weimar, Schwerin, Potsdam and Halle. These new banks took over the organization and equipment of

the closed private banks and thus came into possession of a vast net of local branches which reopened under the name of City Banks (*Stadtbanken*). Their final fate is kept in abeyance. The *Landesbanken* are supplemented by five *Emissions-* and *Giro-Banken* which took over the functions of the former Reichsbank, i.e., the regulation of currency, money transfer between the provinces and all other functions of a bank of issue with the important exception of the privilege to issue new currency. They have no private customers but are limited to business with governmental authorities and the banks in their respective Laender. They are connected by a *Bankenverrechnungsstelle* (central clearing house) in Potsdam, an organization similar to that existing in the western zones. It does not necessarily rule out a future common currency. The former *Sparkassen* (savings banks) have been replaced by new city and county savings banks. The Credit Cooperatives, a rather widespread credit organization in Germany, were not closed. They continued their operations in connection with the newly established organizations.

In contrast to the Western zones the new banks are not the legal successors of the closed private institutions. They have not assumed responsibility for their deposits and other liabilities. Nevertheless, they collect outstanding claims and credits of the closed institutions. This is exactly what was done in the Soviet Union after 1917. It is an open question what will happen in this respect to the mortgage banks, the mortgages they own and the mortgage bonds they have issued. The mortgage banks have not yet resumed their activities. With the monopolization of the entire credit organization, financing of private enterprise is, of course, virtually precluded. There are neither stock exchanges nor private money markets, and since the old savings are blocked they are not available for new business. Of the deposits of the new banks, by the end of 1947 about 15 billion marks (including deposits of various public authorities and agencies), not more than 10 per cent are invested in loans (practically all to publicly owned enterprises), the rest is idle.

As for the physical property, the Russians were divided by conflicting interests. What baffled the Germans most were the recurrent contradictions between the orders issued almost at the same

time by various Soviet authorities.<sup>1</sup> The first phase of Soviet occupation, as far as physical property was concerned, consisted mainly of destruction, dismantling and removal. It was of the most far-reaching consequences that at the very beginning on all but three main railroad lines the second tracks were torn up and the rails and ties shipped east. On two of the three originally spared lines removal of the second tracks was still going on by September 1947, and in the Berlin District alone fifteen lines stopped operation entirely because even the single track had been torn up. In other districts it is still worse. The restoration of the eastern German railroad system, if it ever comes, will take many years and entail tremendous outlay. Yet these eastern German railroads are needed not only to supply the German population; they are indispensable for the transit traffic between the Atlantic or Baltic ports and the countries of Eastern Europe, the political and economic "orbit" of Russia. One of the heaviest handicaps for the reconstruction of both Germany and Central Europe has thus been created with negligible benefit to the Russians themselves.

At the same time, dismantling of industry or what was left of it began on a huge scale. Apparently the Soviet Military Administration was technically unprepared to do the job in a rational manner. Valuable and complicated machines were torn, broken, blasted from their foundations and put on railroad cars which never reached Russia. They were left or forgotten on sidings and the machinery became rusted scrap. After some time, the absurdity of this procedure was realized and later dismantling was done more systematically, although practically nothing is known about what has happened to the dismantled equipment. The Russians have never rendered any accounting to either the Germans or the Allies. The few reports that have come out of Russia have it that the assembling in Russia of dismantled German factories has been a failure and a considerable part of the deported German workers who were supposed to operate the factories are still idle.

The dismantling was soon supplemented by wholesale sovietization and socialization of what was left. This sovietization took

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<sup>1</sup> Thus the particularly heavy second wave of dismantling in autumn 1946 started without previous knowledge of the Russian Military Government whose officials learned of it only from the German cries for help!

place in a great variety of forms. Of foremost importance and significance are the so-called *Soviet Aktien-Gesellschaften* (corporations or combines) under direct Soviet ownership and management.

These *Soviet Aktien-Gesellschaften* were initiated in August 1946, within five months after the publication of the notorious first Level of Industry agreement. They were an entirely new departure in the realm of international law, something wholly without precedent. Into these Soviet corporations were transferred all major plants of the industries of basic materials, capital goods and electrical power, as far as they had not been dismantled. The Russians themselves explained the new scheme by the unsatisfactory results of the dismantling. They recognized that German factories and equipment could not always be adjusted to the Russian industrial organization, that many of the transferred machines were specialized for raw materials not available in Russia and, above all, that they depended on special skills of German workers. Anyway, here was a part of the Russian state economy established squarely on German soil. It includes at present about 130 mining and industry plants. The number was originally about 200, but early in 1947, 74 were turned over to the Laender governments, among them most of the potash mines, several power plants, all high-tension transmission lines, one copper mine, a few brown coal mines, some automotive, electrical equipment and chemical plants. However, this did not protect these plants from later dismantling. The legal basis for the expropriations in favor of the Soviet Corporations was twofold: one, the Level of Industry Plan, and two, expropriation of property of "war criminals" and "Nazi activists."

The Soviet Corporations are organized in twelve holding companies, each for one industry (such as fuel, fertilizer, chemistry, potash, metallurgy, etc.). These twelve holding companies or trusts are held together by one top holding company, the *Soviet Industrie A.G.* in Berlin-Weissensee. Some of these sovietized firms, particularly those of international reputation, retained their old names to facilitate the export business. The legal character of these corporations is not yet ascertainable, in particular whether the Russians regard them as subject to Russian or German law (which is of considerable practical importance for their business

with people outside the Soviet zone). These Soviet industries do their own financing through a special "Soviet Bank for Short- and Long-Term Financing" affiliated to the top holding company. Each individual plant has a Russian general manager, also a Russian planning engineer who is a major factor. For the rest the German executive personnel has been largely retained. It enjoys special privileges, particularly in the form of extra rations, tobacco, etc. The workers too are considerably better off than most workers in German plants, chiefly due to extra meals in shop canteens. In principle, the output of the Soviet A.G.'s goes to the Soviet Union.

Almost all Soviet A.G.'s are in the Laender Saxony, Saxony-Anhalt, and Thuringia. Only six are in the Soviet sector of Berlin, three in the Mark Brandenburg and one in Mecklenburg. In Saxony-Anhalt are the giant plants of the former I.G. Farben (Leuna) and the German Solvay plants. In Land Saxony the Soviet corporations represent almost exactly half of the industrial output. Completely or predominantly sovietized are iron and steel, synthetic gasoline, ball bearings and passenger automobiles. In railroad equipment (cars and locomotives) the German share has become substantial again owing to the transfers in the spring of 1947.

In addition to the Soviet Corporations, the Soviet Military Government controls a substantial number of corporations through stock ownership. They, too, are under Soviet administration without being formally Soviet A.G.'s. The extent of this control through stockholdings is not yet known, nor is much known about the way and the terms by which this control was acquired.

Altogether it may be assumed that the Soviet A.G.'s control about 20 per cent of the total industrial production of the zone. But since they are concentrated in relatively few industries, they dominate most of these industries. They may employ today about a quarter of a million men, an average of about 2,000 per plant. It goes without saying that these plants enjoy privileges with respect to supply of raw materials, coal, electric power and transportation.

In addition to what the Russians took directly, the bulk of the industry was socialized by the Laender governments under Russian control. Socialization began with a "plebiscite" on June 30,

1946 in Saxony, the most intensely industrialized part of the Russian zone. The propaganda display for this plebiscite almost dwarfed Hitler's. Over 75 per cent voted "yes," not for socialism, but for punishment of war criminals and similar issues. The performance was not repeated. In the other Laender of the Soviet zone socialization was simply ordered by the Laender governments on the basis of two directives by the Soviet Military Administration. The procedure consisted first of making up several lists: an A list of firms to be expropriated as owned by war criminals and similar categories, a B list of firms that should be returned to the former owners, and a C list on which the Soviet Military Administration reserved its own decision. The SMA established a German "Central Commission for Seizures and Sequestrations," but this Commission could only recommend, not decide. The decisions rested with SMA, which later transferred this right to the Laender governments, the very authorities against which appeals to the Central Commission were directed. Returned on the basis of list B were only medium- and small-sized firms. For the bigger ones, a pretext could always be found to keep them on list A.<sup>2</sup>

Expropriated were:

1. in Land Saxony	1760 plants
2. in Province Saxony-Anhalt	1882 "
3. in Land Thuringia	875 "
4. in Mark Brandenburg	1421 "
5. in Mecklenburg	605 "

On about one hundred plants decision is still pending.

Of the 1760 plants in Saxony

1002	were taken over by the Land
278	" " " by municipalities and counties
73	" " " by cooperatives (mostly food producing and distributing plants including dairies and flour mills)
28	" " " by various organizations.

<sup>2</sup> For instance, a weaving mill with 500 workers was expropriated because it had during the war utilized one idle division to make soldering lamps for the war ministry!

380 concerns, mainly small shops, were put up for public sale, which means, left to small followers who had courted the favor of the Communist party of the Soviet Administration. Altogether, 40 per cent of all workers are employed by state-owned concerns. In Thuringia 286 concerns are nationalized, but in addition the State of Thuringia owns shares in another 40 concerns which are thereby practically under state administration.

It does not make much difference whether the plants are socialized by Laender, counties or municipalities. Practically the entire eastern German big industry and a large part of the middle-sized firms are socialized as well as the biggest plants which have been taken over by the Soviet Government itself.

The organization of the Socialist system varies from Land to Land. In Land Saxony each individual plant is headed by a manager who is advised by the shop council. In major plants there exists sometimes a planning committee which supposedly includes the most capable members of the crew. Each plant makes up its own production plan and submits its operating accounts (gross receipts and gross expenses), but not its own balance sheet. Profits and losses go into the common pot of the trust to which the individual plant belongs. It is therefore impossible to check its financial performance and its efficiency.

The individual plants are organized in 64 industrial "administrations." Their functions consist in making up annual statements, directing production, coordinating production plans of the individual plants, allocating raw materials, fuel, etc., distributing labor, financing and tax matters. These industrial "administrations" form special properties of the Land and are responsible for the liabilities of the individual plants which are thus reduced to the status of branch shops. Each industrial "administration" has a so-called *Leitbetrieb* (master firm). There is each one industrial "administration" for hard coal, brown coal, ore mining, foundries, precision instruments. There are three for the chemical industry, seven for machinery, ten for textile, five for furniture, etc.

Each industrial "administration" is run by a *Direktorium* (management board) consisting of one technical, one commercial director and one director for personnel and social matters. The last is of course the powerful political figure. The board of di-

rectors is aided by an administrative board consisting of the managers of the affiliated individual plants and each one member from each of the shop councils of these plants.

Of great significance is the social background of these directors:

Former directors	5.2%
Businessmen	31.7%
Engineers	23.9%
Clerks	11.9%
Workers	27.3%

Democratization in individual plants goes still further.

Former managers	4.0%
Businessmen	21.5%
Engineers	13.3%
Clerks	13.6%
Workers	47.6%

Thus, almost one-half of the socialized industry is actually run by workers. The industrial "administrations" are subordinate to an Office for Land-owned Industries which itself depends upon the Ministry of Economics and Labor of the Land Government. Here ultimate economic power rests.

The variations of this system in the other Laender show clearly to what extent there is still experimentation and improvisation. As a curiosity it may be mentioned that in the middle of 1947 Mecklenburg socialized its movie theaters under the pretext that during the war they had made propaganda for Hitler and militarism and had rented their houses for meetings of the Nazi party. Under similar pretexts more and more restaurants are being "socialized," also apothecaries because they serve the public welfare and must therefore be withheld from the greed of private capitalists.

About the financial and industrial results of this wholesale socialization little has leaked out yet. No balance sheets or profit-and-loss statements have been published. But several governments are beginning to prepare the public for the forthcoming losses. It is being told that socialized plants have the duty to manufacture certain products irrespective of profits. Actually the Land Saxony in its latest budget has earmarked 80 million marks for

the land-owned industries alone. But some detailed information throws light on what sort of accounting we may expect. For instance, a river shipyard reported a profit of 100,000 marks for eight months during which it was not operating at all. Generally the socialized plants took over only the assets, not the old liabilities. In other words, they started their new better life free from debt or any commitments to stockholders. The new laws provided for some hardship clauses, which are of no practical relevance, to favor "tried anti-fascists." One clause allows each "anti-fascist" party and the trade union organization to nominate seven firms which may be returned to their former owners. But since the return is conditioned upon the consent of the crew, the exemption is deprived of all practical value.<sup>3</sup>

To round out the picture we must mention the organization of merchandising in the Soviet zone. For this purpose *Industrie-Kontore* and *Handels-Kontore* have been created. The former have to supply industry with raw materials, fuel and machinery, the latter to take care of sales of industrial products. Of most of these Kontore the government owns 51 per cent and private firms own 49 per cent. In spring 1947 finally a central administration for interzonal and foreign commerce was set up in Berlin.

In order to leave a part of the industry with the Laender, the Soviets had to keep their politics and their administration under strict control. The basis for the administration of the economy had to be broadened by German stooges because the Russian personnel sent to administer the industry in their zone was quite inadequate in both number and qualifications. But to organize such an administration by Germans was exceedingly difficult. The Russians brought along about 2000 Germans, mostly officers, trained and selected from the so-called "Free German Movement" in Moscow. They were not of much use in the economic administration. Among the handful of convinced communists in the Soviet zone few were fitted to run a government or business

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<sup>3</sup> For instance, when a textile mill in Saxony was recommended for re-privatization, an agitator arrived from Dresden and called a meeting of the workers. In his address he declared that there was a possibility to return plants to the "exploiters." "Whoever is in favor of a return to the exploiters please rise." It may readily be imagined what was the result of this voting. In this particular case the entire crew had been in favor of privatization.

administration. The great majority of Germans in the Soviet zone were definitely anti-communist. To establish Soviet power in the zone was a complicated procedure—a mixture of pressure, intimidation, cajolery, bribery and open terror.

Formally the infiltration of Soviet methods into the German economy in the eastern zone had to be effected by "democratic" means. In the decisive first phase of the occupation there were no elected representative bodies. Therefore the Soviets used the existing organizations, such as the administrations of the Laender and Provinces and above all quickly improvised trade unions. All that was needed was to man the key positions in these organizations with reliable persons, members of the Communist party or fellow travellers. This *Gleichschaltung* (an exact replica of what the Nazis had done twelve years before when they seized power) was facilitated by the general decree that enjoined all administrative bodies strictly to obey the wishes and orders of the commander of the occupying power. That in itself made opposition to the new hand-picked heads of the administration practically impossible. Those who were still able to muster the moral courage to oppose had to choose between resigning and being fired. In all leading positions of the public administration (whether in ministries of the states, or counties or cities) either the head or his deputy had to be a confirmed communist. In the latter case the decisive power, particularly in matters of personnel (appointment, promotion and dismissal), is invariably with the deputy. Former Social Democrats, even though now members of the Unity party (SED), are treated as non-communist, i.e., they are under a communist deputy.

Much more difficult was the job of creating a political majority. It was hopeless to use the Communist party (KPD) as such for the purpose. The KPD alone never had a chance of gaining a majority even under Russian occupation (although many communist leaders thought it could). By all means, fair and foul, therefore, the Social Democratic party, by far the largest, was broken up and one wing induced to merge with the KPD to form the so-called Unity Party (SED, or *Sozialistische Einheits-Partei Deutschlands*). The Social Democratic party itself was forbidden. The leadership of the merged party was exclusively in the hands

of communists, or of socialist renegades who outdid the communists in radicalism and subservience to Russian orders and interests. Even so, the SED suffered an amazing setback in the elections to the Laender diets. Yet although the SED did not obtain a majority vote, it emerged as the most numerous political party in the eastern zone.

The election campaign was carried off with subtle and not so subtle methods of bribery and intimidation. The SED authorities distributed food and fuel where they saw a chance of gaining the favor of the local inhabitants. They asked employees in the Soviet-controlled plants to disclose their party membership and to join the SED. They threatened to cut food rations in case the election results were unsatisfactory. They gave paper and gasoline to the election workers of the SED and withheld it from the others. In many districts, campaigning by non-communist candidates was virtually suppressed by grotesque, yet very effective methods such as delaying the approval of meetings, intimidating speakers by alleging that they had made remarks inimical to the occupying power. Or suddenly streetcars stopped running to the meeting halls where opposition parties had assembled, while at the same time free performances were offered in the movies and music halls for the faithful. But such tricks were suitable for the towns and industrial centers.

In the rural districts and villages, largely inhabited by the conservatively inclined, more massive methods were employed. If the vote went against the SED the villages could count on getting assigned three to four times the number of evacuees and refugees to care for. In many instances the last head of livestock was requisitioned, or the delivery quota raised above the physical ability of the farmer to perform. In such "unfriendly" communities the allocation for fertilizer was suspended or reduced to a minimum. Industrialists and businessmen were, of course, put in their places and cautioned by equally simple procedures. If anyone dared to be politically active or express heretical opinions he could be sure that his business would be declared "redundant," that he would be classified as a militarist or a war criminal, that either his machinery would be dismantled (although shortly before the elections the era of dismantling had been officially pronounced closed), that his skilled personnel would be "contracted"

for Russia, or that whatever old stocks he still had in his plant would be seized and new permits for future allocations denied. The houses of exposed persons in leading positions were requisitioned with all the furniture and—how familiar to those acquainted with the handling of popular opposition in Russia—employees were guaranteed their jobs on condition that they passed resolutions asking for the removal of their bosses who had fallen into disfavor. The “indirect” methods of pressure were supported by more direct methods wherever needed—arrests, indictments, examinations, by both the MVD, the ubiquitous Russian secret police, and the German police. This was useful in breaking up the political organization of the non-socialist parties. (The practice varied from county to county, depending upon the local Russian commander.) Equally effective was the widespread sabotage of registration, which deprived the candidates of the Christian Democrats and the Liberals of nearly half their potential voters.

In this atmosphere no organized opposition could hold out longer than against the same methods in the Hitler era. But terror and pressure are only one side of the picture. The other side is cajolery and corruption attempted on all who play a part in shaping public opinion. Newspapermen, writers, artists, all groups who are articulate or who are likely to meet foreigners in that fantastic international cauldron Berlin is today enjoy special privileges. They get the highest food rations; they get, if they are nice, special shipments of coal in the coldest months; their wives may receive small, or not so small, cadeaux from genial Russian officers; in short, a certain group of leading persons in the Soviet zone can with good reason assure foreign correspondents on occasional visits that life in the Soviet zone is not so bad after all and in some respects pleasanter than in the West.

How much longer they will feel this way is another question. For at the same pace at which the political relations between Soviet Russia and its former Western Allies deteriorate, the Soviet regime grows more ruthless in Germany. By the middle of 1947 expropriations had been resumed. In Saxony-Anhalt—the former Prussian Province of Saxony as distinguished from the former Free-state (Kingdom) of Saxony—320 major plants were confis-

cated by the Land government. The official notices, curiously enough, bore the date September 1946. Some of the plants had already been seized at that time but in October, shortly before the elections, had been solemnly restored to their private owners in public meetings. This now turned out to be just another election trick. The pretexts for the new wave of expropriations varied. Owners who had been members of the Nazi Party (as most businessmen had to be if they wanted to survive) were declared "politically not tolerable," though these were only the simple members—the active Nazis had already been expropriated in autumn 1945. If persons who had been neither members or supporters of the Nazi party, nor "war criminals," were expropriated, the expropriation was explained by their mistreatment of foreign workers, some of whom were in almost every plant, or by the fact that during the war they had manufactured war material.

At the beginning of 1947 the over-all devastation of major industries in the Soviet Zone was estimated as follows:

<i>Industry</i>	<i>Reduction of industrial capacity in per cent</i>		
	<i>Dismantling</i>	<i>War Damage</i>	<i>Total</i>
Iron works and rolling mills	80	—	80
Machine industry	55	25	80
Vehicles	55	20	75
Electrical industry	60	20	80
Precision instruments and optical (without dismantling of Zeiss Jena)	60	15	75
Cement	40	10	50
Gypsum	35	5	40
Glass and ceramics	35	15	50
Plywood	100	—	100
Other woodworking industries	15	20	35
Pulp and paper	45	15	60
Rubber manufacturing	80	10	90
Sulfuric acid	60	5	65
Soda	80	5	85
Caustic soda	60	5	65
Rayon and artificial wool	35	5	40
Textile	15	10	25
Leather	25	5	30
Shoes	15	5	20

What is left of productive capacity in the Soviet zone is rapidly being integrated into the Russian economy.<sup>4</sup> Now Russia cannot extract much more from its zone. From official and semi-official sources it has been computed that in Saxony—once the industrial backbone of eastern Germany, which always had a more than proportionate share in German exports—of the 1936 capacity 20 per cent is left in the machine industry, and 15 per cent each in electrical apparatus and appliances, precision instruments and optical products. In many branches of the highly specialized machine industry (such as textile machinery) even less is left. The still existing capacity has to deliver most of its current production to Russia. About 15 to 25 per cent of the output may remain in Germany to pay wages and taxes. Certainly the Soviet authorities never respected the figures established by the "level of industry" as the limit.

Only what could not be removed remained intact. Thus, while steel and rolling mills have almost entirely disappeared from the Soviet Zone, coal production soon recovered to prewar levels. But even coal—as mentioned before—started a downward trend at the beginning of 1947, inevitable in view of the spoliation of machinery, power plants, and transport equipment. It is almost exclusively brown coal (lignite) of low caloric value that is produced by strip mining and used largely for generating electric power or for chemical plants (synthetic oil and nitrate). Other plants in the Russian zone producing goods under world-famous trade marks are kept busy making articles for export by the Soviet authorities, such as the famous Meissen porcelain or certain brands of hosiery, which are sold for hard currency to South America or Sweden or Switzerland with proceeds flowing entirely into the Soviet gold and dollar pool.<sup>5</sup> The relatively satisfactory supply of coal and some raw materials (cotton) to be processed for Russia explains reports of the high level of employment in

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<sup>4</sup> The order of priority in the "production plan" is: 1) reparations; 2) SMA (military government and the army of occupation); 3) Soviet purchasing commissions (for delivery to Russia); 4) German home market.

<sup>5</sup> Shortly before the Leipzig Autumn Fair of 1947 the exporters were permitted to retain 7½ per cent of their sales in foreign exchange for the purchase abroad of raw material or machinery and for foreign expenses on advertising and promotion.

the Russian zone which seems to contrast favorably with the performance of the Americans and British in their zones. Actually the basic conditions in these two zones are no longer comparable.

But the Soviets may have gone too far and too fast even for their own interests. They have all but annihilated private property and the propertied classes, or what of them had survived the holocaust of war and invasion. At the same time they have largely destroyed the productive power of their part of Germany. The basic strength of Eastern Germany (apart from Berlin) lay in its agriculture and in its highly specialized export industries. The export industries, as we have seen, are mostly gone. Of still more far-reaching consequence is the devastation of the agricultural basis of Eastern Germany.

This part of the country which used to produce 3600 calories of food per head (in the region east of the Oder-Neisse seized by the Poles even 4000 calories), and thereby not only fed its own people plentifully and cheaply but supplied Berlin and many of the needs of Western Germany, has fallen to a starvation level not higher than that in the over-industrialized, over-populated and less fertile West. While Americans and British bent every effort to send food into their starving zones, Russia was neither able nor willing to send food to Germany and insisted on supporting its own army of occupation (probably larger than those of the other three occupying powers combined) from German land.

What has happened to German agriculture in the East?

When in 1945 the advancing Russian armies crossed the former German borders they stripped the farms of their crops, of 80 per cent of their livestock, of practically all agricultural machinery and appliances down to hoes and scythes. The inhabitants, rural as well as urban, fled in masses before the vengeful conqueror about whose wrath and methods Goebbels' propaganda had thoroughly informed his people. Since the invasion took place in spring, there was little left to harvest in autumn. Only the fact that this part of Germany had been its richest agricultural area spared the Russian zone mass famine in the first year of occupation. The Russians acted quickly to restore a mini-

mum of order in their farm belt. With threats and enticements they brought the peasants back to their deserted villages. The threats were hunger and prison, the enticements promises of land.

The Russian occupation authorities lost no time in introducing a revolutionary "land reform." Since their zone was characterized by large estates (which in the German west and south are insignificant) these estates were immediately broken up, split into small parcels of 12 to 20 acres. The maximum farm was limited to between 50 and 60 hectares (120 to 150 acres) including moors and forests. Few of the newly created small holdings can support a family. No less than 2,700,000 hectares (about 6.7 million acres) belonging to 12,355 estates<sup>6</sup> were expropriated (of course, without compensation), that is, about one-third of the total arable land in the eastern zone. True to the Russian pattern, about 800,000 hectares (2 million acres) became the property of provinces or towns or of the "Mutual Aid" organization, as experimental or breeding farms or communal pastures and vegetable land. The other 1,900,000 hectares were distributed among 450,000 families, making an average of a little over 4 hectares or 10 acres per family. Most of these families were local people, farm workers, small tenants or artisans. Only 83,800 were refugees and people expelled from the land east of the Oder or Czechoslovakia. Assuming five persons per family, the "reform" settled altogether perhaps 400,000 of these expellees, a small fraction of those who landed in the Russian zone. But these settlers were not all farmers or persons experienced in farming. Almost 131,000 settlers had never worked on the land. And even the greatest experience was of no avail to persons without tools, seed, livestock and, above all, without buildings. The deserted manor house was not a usable shelter for thousands of settlers and certainly not a substitute for the needed sheds and barns. The 140,000 tractors which once operated on the "reform" land and most of the hundreds of thousands of electric motors were gone. Yet these farmers, old and new, were allotted staggering delivery quotas for the towns. Thousands of them were imprisoned or fined for "sabotage." But this did not raise food. Had these deliveries generally been enforced, 90

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<sup>6</sup> Of these—according to Soviet sources—6986 belonged to "Junkers," 3280 to "war criminals," and 2089 to members of the Nazi party or the army.

per cent of the rural population would have had to be accorded ration cards. The few cows left gave no milk, the horses were old, overworked, underfed.

In the subsequent two years some progress was made. But the poverty and misery among the eastern farm population make it hard to remember that only a few years ago this was one of the richest and most prosperous farming areas of Europe. The peasants have actually become farm laborers without wages. The production of the Eastern zone even now is reduced to a level that keeps the urban population of the east on food rations no better than in the west. But sovietization of eastern agriculture has started with the same vigor as sovietization of eastern industry. The land reform creating a vast number of dwarf holdings is undoubtedly meant merely as an interim substitute. Clearly the introduction of some sort of "kolkhose" system (collective farms) is in preparation. The Russians know as well as the Germans that the breaking up of large estates, of which most were models of scientific and technical efficiency, was bound to lead to a steep decline in productivity. But in September 1947 the head of the agricultural branch of the Soviet Military Administration boasted earnestly that thanks to the land reform the Soviet zone would be able to maintain the ration until the harvest of 1948!

What has happened to farming in the Eastern zone may be gathered from the following tables:

	<i>Planted Acreage</i>		<i>Crop Yields</i>		<i>Average Yields per hectare</i>	
	1946	1938	1946	1938	1946	1938
	<i>in 1000 hectares</i>		<i>in 1000 tons</i>		<i>in 100 kilograms</i>	
Rye	1090	1162	1260	2443	11.6	21.0
Wheat	443	614	707	1885	16.0	30.7
Bread Grain	1533	1776	1967	4328	12.8	24.4
Barley	320	445	460	1287	14.5	28.9
Oats	866	826	1216	2200	14.5	27.2
Pulses	121	106	135	175	10.3	16.5
Potatoes	769	891	9259	14545	129.4	163.2
Sugar Beet	200	217	3277	6324	163.7	291.2

Changes in Planted Acreage and Crop Yields  
in Per Cent—1946 Against 1938—

	<i>Planted Acreage</i>	<i>Crop Yields</i>
Rye	—6.2	—48.4
Wheat	—27.9	—62.4
Bread Grain	—13.7	—54.5
Barley	—28.1	—64.3
Oats	+4.8	—44.7
Pulses	+14.1	—28.6
Potatoes	—13.7	—36.3
Sugar Beets	—8.5	—48.2

Complete figures for the 1947 harvest are not yet available. They have been far lower on account of frost and draught. Thus the 1946 figures will be about a maximum for some time to come. Apparently only half of the rye and little over one-third of the wheat was harvested on an acreage only 6 and 28 per cent respectively smaller than in the last prewar year. But even where the acreage was increased over 1938, as with oats, pulses and oil seeds, the yields fell far behind that year.

The process of disintegration will be followed by a process of concentration. The initial step is the political organization of the peasants in the *Vereinigung der gegenseitigen Bauernhilfe* (Peasant Mutual Aid Organization) so emphatically referred to by Mr. Molotov in the Moscow Conference. It is, of course, controlled and directed by communists. This Mutual Aid Organization has already set up almost 3000 collective machine stations from which the peasants can borrow a minimum of implements and tools, and 4600 breeding stations to which the peasants can bring their animals. Only the last step of expropriation and collectivization has yet to come. The suppression of the peasant parties in eastern Europe clearly indicates the trend in the whole area of the Russian domain.

The similarity between the treatment of Eastern Germany and the other countries of Eastern Europe under Russian control is striking. The pattern of political domination is virtually the same. No more than in all other eastern countries did the communists ever have the slightest chance of gaining a majority in

Germany by democratic means. But since the outward forms of democratic procedures (multi-party systems, elections and most of the other paraphernalia) were to be observed for the time being, the Soviet government in Eastern Germany, just as in Poland, Rumania, Yugoslavia, Bulgaria and Hungary, resorted to the block system. In Germany the Soviet Military Government did not insist on joint lists of candidates as they had in other countries. This was a mistake, to be explained by a misjudgment of the political realities. Upon the advice of the German communists, the Soviets seriously believed that the "proletarian" parties with the aid of strong administrative pressure could swamp the whole zone. Therefore they confined the forced merger to the Communists and Social Democrats in the so-called SED. The elections were an unpleasant surprise. Despite all tricks and pressure tactics the SED did not score a majority. This induced the occupying power to modify its tactics slightly. If the *Landtage* (Diets) and governments of the Laender were not altogether reliable tools, other more reliable ones had to be created.

The most important were the so-called "Antifa" Committees, the abbreviation for committees of the three permitted anti-fascist parties (SED, CDU, and LDP). These Antifa Committees decide in advance the policies of both parties and governments, and they are of course, completely dominated by the communists. Significantly, no votes are taken in these committees. All decisions must be "unanimous"; it is simply presumed that the non-communist leaders will not risk their necks except on issues of overwhelming importance. In minor questions the bolder non-communist leaders, such as Jakob Kaiser, may win some tactical advantages from the Russian interest in maintaining the semblance of "unity." In major questions they are up against a stone wall. The Soviet Military Government is informed of all meetings of these Antifa Committees and as a rule the mere presence of a Russian suffices to silence open opposition. In case of any signs of recalcitrance, heroes are given short shrift. The first chairman of the Christian Democratic Union, the former Reich Finance Minister, Dr. Hermes, was simply removed by the Russian commander, and the present chairman, the leader of the Christian trade unions, Mr. Kaiser, has repeatedly and bluntly been reminded of the fate of his predecessor. In late sum-

mer 1947 the Minister President of Thuringia, Dr. Paul, a member of the S.E.D., suddenly had to flee to the American zone, probably to escape arrest and deportation, and several other politicians, mayors of large towns, high-ranking civil servants, have disappeared. The amount of political freedom left is about as great as during the first years of the Hitler regime.

The forced cooperation of the parties in the Antifa Committee is supplemented by the *Gleichschaltung* of the professional organizations. Thus the three branches of the former German trade-union movement—Socialist, Christian and Liberal—which tried to reorganize after the collapse of the Nazis were merged into one trade union federation which in the East is communist dominated. We have mentioned the Peasant Mutual Aid Organization; we find a Free German Youth, the exact counterpart of the former Hitler Youth, the Democratic Women's League, and the so-called *Kultur Bund*, composed of "cultural workers." All can be and are employed to exercise all the pressure that may be needed.

In the background of this political life of Soviet democracy are of course the concentration camps. All former Nazi concentration camps are in full operation; Sachsenhausen and Buchenwald of infamous memory are back in business. Their inmates were originally Nazis and war criminals, but this pretense was soon dropped and a growing number of the prisoners consists today of Social Democrats and other political opponents whose sole crime is lack of subservience to the present rulers. About the living conditions in these camps no more is known than about similar camps in Russia, since no inspection by outsiders has ever been permitted.<sup>7</sup>

The so-called front organizations (peasants, workers, women, youth and "culture") are consciously used to supplant parliamentary multi-party democracy by a "non-political" organization of the masses. The representatives of vocational organizations of non-communist parties were pressed into these fronts just as into the Antifa Committees. Once they have joined, they have to stay—resignation would be suicidal. Leadership and power were en-

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<sup>7</sup> The *Neue Zeitung*, official newspaper of the American Military Government, reported that during the winter 1946-7 in Sachsenhausen alone thirty to thirty-five inmates died every day.

tirely in communist hands, even though for window dressing a few non-communists, carefully picked, were accepted (particularly in local units of the Peasant Aid). All these organizations have a monopolistic character with compulsory membership which gives them the position of semi-official authorities. In fact, especially the trade unions and the Peasant Aid, are entrusted with administrative functions, for instance, examination and attestation of political reliability and distribution of supplementary rations of all sorts, which gives an irresistible power to reward and to punish. For the worker and his family lack of subservience means starvation; for the peasant, deprivation of implements and fertilizer. Consequently, even the new Central Economic Commission of the five Russian Laender, evidently established in reaction to the bizonal administration in the Anglo-American zones, is composed of five presidents of the economic administrations and representatives of the trade unions and the Peasant Aid. In other words, in that first central organ of the Soviet zone which at any time can be converted into a zonal government, the political parties have openly been replaced by the economic front organizations.

Yet all this by no means indicates that the Russian policy toward Germany, either economic or political, is settled or clearly definable. While, despite solemn assurances to the contrary, expropriation and dismantling goes on, and even as late as August 1947 on hundreds of miles the last railroad tracks were removed because Russia needs rails, efforts are being made to rebuild some industries for export. Zeiss-Jena is again producing to some extent, but only simple things such as eyeglasses; textile mills work intermittently when they receive cotton, wool and flax from Russia. Even new industries are founded, for instance glass works in Saxony with the help of the highly skilled glass workers expelled from Bohemia. Russian policy obviously oscillates between two possibilities: either to sovietize its zone and, beyond that, perhaps some day all of Germany, or to win over all Germany, whatever its political and social structure, as a potential ally against the West.

Into this alternative we probe in the concluding chapter of this book. Here we are concerned only with taking stock of the German realities of today. This vacillation leads the Soviet Mili-

tary Administration to a policy of alternate threats and blandishments in its attitude toward the non-communist parties. The Social Democrats, as the most passionately hated "traitors" to the "proletarian cause," of course remain outlawed. But to the 1947 annual meeting of the Christian Democratic Union in Berlin (all-zonal meetings can be held because and as long as Berlin is occupied by all four powers; they would not be possible in any city of the Russian zone) in early September the SMA delegated its spokesman, Colonel Tulpanov, who amiably presented the Soviet Union as the sole champion of German national unity and economic strength. "The Soviet Union is interested to see that the German people recover as quickly as possible as equal and independent on a democratic basis." He reminded his audience of Molotov's statements at the Moscow Conference in April 1947 that the formation of a German central government must no longer be deferred:

"In all its suggestions the Soviet Government has always insisted that the political and economic unity of Germany was its aim. Unfortunately the Anglo-American plan for Bizonia demonstrates, however, that these two powers would not permit Germany to regain its unity. We are convinced that the German people will never forgive those who cut it up, no matter on the basis of what plans, be it a rescue plan for Germany or separation of the Ruhr, or other bizonal intentions. The German people does not want partition, and if only it expresses this will strongly enough, nobody will dare to partition it. . . ."

This is not merely, as it might seem, insidious hypocrisy. It is an appeal to the nationalistic instincts of all German parties thoroughly in line with the tradition of almost two hundred years of Russo-German collaboration against the West. But the Russians are highly uncertain about its success. While the reckless playing with German national grievances—emphasized by communist propaganda with a phraseology taken from the Nazi vocabulary—undoubtedly hits a soft and sore spot in German psychology, each prisoner of war returning from Russia is an ardent anti-communist witness; mass deportations create a bitterness that stamps all German communists as Quislings. And if the rising anti-Russian tide in the Eastern zone needed conspicuous

proof it was the "non-fraternization order" issued in autumn 1947, two and one-half years after the beginning of the occupation. Moscow suddenly discovered that personal contact between Russians and Germans, eagerly and pleasantly cultivated by the most intelligent and civilized Russian officers, was highly dangerous. Abruptly the army and administrators were ordered to take residence in closed and closely guarded compounds, which incidentally meant—at that late date—the loss of their homes with all furniture and belongings to thousands of German families. At the same time the Russians are building up, according to official information from Washington, a German army, 100,000 or more strong, from the remnants of the erstwhile Sixth German Army, captured at Stalingrad, under the leadership of German generals. An "army of liberation"—liberation of whom, from whom?

Under these conditions it is not surprising that the atmosphere hovering over Eastern Germany is essentially the same as under the Nazis. Fear and suspicion are so all-pervasive that the typical "Nazi-look," behind one's own shoulder, flickers on the faces of old friends. Fearing some strange spy may be around, they instinctively lower their voices to a whisper even when talking in a closed room on a political subject—this is Democracy in 1947 for Germans east of the Elbe River. (The complete liquidation of the German *Kulaks* and the German bourgeoisie is progressing at a quickening pace.) Already intellectual Germans living under western and Russian occupation—as we observed before—no longer understand one another when they meet to discuss spiritual or political subjects. But the rapid creation of two "German races," as it were, obstructs rather than facilitates a European peace.

PART TWO

PEACE-MAKING

"If you inquire what the people are like here,  
I must answer: 'The same as everywhere.'"

GOETHE, *The Sorrows of Werther*

## VII.

### *REPARATIONS*

THIS, THEN, is the picture of Germany more than two years after the unconditional surrender:

A nation irremediably maimed in its biological structure—with a long-term sharp decline of the population inevitable, with a huge preponderance of women and the old, a fateful absence of young, able-bodied men who are indispensable for the regeneration of a race, its intellectual power, its productive efficiency, its moral resistance;

a nation intellectually crippled by the horrors of twelve years of Nazi despotism, by isolation from contact and intercourse with the outside world, by a monstrous system of pseudo-philosophical, mystical abstrusities inculcated with the help of police and subservient teachers in schools ruthlessly purged of their independent minds, with a press and radio system operating under positive direction on the minutest detail of make-up and content;

a nation morally ruined by the disruption of its family ties, of its nobler traditions and its belief in established values, by the depravation of sexual relations fostered and promoted by the ruling regime and finally widely accepted as natural by a shattered society in an environment reduced to the struggle for physical survival and intruded upon by the conquering armies;

a nation of an urban and industrial civilization whose cities are almost all in ruins, its factories smashed;

a nation without food and raw materials, without a functioning transport system or a valid currency;

a nation whose social fabric has been destroyed by mass flight, mass migration, the compulsory mass settlement of strangers;

a nation whose huge national debt has been repudiated, where bank deposits have been either confiscated or rendered worthless by depreciation, and mass expropriation of industrial and com-

mercial property has been ordered or "voted" as an act of political vengeance;

a nation which, having lost provinces that were the source of one-fourth of its food, is in imminent danger of a second partition between its former Western and Eastern enemies;

a nation in which more than two years after the victory of the "freedom-loving democracies" there is no guarantee of personal liberty, no habeas corpus and no democracy, where hundreds of thousands are still kept in concentration camps without due process of law, without hearing, indictment, and trial, a country where, amidst hunger and fear, hope has died and with it the belief in all the ideals for which at least the Western powers have fought and sacrificed myriads of their sons.

Yet not the slightest inkling of the unprecedented catastrophe that has befallen Germany can be discovered in any of the inter-allied agreements that shaped the post-Hitler world for which the victors are now responsible. Yalta was the work of amateurs unburdened and unhampered by knowledge of history and real international experience. Potsdam was the artifice of lawyers who believed in solving world problems by a few nice formulas which could be read and interpreted by all parties concerned as they pleased. The Level of Industry Agreement of 1946, finally, was the product of a horde of statisticians, 1500 of them—American, British, French and Russian—going berserk against all warnings of economic reason. None of these documents betrays any vision of the world; indeed, the victors possessed no common vision of the world to be built.

This lack of community of convictions and ideals was the basic factor in inter-allied relations from the very beginning, pardonably ignored as long as there was a common enemy to destroy, unpardonably ignored when there was a new international order to erect. It would be some comfort to believe that President Roosevelt saw this problem when he started out on his journeys to distant places to meet Joseph Stalin who did not dare travel beyond the compounds of his armies and secret police. Yet Roosevelt was responsible for the Atlantic Charter of August 1941 just as much as for the Yalta Agreement of February 1945. Between the Atlantic Charter and Yalta Hitler had added no essentially new crime, no abomination to the endless list that formed his

record. Aggressive war and all the "crimes against humanity," mass exterminations, mass deportations and mass expropriations, the whole gamut of atrocities which later filled the volumes of records in the Nuernberg Trials, had been committed before or shortly after September 1, 1939, when Hitler invaded Poland and became involved in war with Britain and France. The attack on Russia only added, as it were, to the quantity of crimes which were already too monstrous and too variegated to be grasped by the ordinary human mind. Yet at that time the President of the United States and the British Prime Minister still "deemed it right to make known certain principles in national policies of their respective countries on which they base their hope for a better future of the world." Since that document, hugely advertised when it was promulgated, is hardly mentioned today, the clauses pertaining to our problem are reproduced here:

"First, their countries seek *no aggrandizement*, territorial or other.

"Second, they desire to see no *territorial changes* that do not accord with the freely expressed wishes of the people concerned.

"Third, they respect the *right of all peoples to choose the form of government* under which they will live; and they wish to see sovereign rights and self-government restored to those who have been forcibly deprived of them.

"Fourth, they will endeavor, with due respect for their existing obligations, to further the enjoyment by all States, great or small, victor or vanquished, of access on equal terms to the trade and to the raw materials of the world which are needed for their economic prosperity.

"Fifth, they desire to bring about the fullest collaboration between all nations in the economic field, with the object of securing for all improved labor standards, economic advancement and social security. . . ."

What actually happened behind the scenes between August 14, 1941, the date of the Atlantic Charter, and February 11, 1945, the date of the Report on the Crimea Conference, is not yet known. The official documents have not been published and of the expected flood of memoirs of the principal actors only a trickle has reached the reading world. No light has yet fallen into the darkness. So far we have no reliable account of the political

reasons underlying the major strategy of the war. Nor do we have any information about the authentic reasons and the forces that induced the victorious Western Powers to betray their most sacred ideals, piece by piece, one by one, in Poland, in Yugoslavia, in Germany.

Only on one major question, reparations, do we possess rather full evidence for what led to the present impasse: the principal responsibility for the reparation policy is American. Almost all the basic ideas, the basic motives, the basic techniques were American; the initiative and the intellectual guidance in the crucial conferences on this problem were American. And ever since Potsdam all the desperate efforts of American policy have been concentrated on an attempt to extricate the United States from a heritage that so far has frustrated the restoration of peace and prosperity in the world. It is no easy task, indeed, to reverse the foreign policy of a great country without reneging on some of its formal commitments and abruptly breaking the last semblance of continuity.

It was in Yalta that the basis for the reparation policy was laid:

**"III. Reparation by Germany:**

"We have considered the question of the damage caused by Germany to the allied nations in this war and recognized it as just that Germany be obliged to make compensation for this damage in kind to the greatest extent possible. A commission for the compensation of damage will be established. The commission will be instructed to consider the question of the extent and methods for compensating damage caused by Germany to the allied countries. The commission will work in Moscow."

The most significant words in this paragraph are "compensation for this damage in kind." In their anxiety to avoid what they thought were the mistakes of Versailles, the Allied statesmen committed an equally consequential new mistake. By limiting reparations to "reparation in kind" they thought they had circumvented the complexities and pitfalls of the so-called transfer problem which bedeviled the world in the 1920's and the early 1930's. But already in Yalta the Soviets talked about \$20 billion reparations, of which they claimed \$10 billion as a "basis for future discussion," but Mr. Churchill insisted that the figure of

\$20 billion should not even be mentioned in the published report. Yet neither Mr. Roosevelt nor Mr. Churchill realized or made their Russian partner realize how absurd \$20 billion reparations in kind was, to be exacted from a Germany which by then (February 1945) had already been destroyed and disintegrated. The Russian definition of reparations in kind, also agreed to by Mr. Roosevelt, included (1) capital assets in Germany and abroad, (2) current industrial production, and (3) labor.

It was at Yalta that the Allies decided to occupy Germany in separate zones and it was at Yalta that, in open contravention of the Atlantic Charter, the Allies ceded the eastern half of Poland to Soviet Russia and "recognized that Poland must receive substantial accretions of territory in the North and West." (It was in Yalta, too, that the secret concessions to Russia were made with respect to China and the United Nations.)

Hardly ever in history has a document pregnant with equally disastrous consequences been drafted with such lack of consideration and such levity of mind. The military occupation by zones—in vain opposed by Winston Churchill and at once regarded with great misgivings by leading officers in the American War Department—virtually precluded the restoration of a politically or economically unified Germany. This was evident to anyone who had more than the vaguest notion about the nature and practises of the Soviet regime. It did not require extraordinarily expert knowledge of economics to understand that payment of reparations in capital assets could never amount to more than a tiny fraction of the reparation claims of the victims of Nazi aggression and ferocity. No John Maynard Keynes of any nation was present to warn of the "economic consequences of the peace." That the transfer of capital assets on a large scale was incompatible with reparations from current industrial production could have been understood even by laymen. One cannot have current industrial production from machinery that has been dismantled and removed.<sup>1</sup>

While thus the first and second method of collecting reparations were mutually exclusive, the third, i.e., reparation in the

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<sup>1</sup> The Russians, curiously enough, tried just that in Austria. They removed the machines from the one major Austrian tire factory, then immediately ordered the Austrian government to deliver a certain number of tires.

form of labor, could mean nothing except the restoration of slavery in the middle of the twentieth century. This was proper enough for Soviet Russia, which had restored slavery within three years of the "glorious revolution" of 1917, but it was strange for the United States, which glories in its tradition of liberty and respect for human rights. Yet all this had indeed been recommended by Mr. Morgenthau and forced on Winston Churchill by President Roosevelt at Quebec in September 1944. And the principle of "compensation"—of one ally (Poland) for the conquest of land by the aggression of another ally (Russia) at the expense of a defeated enemy (Germany), who not so long ago had been the ally of the looting ally (Russia) and conspired with him in despoiling the dismembered country (Poland) for the integrity of which Great Britain and France had gone to war—introduced an element of irreparable immorality into the postwar history for which only Hitler can be named as paragon. For generations the whole world will be forced to remember it. Appalling will be the price America and Europe will yet have to pay for this act of generous "compensation."

Less than six months later, in July 1945, the Allies again met in Potsdam. By that time President Roosevelt was dead, and Mr. Churchill went down in electoral defeat during the Conference. For the final decisions in Potsdam two inexperienced men, both overshadowed by their far more brilliant predecessors, had to shoulder the responsibility. But the actual work was not in Mr. Truman's or Mr. Attlee's hands. They had to carry out what had already been stipulated by their predecessors at Yalta, and Yalta does not provide us with any reason to assume that Roosevelt and Churchill would have made Potsdam a better job. We have called the Potsdam decisions an artifice of lawyers. They had to implement the framework provided for them in the secrecy of Yalta where few legal, political or economic experts were even present.

When the Potsdam Declaration was published, cries of horror and protest resounded through the English-speaking world, that very small part of the globe where people are still permitted to cry out against their governments' actions. Yet the results of Yalta had been acclaimed enthusiastically by press and public. (The secret clauses, published much later, were not relevant

enough to change the fateful nature of the published agreement. They merely ran true to form.)

The formula for reparations evolved at Potsdam was only a by-product of another policy, the antithesis of economics: the industrial disarmament of Germany, the elimination of the German "war potential." This too had been promised at Yalta, this too had never been thought through in its complexities and consequences. Just as the removal of capital equipment precluded large-scale reparations from current production, complete industrial disarmament precludes economic recovery of a country in any form at any time. It is the curse of our age that fallacy begetting fallacy drives us ever further toward disaster. With the fallacy of industrial disarmament and "war potential" we shall deal in a later chapter. Here we are concerned with the story of the reparation policy.

The economic principles laid down in the Potsdam Agreement make amazing reading even today, long after history has torn it to shreds. The whole Potsdam Agreement is impressive as evidence of lawyers' ability to offer a show of unity in the face of general dissension, to insinuate that problems which remain unsolved have been solved successfully, to clothe in high-sounding, self-righteous phrases the initiation of barbaric actions, to present economic monstrosities in the form of simple persuasive logic. In all fairness it should be remembered that only a few months had elapsed since the capitulation of the German armies, that naturally the passions of war still ran very high, that fires still smoldered and smoke still rose from the ruins, and above all that the Japanese war was still going on. It was immediately after the Potsdam Conference that the first atomic bomb was dropped on Hiroshima. On his return from Potsdam President Truman was informed of that epochal event—it could no longer influence the set formulas prepared by the legal and political advisers.

This Potsdam Agreement, implementing and superseding Yalta, may go down in history as the great design of European destruction. There is little doubt that the American and British delegates signed it with bad consciences. In leaving they tried to salve their consciences by hedging phrases, ineffective reservations so glaringly disingenuous and factually worthless that one wishes they had been omitted. When the United States and Great Britain

agreed that "pending the final determination of Poland's western frontier *former* German territories east of the Oder and the Western Neisse Rivers should be under the administration of the Polish State," could any participant be under any illusion that an irretrievable fact had been created? Or when "the three Governments recognized that the transfer to Germany of German populations . . . remaining in Poland, Czechoslovakia and Hungary . . . should be effected in an orderly and humane manner," were not all members of the Allied delegations informed about the horrors of expulsion which even then were taking place next door? Or if, incredible enough, they really remained ignorant, how did they imagine that a transfer of 10 to 15 million people could possibly be effected in an "orderly and humane manner"? Was that such a minor affair that not a further word of explanation or detailed guarantee was deemed worthwhile? Could anyone believe that the seeds of eternal hatred thus strewn between the races and over the lands of Central Europe could fail to take root and overgrow these unhappy lands beyond hope of extirpation?

None of the economic principles of the Potsdam Declaration can realistically be considered outside the given political background with its clearly recognizable power relations, political philosophies, emotional surges. Potsdam was supposed to make the Yalta formulas administratively workable. It only demonstrated how unworkable they were. The Declaration still insisted, time and again, on treating Germany economically and administratively as a unit, but actually it made the division of Germany inevitable and perhaps final.

1. Reparation claims of the USSR shall be met by removals from the zone of Germany occupied by the USSR and from "appropriate German external assets." With this formula the zones, originally intended merely for the purpose of military occupation, are converted into separate economic units. Characteristically enough, Russia was confined with these removals to the Russian zone of occupation. It did not apply to the territory under "Polish administration," although the USSR undertook to satisfy from its share the Polish claims for reparations. (Of this very essential Russo-Polish matter nothing has ever been heard since. It has remained a strictly confidential family affair of no legitimate

concern to either the Western Allies or the Germans.) The reparation claims of the United States, the United Kingdom and all other countries including the eastern satellites of Russia (except Poland) were referred to the Western zones and "appropriate German external assets," meaning in both cases German assets within the reach of their power. The lack of precision on this point among others has grown into the major technical obstacle to peace in Austria. It was not deemed necessary to qualify or define the generosity with which German external assets were to be given away. The only qualification was geographical. The governments of the United Kingdom and the United States renounced their claims to shares of German enterprises in the Eastern zone of occupation, as well as to foreign assets in Bulgaria, Finland, Hungary, Rumania and Eastern Austria. It did not occur to the treaty makers that behind those "German enterprises" was hidden a hornets' nest of complications which Soviet Russia could conveniently—and technically correctly—use to establish its economic as well as political domination over that entire area.

2. The USSR, in addition to reparations taken from the Soviet zone of occupation, was to receive reparations from the Western zones:

(a) 15 per cent of such usable and complete industrial capital equipment as is *unnecessary for the German peace economy*. However, these 15 per cent should be removed in exchange for an equivalent value of food, coal, potash, zinc, timber, clay products, petroleum products and such other articles as may be agreed upon;

(b) 10 per cent of such industrial capital equipment should be removed to the Soviet government on reparations account.

In other words, to a considerable extent, food, coal and other raw material deliveries were to be paid for by deliveries of capital equipment to the Russians. Incidentally, it was never clarified whether these food, coal, timber, petroleum shipments, etc. were to come from Eastern Germany or from somewhere else.

In some important respects Potsdam was an improvement over Yalta. Reparation from current production and reparation by slave labor are no longer mentioned. (As for the latter, reparation by slave labor continued to be collected by the simple device of retaining millions of German prisoners of war.) And Potsdam ex-

pressly recognizes the priority of payments for German imports over reparation claims. "The proceeds of exports from current production and stocks shall be available in the first place for payments of necessary imports (approved by the Control Council)." But these modifications only emphasized the inadequacy of the Potsdam settlement as instrument of an effective reparation policy. It was useful enough to complete the destruction of Germany, but certainly unfit to satisfy the most legitimate reparation claims of the victors. It seems as though fantastic notions about German wealth in capital equipment had reigned among the chief delegates and their advisers. Yet they deliberated amidst ruins and they took time out to inspect them personally in their free hours.

Just how much capital equipment was necessary to maintain "in Germany average living standards not exceeding the average standard of living of European countries (excluding the United Kingdom and the USSR)" had to be determined within six months.

This was the job assigned to the 1500 statisticians who produced the amazing Level of German Economy Plan of March 28, 1946. What was undertaken here was an impossible assignment from the very beginning. No harsh blame should fall on these 1500 men; they worked hard and still could not perform in six months what was asked of them. It took two months longer to wade through a flood of figures compiled by several dozens of committees and subcommittees whose brain children were necessarily full of contradictions which somehow had to be ironed out or coordinated. The basic principle underlying their experts' instructions was respect for a thing called the "average standard of living of European countries (excluding the United Kingdom and the USSR)," an abstract statistical notion of intrinsic absurdity. It implied that before the war Europe had been an economic unit or that the various nations had something like an average standard of living. To draw an average (and make Germany accountable for it) between, say, Albania and Holland was no more than a bitter joke. (Imagine an average between Paraguay and New York!) But what made this joke serious was the fact that at least one-half of the countries involved had no or only

rudimentary statistical data to offer. So the lacking figures had to be made up for by "estimates." Underlying the idea of reducing Germany to the alleged European "average" was of course the conviction that Germany had to be treated as the sole black sheep in an otherwise white flock.

The over-all result turned out to be that—by sheer magic—Germany was to be reduced to the living standard of 1932, a tragic irony because the economic conditions of 1932 were just the environment that brought Hitler to power. It was the year of 6 to 8 million unemployed, about half of Germany's industrial working force. But at that time Germany could still draw on large reserves of all kinds which no longer existed in 1946—reserves in capital, equipment, houses, materials, food, household utensils, foreign balances and what not. Thus the wisdom of the Level of Industry Plan boiled down to perpetuating a revolutionary situation which had once thrown the world into its worst catastrophe. And this was to be peace! (For the full text of the Plan see Appendix D.)

The Level of Industry Plan will long be remembered as a unique specimen of human folly clothed in the pretentious garb of scholarly terminology. If anything was needed to discredit the authority of economists and statisticians, this document did it.

Before the Level of Industry Plan was presented to a stunned world, it had become manifest that Potsdam did not work. The Russians had at once started with wholesale dismantling and removal of industrial plants, transport equipment and stocks of raw materials without bothering about any standard of living or any level of industry required to attain the solemnly sanctioned average standard of living. At the same time, far from preparing for a unified administration in Germany, the "iron curtain" grew heavier and harder by the hour. The French, who ungraciously were not invited to Potsdam but who graciously accepted their share in the occupation and the loot, were quick to follow the Russian example of obstructing any move in the direction of a unified Germany, without which Potsdam made no sense at all. They also took several leaves out of the Russian book in their policy of requisitioning and removal of capital equipment (although they avoided the most barbaric forms of Russian destruction).

Conditions in the occupied zones deteriorated from day to day and made the job of occupation progressively burdensome. The German people were thunderstruck by the Potsdam decision, not only for what it inflicted on them for the present—they knew that they had to pay a fantastic price for the fantastic crimes that were their responsibility—but even more because Potsdam seemed to deprive them of any hope for the future. Indeed the wording of Potsdam—one of the worst equivocations—left it entirely open whether the restrictions on German industry were temporary or permanent. This was—apart from the eastern borders and the mass transfer of populations—the most crushing fact.

By that time, fortunately, the gradual turn in America's German policy away from the Roosevelt-Morgenthau line was already gaining momentum. The State Department had begun to "interpret" the Potsdam Declaration. On December 12, 1945, three months before the Level of Industry Plan was published, the State Department released an important statement, which was couched in a language and published in a way that hid its real significance from the public. The statement attempted to reassure the world and especially Germany about the American intentions. It defined the "Berlin Declaration" only "as a guide" to measure the amount of removable industrial equipment for reparations.

"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 payment. . . . The State Department further interprets the standard of living criterion to refer to the year immediately following the two-year period of reparation removals."

However, "the present determination (of industrial capacity) is not designed to impose permanent limitations on the German economy." At the same time Secretary Byrnes issued another statement emphasizing the free opportunities which would open to the Germans with the completion of the reparation removals not later than February 2, 1948. From then on "The German people will recover control of their economy subject to such residual limitations as the occupying Powers decide to impose. These limitations . . . will be designed solely to prevent German rearmament and not to restrict or reduce the German standard of

living." This reasonable statement, which by and large remained the guide for America's German policy, received little attention when published, but was given all the publicity needed a few months later by Mr. Byrnes in a speech at Stuttgart on September 6, 1946, addressed significantly to the German Minister Presidents of the American zone.

"The German people were not denied the possibility of improving their lot by hard work over the years. Industrial growth and progress were not denied them. Being obliged to start again like the people of other devastated countries with a peace-time economy not able to provide them more than the average European standard, the German people were not to be denied the right to use such savings, as they might be able to accumulate by hard work and frugal living, to build up their industries for peaceful purposes . . . And the United States will not agree to the taking from Germany of greater reparations than was provided by the Potsdam Agreement."

As for the December statement of the State Department, it had little effect even on the American delegation on the Level of Industry Committee. And both it and Secretary Byrnes' declaration were compromised by several ambiguities. First, all these statements were presented only as American views and interpretations, which of course in no way bound the other partners and beneficiaries of the Potsdam deal. These "views" were at once violently rejected by the Russians who left no doubt that they regarded the Potsdam restrictions on German industry as permanent. The French had their own interpretation of the "residual limitations which the occupying Powers decide to impose." As a matter of fact, the Level of Industry Plan of March 1946, which received the American signature three months after Secretary Byrnes made his address, was irreconcilable with the principles enunciated by the State Department in that it imposed restrictions on unquestioned peacetime industries even by 1949. And the Germans, suspicious of equivocations, were the least inclined of all to give the American statements the benefit of any doubt. The German press in the Russian and French and even the British zones was not encouraged to shout hosanna at the change of heart in Washington.

Almost exactly one year passed between Secretary Byrnes' Stuttgart speech and the publication of the "Revised Plan for the Level of Industry in the United States-United Kingdom Zones of Germany," released in Berlin on August 29, 1947. The title of this document reveals much of the underlying story. It applies only to the Anglo-American zones, not to Germany as a whole. Neither the Russians nor the French are committed by it, as far as the industry in their zones is concerned. The preamble of the new plan goes out of its way to prove the continuity and consistency of Anglo-American policies. We need not waste time in commenting on this pretense. The whole plan is one long recognition that the policy of Potsdam and the Level of Industry Plan of 1946 had broken down. The final breakdown occurred at the Moscow Conference of the Council of Foreign Ministers March 10 to April 24, 1947, during which Mr. Molotov insisted on his \$10 billion claim and reparations from current production of the Western as well as the Eastern zones.

The clear-cut issue as it emerged in Moscow was whether the United States was ready to pay for German reparations to Russia by permitting German deliveries to Russia before German production was back to a level that would enable Germany to pay for its own subsistence and to refund the huge advances made by the United States and Britain to keep the Germans alive while Russia bled its zone white. No American Government stood a chance of getting Congressional approval for such a policy. The logical consequence to be drawn from the breakdown of the Moscow Conference would have been for the United States and Britain to declare the Potsdam Agreement void and, accepting the policy suggested by Herbert Hoover, to lift all restrictions from German industry.

But there were several strong reasons for not being logical and consistent. First of all, there was the consideration that the Potsdam Agreement, however much discussed, still offered some basis for a future all-German policy in common with the Russians. If Potsdam was formally cancelled, no basis whatsoever would be left, which would create a rather precarious situation.

The Control Council and the quadripartite occupation of Berlin still had to be guarded. Berlin is connected with the West only by one railroad line in a corridor a few kilometers wide

leading to Hannover. If Potsdam were formally abandoned, the whole reparation issue would be left hanging in the air. In this reparation issue, however, not only Russia but all the Western Allies and particularly France have a legitimate interest, which neither Washington nor London can properly disregard. There was furthermore the issue, however unreal, of Germany's industrial disarmament which, rightly or wrongly, still plays a central role in France's foreign and domestic policy. As long as France's position in Western Europe is a major factor in American and British world policy, France cannot simply be ignored in Anglo-American decisions about Germany.

The new Level of Industry Plan marks an enormous progress over the original one in two directions. First, it unequivocally makes the level of industry a level of reparations. As soon as surplus capacity is dismantled and removed, Germany, within clearly defined limitations of a military nature, will be free to rebuild, modernize and expand its industry. Second, the base of production for Western Germany is not the disastrous year 1932 but the relatively prosperous year 1936. The symbol is the increase in steel capacity from 7.5 million tons, with actual production in any single year not to exceed 5.5 million tons, to a production of 10.7 million tons with enough capacity to produce it. On the basis of this new plan 682 plants have been declared surplus and available for removal.

The publication of the final list of plants to be dismantled was received in Germany as shocking tidings. The issue is indeed much more complex than the Military Governments intimated. On several points there can be no doubt: first, the German obligation for the payment of reparations must not be questioned. The sole doubtful point is whether a country in the condition of Germany can pay. The removal of surplus capacity, provided it is really surplus, is the cheapest way for Germany to discharge this obligation. Of how much value the dismantled plant and machinery will be to the recipients, time will tell. All we know from the past is that the Russians did not save one-tenth of the value they destroyed and that even the much more careful and competent removal of French machinery to Germany during the war did not save more than 30 to 40 per cent for Germany. The naïve notion (one of the many naïvetés underlying the Morgen-

thau Plan) that machinery is removable *ad libitum* and usable anywhere disregards many technical and human problems. A machine must fit into the technical environment of the foreign country. Spare parts of the same shapes and measurements must be available. The machines must be adaptable to working on the same materials as had been used for other machinery, and must not depend in their operations on the special, untransplantable skill of their operators. Viewed from this angle, dismantling of surplus capacity is under normal circumstances deplorable waste. But circumstances are not normal. It will be at least five years before even Western Germany can fill the frame set by the revised level. The coal, the material and the manpower to operate the surplus capacity earmarked for removal are lacking. It is arguable whether after five years of disuse these plants and machinery would be less devalued than by transfer. The chances are that most of it will be obsolete or rusted. On the other hand, the integration of Western Germany into the Marshall Plan may justify somewhat the final phase of dismantling. With Western Germany a unit, all its machinery is supposed to serve the interests of the larger unit Western Europe of which it is destined to become an integral part.

However, this general design with its pros and cons is all too often in bitter contrast to the practical realities of the dismantling policy. A good case can be made for the policy as long as it keeps to over-all figures and principles. But to translate them into practical, detailed day-to-day decisions is a job that entangles the military governments, with whom these decisions rest, in most unpleasant experiences. What looks perfect on paper involves hundreds of thousands of human lives. Entire communities may depend on a single plant. Labor, skilled and unskilled, may become surplus at one place, yet cannot be moved to another place where it may be badly needed, because housing and transport facilities are lacking. Only one familiar with present-day life in Germany can imagine the despair a single mistaken decision of the military authorities may create. These authorities would have to be angels to avoid such mistakes. In reality they are not angels but all too frequently actual or potential competitors of the plants on the destruction or removal of which they have to decide.

Lists of reparation plants had been drawn up very superficially

in the Western zones since 1945. The Military Government officers who compiled the lists in the field did not have much background, nor did they as a rule speak German, and the compilations were made when the official attitude toward the problem was quite different. The attitude has changed, but the lists have remained. Meantime, while the men who drew up the lists or inspected the plants may have been redeployed or left Germany, their successors are basing decisions on inaccurate and incomplete information.<sup>2</sup>

Above all, the quantitative figures reveal nothing about the quality of the plants retained and removed. One million tons capacity is one thing in an obsolete steel plant and another in

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<sup>2</sup> From a report made available to the author by a competent member of the Military Government the following example is reproduced as an illustration:

"The Hanseatische Lehrenfabrik G.m.b.H. was declared Category I War Plant because of its alleged date of foundation (1939) and because the original British report states that it has been producing "aircraft, jigs and gauges." Actually the firm has existed since 1934; in 1939 it was merely reorganized, separated from the mother company and entered separately in the trade registry. It never produced or constructed aircraft and the original report evidently contains a typographical error, as it should actually have read 'aircraft-jigs and gauges.' It is as much a war industry as any firm making screws and bolts, which are after all also used in guns, tanks, etc. The firm submits petitions from other firms which state that their production (of these firms) depends largely on the existence of subject enterprise.

"Another firm, also in Category I list, performed some incidental work on certain armaments which never amounted to more than 25% of the firm's capacity. At present the firm is the only one producing certain special kinds of pumps used in mines.

"At present higher level reviewing authority has little to go by. The lists only give the name of the plant (frequently misprinted), and indicate the overall capacity. Thus, for instance, the Deutsche Edelstahlwerke in Krefeld is simply listed as DEW and its capacity given as 200,000 tons of steel. But there is no mention made of the fact that it is the only plant producing refined steel which is so important for the machine construction industry from which in turn we hope to realize a large share of our exports. We will find in many cases that whereas any one firm singled out for reparations may constitute only 1 or 2 per cent of the capacity of that particular branch of industry, it nevertheless constitutes 100 per cent capacity or production of one specialized product. This is particularly true in the mechanical engineering field."

a modern up-to-date plant. These are a few of the most serious and intricate questions posed by the new plan as well as the old. They were not answered properly and appropriately by General Clay's threat of the hunger whip for recalcitrant German workers, however the military instinct may insist on the protection of challenged military authority. The British reaction was more practical. The British Government sent the well-meaning Lord Pakenham to Germany to straighten out, in consultation with the German administrators and German labor leaders, the difficulties which actually were much more of a British than an American responsibility. However, the most important and most difficult aspect of the future of Western German industry is political rather than economic.

Both the Russian and the French Governments have protested against the Anglo-American agreement on raising the level of production in Western Germany. The Russian protest was simply and convincingly brushed aside by a State Department note. The French protest was considered and induced Washington and London to modify and delay the plan somewhat. The reparation problem has moved from the economic into the political focus. To the political side of our problem we now turn.

## VIII.

### *WAR POTENTIAL*

ONCE THE nursery fable, bold and preposterous, was generally accepted that the world consists of "peace-loving nations" and two aggressors, Germany and Japan, it was beyond dispute that after victory Germany and Japan had to be so thoroughly disarmed that never again would they conceivably dream of starting another war. We had lived through the story once before, in 1918, but there were a few differences. In 1918 Japan, being one of the "Allied and Associated Powers," was still a "peace-loving" nation, and Germany's disarmament was approached with political misgivings and moral inhibitions.

The political misgivings applied to the situation in the East. When Germany sued for peace in 1918, only one year had elapsed since the Bolsheviks had seized power in Russia, and this uncanny revolution was still spreading full blast. Turmoil and disorder were growing menacingly by the hour, and the Allies had practically no means of restoring and guaranteeing order in the whole East. The one power that could build a wall against anarchy and chaos was Germany with the remnants of the German Army. Incredible as it sounds today, they were ordered in 1920 by Lloyd George on behalf of the Allies to remain in the Baltic Provinces. Without the organized resistance of the German Free Corps, the provisions of the Versailles Treaty regarding Upper Silesia could never have been enforced against the Polish insurgents under the fanatic and able leader Joseph Korfanty. How little the Poles cared about decisions issued by the Big Four in Paris was evidenced not only by their war against the Soviets, which extended the Polish borders so far beyond the Curzon Line that half of Poland consisted of land inhabited by non-Polish people, but even more startlingly by the coup on Wilna, the historic capital of Lithuania always claimed by the Poles.

The moral inhibitions were rooted in a genuine belief in human equality. Woodrow Wilson regarded the disarmament of

Germany as necessary and inevitable, but a unilateral disarmament of Germany, its reduction to a permanently inferior status among nations, as morally impossible. To him the disarmament of Germany was merely a preliminary step to an immediately following general disarmament which would have restored equality in a peaceful world.

This time, neither political misgivings nor moral inhibitions were felt. In the Atlantic Charter there is only a faint qualified reference, no commitment, to such general disarmament. The Charter expresses the hope that "all the nations of the world, for realistic as well as spiritual reasons, must come to the abandonment of the use of force." Beyond the disarmament of the aggressors, the President and the Prime Minister only promised that "they will aid and encourage all other practicable measures which will lighten for peace-loving peoples the crushing burden of armaments."

As this was a "bigger and better" war, it had to be concluded by a bigger and better disarmament and the "mistakes of the last time," meaning the Treaty of Versailles and its practical execution, had to be avoided. But what were in this respect the alleged mistakes of the last time? In 1919 Germany was left a small army of 100,000 men which was later used effectively as a nucleus for a vast organization; and above all, Germany's economy was kept intact and with it Germany's "war potential" (a notion coined and intensively developed in the French military and political literature). So this time not a shred of an armed force in any form or guise was to be left to Germany, and its economic war potential was to be completely and permanently destroyed.

From the very beginning the inter-allied debate on Germany's military and economic disarmament was troubled by diffidence and mutual distrust. Memories of the twenties and early thirties were still very much alive. But they were overgrown and distorted by a web of legends. Unpleasant facts had to be suppressed or rationalized to excuse the lack of reason in former behavior. It is not true that the military provisions of the Versailles Treaty with its machinery of controls were inadequate. What was inadequate was their execution. The controls worked perfectly as long as they were exercised. This must be affirmed with the greatest

emphasis against repeated allegations to the contrary. Even such a scholarly and well-balanced study as Moulton and Marlio's *Control of Germany and Japan*<sup>1</sup> is marred by some factual mistakes in this respect. For instance, they say that under the Versailles Treaty "Germany was permitted to build large commercial planes which could be easily adapted to military uses." In reality, Germany was not permitted to build and operate commercial planes until 1925, after the Treaty of Locarno.

It is true that immediately after the peace the Reichswehr began to organize itself into some sort of military power and did its best to make the life of the disarmament control commissions with their flying squads as hard as possible. Defeat had not crushed Germany's military tradition, and the burning humiliation unilateral disarmament meant to a nation with a proud military tradition intensely fed the desire to become again some day a military power. Only a few zealots among German pacifists considered this morally objectionable at that time, however much the political unwisdom of such tactics was deplored and however obnoxious the association of the old officer class active in the new Reichswehr with the ultra-reactionaries was for the domestic policies of the young republic. It is also true that from the very beginning these efforts of the new Reichswehr were shrouded in a cloud of secrecy and mystery. In part it was like the secrecy an overburdened taxpayer practices against an overzealous tax examiner. Tax avoidance is allowed; tax evasion is punishable. But the borderline between avoidance and evasion has never been so clearly defined that the Controller of Internal Revenue could lay off his prosecuting staff. The attitude of the Reichswehr officers toward the members of the control commissions was exactly that of the unwilling taxpayer. They tried to interpret the law to the limit with which they hoped or expected to get away.

That they did get away with a few things was due to two facts. The first was that the zeal of the victorious powers in carrying out the Versailles Treaty to the letter wore off within a few years. This was not the fault of the Treaty but the inescapable consequence of changes in the political climate, national and

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<sup>1</sup> Brookings Institution, 1944.

international, the world over. Interest in the issue had subsided largely because other more urgent issues had come up.

The second fact was that the controlling power of the victors had territorial limitations. There were governments and countries not committed to the terms of the Versailles Treaty that were ready and eager to cooperate with the German Army and to place at its disposal opportunities for practices and purchases of supplies that were forbidden to them in Germany. They, in turn, benefited from both the military and industrial skill Germany had to offer. Most important was the close collaboration between Germany and the Soviet Republic, the other outcast of the world under the system of Geneva as established by the Versailles Covenant. Not forgotten yet is the bombshell of the Treaty of Rapallo which in 1922 drew these two outcasts together, while a few miles away in Genoa the victors were assembled to deliberate how to exact more reparations from defeated Germany. There was no aggressive design in these moves. Both nations were simply trying to reassert themselves as Great Powers, to regain a minimum of diplomatic maneuverability in a world where power tended to be monopolized by the two European victors, Britain and France (the United States had by that time withdrawn from the stage). But the scope of the military collaboration between the German and the Russian armies in the twenties was hugely exaggerated; besides, there was little secrecy about it. The intelligence services of all governments knew all they wanted to know, and none was alarmed or seriously disquieted.

The fundamental truth so consistently disregarded is that secret armaments on a large scale are impossible in a country with published and democratically controlled budgets. The German Navy may have tried to get appropriations for officers' "yacht clubs" and used the money for speedboat bases. Or the Army asked for millions to purchase horses but actually bought motor trucks. All military experts, however, knew that these were jokes, not harmless in their political effect, but utterly harmless militarily. The total amount of money spent by Germany and its basic breakdown was known and checked and double-checked both by a conscientious Reichstag with its budget committees and sub-committees and accounting experts, and internationally, and by the controls instituted under the Dawes Plan in Berlin exercised

by such able and competent men as Parker Gilbert and his associates. The truth is, to use this word again and again with the emphasis required against distortions and legends, that with all the secret armaments and all the fuss made about them, Germany was militarily impotent when the Republic fell. As late as 1932, when the French Premier, André Tardieu, threatened to bring forward a charge of secret armament before the Council of the League of Nations, the then Chancellor, Dr. Brüning, had only to invite him to send an inspection commission to the Ruhr to induce M. Tardieu to drop his prepared charge. As late as 1932 the entire German Army could not have held more than a small area between the Weser and the Oder for more than forty-eight hours if the French and the Czechs or Poles had advanced simultaneously with a combined force of no more than fourteen divisions. This was the figure submitted to the Reich Cabinet by its War Minister, General Groener.

It was no accident that one of the first measures Hitler took was to suppress publication of the budget. A public budget is the essential restriction any government intent on secret armaments must remove. But even under Hitler not much secrecy about armament was maintained. In fact, it was one of the most effective tricks in Hitler's campaign of terrorization and intimidation of the world to spread fantastic stories about the progress of Germany's rearmament. So far from concealing what they did, the Nazis paraded their power on regular public occasions to which the ambassadors and military and naval attachés of all accredited nations were formally invited. Mr. Goering entertained foreign air specialists to inspire them with awe for his air force. Lindbergh's visit to Berlin paid the Nazi regime good political dividends. French and British missions were received in Berlin and returned home duly impressed with Germany's power. What was hidden on these occasions was not Germany's strength but Germany's weakness. The shows put on for the benefit of foreigners were largely publicity stunts which exaggerated the material strength of Germany, even what had been achieved at the outbreak of the war. We know now from the testimony of Hitler's Chief of Staff, General Keitel, in Nuernberg that, had the French and British armies attacked Germany in September 1939 when Hitler invaded Poland, they would have met little resistance. But

at that time the Allied press was filled with glowing descriptions of the miracles of the Maginot Line and the luxury in which its defense forces could perform their noble duties. Hitler needed the nine months of the "phony war" to complete his preparedness just as much as the Allies did, but he used them better than the French, though not better than the Royal Air Force, which was soon to save the world.

The theory that a peaceful world can and must be protected against secret armaments of a great power which lives in free communication with the outside world, not secluded behind an iron curtain, is based on a transparent fallacy. The question is not whether the complete and permanent military disarmament of Germany, at the moment an accomplished fact, can be maintained; it can, and with a minimum of effort and organization. The only serious question—never posed—is whether a political constellation in which this status of German defenselessness is uniformly regarded as desirable by all victorious powers can and will be maintained. It is a new-fangled feature in our concept of diplomatic and political wisdom to single out one European power as the sole potential enemy of all others. In all previous wars the enemy of today was viewed and treated as a potential ally of tomorrow, and as a rule yesterday's enemy did become an ally. This experience, seemingly obliterated from the minds of the Western diplomats (not the Russian), was still vivid in the minds of the statesmen in 1918. But then, this was "the war to end all wars," and the world had supposedly been made safe for democracy, and, with the League of Nations and universal disarmament, no longer needed to look out for alliances.

The climax of ingenuousness has been reserved for today. But it is already—less than three years after the unconditional surrender and with a peace settlement still not in sight—badly shaken. The signatures were not yet set under the peace treaties with Hitler's eastern satellites Bulgaria and Rumania, providing for their—almost—complete disarmament, when Russia openly began to reorganize their armies. In the conferences preparing these peace treaties Mr. Molotov hotly defended the right of these little but no less noxious aggressors to maintain armed forces. A nation without an army, he exclaimed, lacks virility and dignity. We note here the injection into the military argument of a moralistic

element which heretofore had been regarded as a specific of Prussian militarism. Mr. Molotov will be freely quoted by German communists once the appeal to the nationalistic instincts of beaten Germany is authorized by Moscow. In the meantime Washington has confirmed by reliable information what had long ago been rumored in Germany, that Russia once more is building up in its zone a German army under German officers.

Still, it is inconceivable that the Western Allies will permit a rearmament of Germany in the foreseeable future. Twice they have felt the onslaught of German power so close that they will do their utmost to prevent a repetition. But the Western Allies, including the United States, have begun to realize that they will have to pay continuously a very high price for this part of their security system. Germany has become a vacuum between great powers, large and more complete than ever existed before in history. The defense of this vacuum has thereby become the charge and responsibility of Germany's powerful neighbors and ex-enemies. It would have been easy had the naïve and glibly accepted political assumption of unity and harmony among the Allies been real. But it has rapidly developed into an immensely difficult and risky job in the less harmonious world in which we actually live.

The term *potentiel de guerre* (economic war potential) was coined, and made sense, at a time when the imagined enemy of the next war was assumed to possess an organized armed force and freedom to equip it. Under this assumption it is a truism that—*ceteris paribus*—the nation with the greater independence in raw materials and the larger industrial capacity is militarily superior to the economically weaker nation even if it possesses more manpower. It is obvious and was proved beyond doubt in World War II that 140 million Americans have a far bigger war potential than, say, 190 million Russians. Germany with its large, well-trained and fully equipped army had a very much bigger war potential than France and its eastern allies together, although this coalition was somewhat superior to Germany in manpower.

Not the term *war potential* but its meaning was known in Germany long before there was such a thing as a motorized army

or bomber squadrons had even been dreamed of. In a relatively early phase of German industrialization, in the 1880's and '90's, the German leaders grew aware of the inadequacy of German food supply in case of war and blockade. The *cauchemar des coalitions* (nightmare of coalitions), the dread of a two-front war which haunted Bismarck and made him, after the unification of the Reich, the staunchest champion of Europe's peace, became the principal motive of tariff protection for German agricultural products. True enough, the tariff on wheat and rye served the economic interests of the big landowners in the east, and their political representatives were no more unselfish than any farm lobbyists in Washington. But they had to prevail on the government whose responsibility it was to shape Germany's economic policy, and to carry a Reichstag with a large majority of members from the industrial and commercial middle class and the industrial workers. And here they found numerous allies who, while admitting the economic disadvantages of dear bread and dear feed (as compared with the sharply competing free-trade England), were willing to pay the price for Germany's military security. (It must always be remembered that Germany had no natural frontiers, either west or east, and for many centuries had been the battleground of most European wars.) At that time strengthening the food resources, not industrial capacity, was regarded as necessary to safeguard Germany's *war potential*. As the years passed, overseas colonies with their mines and sources of raw materials and a powerful navy to protect the sea lanes between the colonies and the homeland became the fanciful, much less rational supplements of a policy to protect the war potential. However, when war finally came in 1914, it was the blockade, not lack of industrial equipment, that broke Germany's resistance. All its steel, coal mines, its abundance of machines and tools were of no avail against the exhaustion of its people, soldiers and civilians, by hunger and the stalling of its machines for lack of material to work with. And, as we have seen, no industrial region in the world is in this respect more vulnerable than the Ruhr.

The blockade was ineffective in the recent war not because Germany's industrial capacity gave it a decisive superiority but because Germany met little resistance during the first two years (September 1939 to late in 1941) in gaining control over the

greater part of the European continent, thereby expanding its food and raw material resources. If France had little with which to oppose the German tanks and the strafing airplanes and fell in 1940 under a few German hammer blows, it was certainly not because France had lacked the industrial capacity to build tanks and airplanes in equal or greater number. It was because the French politicians, the French General Staff and the French workers had preferred not to build them while there was time. Not the war potential gave Germany the decisive military advantage, but organization and the will to fight.

If the world wants to be protected against another German attack, it is the building up of a military force, not of an industrial war potential that must be prevented. When a single air attack can destroy or put out of action one-half, or maybe all, of German steel capacity within a few minutes it is absurd to pretend that French or British security depends upon whether Germany keeps  $7\frac{1}{2}$  or 10 or 11 million tons of steel capacity. And obviously only countries with an air force could make such an attack. In other words, the French and British air forces and the absence of a German air force are the essentials for security, not the destruction of the German steel industry. That the obvious is not generally grasped only bears out one of the most frightful experiences of our time: viz., no nonsense is so great that it cannot be built up into a potent political force by the sheer psychological magic of endless repetition. Hitler taught that to the world in the thirties, the Soviets are practicing it successfully in the forties, the French are now trying it on their Western Allies.

What the Allies will insist on is, in the words of the Third Hoover Report on Germany, that "the Germans will have no army, no navy and no air force, retaining only a constabulary in which no Nazi or previous army officer may be employed." This is the only effective protection against the resurgence of German military power. The contrary thesis asserts that this complete destruction of the German military machine presupposes the continuous will of the Allies to supervise Germany militarily and to act quickly if and when a future German government starts to build a new military organization, and that this will cannot be taken for granted. It is this doubt, particu-

larly on the part of French leaders—a doubt feeding on the experience between the two wars—in the ability or the will of the Allies to maintain such supervision that is held out against mere reliance on military disarmament. But there is no logic in this counter-argument. If really Allied watchfulness or determination to act against a revival of Germany as a military power should relax to the point of permitting a future German government to restore an army and air force, what would prevent that government from rebuilding its industrial potential around even the industrial nucleus left to it under the Level of Industry Plan of 1946? Has the last war not proved that it is easier and quicker to build up a huge war industry (particularly if some other Great Power lends sympathetic help) than to build up an army organization from scratch? It is still easier to manufacture thousands of airplanes and tanks secretly than to train secretly a mass army for which a war potential measured by steel capacity and number of factories is supposed to be used. The resounding tread of Hitler's marching S.S. and S.A. men was the terror of German towns long before the government of the Reich was played into Hitler's hands. Or, are the pilots of the air force supposed to be trained without ever taking the planes into the air where they would be visible to every man's eyes? And all this particularly in such a small area as Germany, open to the view of critical foreigners, with a free press and no possibility that an iron curtain will be drawn even after the armies of occupation have left!

But is not this whole argument fanciful from beginning to end? In what sort of a world do these experts, military and economic, live who still quibble about war potential in terms of steel capacity or electric power? Have they never heard of Hiroshima and the atomic age? It will take Germany thirty years to remove the rubble from its shattered towns. In these thirty years the gravely depleted German manpower, for reasons explained and documented above, will be further sharply reduced. Even under the relatively lenient terms of Versailles Germany needed twenty years after the First World War, which left it physically almost intact, to rebuild its military power. Can anyone in his senses imagine that the world in twenty or thirty years, even if no great political upheaval confounds all our calculations, will have much resemblance in its industrial and technical structure

to the world of 1947? How absurd is it to argue in terms of steel capacity and mass armies in an era when one single atomic bomb can obliterate life from an entire industrial area? How incredibly senseless was it to restrict electrical power output—as was done to a strangling degree in the Level of Industry Plan of 1946—when we are striving to generate from one pound of uranium the equivalent of a huge power plant? Man may not be “obsolete,” to use the term of a brilliant writer epitomizing his reaction to Hiroshima, but certainly the military and economic experts of certain nations are obsolete.

Under one condition alone does the demand for thorough economic demobilization make sense: if the victors are ready not **only to convert Germany into a land of farms and pastures**, but to close German schools, theaters, concert halls and museums, forbid the printing of books and newspapers; in other words, convert whatever may be left of the German people into a horde of dumb illiterates. Some may be willing to go to such lengths, even as Mr. Morgenthau was willing to have the coal mines of the Ruhr closed and to let millions of Germans hibernate on the firewood collected from non-existent forests. But very few people are left in the world who would be willing to pay the price for such a nightmare. For the price would be not only scores of millions of German lives, but the entire human civilization. The trouble with the champions of a Carthaginian peace is not only that they have no respect for economics or history, but that they are naïvely unaware of the moral, religious and intellectual forces still alive and active in the area of Western civilization and essential to its perpetuation. There are still Christians and Quakers and Abolitionists for whom the heritage of the Declaration of Independence and Abraham Lincoln's Second Inaugural has some practical meaning, who suffer mentally when their fellow-men suffer, who believe in the dignity and the inalienable rights of all men created equal, even Germans.

It has not taken much time since the world emerged from the benumbing heat and passion of the war to make it understand two facts: first, that Germany is an integral part of Europe and Western civilization to such a degree that the political and economic recovery of Europe is inextricably tied up with the recovery of Germany. And secondly, that, with the exception of

a relatively very small sector, no distinction between war and peace industry is possible. This applies, as practical experience with our dismantling experiments has proved, even to most factories that were defined as war plants and therefore put in the "highest category" on some surplus list.

As for the price of German de-industrialization, it is paid currently in real dollars (not in French francs), to be appropriated by the American Congress or taken by the British out of their last, rapidly vanishing gold reserves, to keep their German wards in the area under American and British occupation barely alive.

War or peace potential, we have at long last, two years after Potsdam, realized that Germany must be made productive as quickly as possible because every day of delay makes the task more difficult and costs growing amounts of American money. And, war or peace potential, what Germany may be permitted to produce will have to be decided not by unimaginative military experts or politicians, but by the requirements of world markets and particularly of European reconstruction. What the world and European reconstruction need is not Germany's consumer and light industries, but predominantly the products of German mechanical and engineering skill, manifested in the heavy industries which form the backbone of the conventional idea of "war potential." To concentrate German exports on products of its consumer industries would only accelerate a glut in an industrial field where a state of over-supply is rapidly forming even before German exports on a major scale have started, and where the competitive, self-protective instincts of the supervisory powers will very effectively defeat the demands of the military experts. It is German steel, German heavy locomotives and railroad equipment, electric dynamos and gas turbines, and such like, that the world needs, not German textiles or toys.

The first government to realize this plain fact was significantly the government of one of Hitler's hardest hit but most civilized victims, Holland. In a detailed memorandum of January 1947 it bluntly declared it "inadvisable to lay down maximum quotas for production of German industries, including the iron and steel industries." And the first point the Netherlands delegate made before the Paris Preparatory Committee of the sixteen European nations on the Marshall Plan was to emphasize the insufficiently

utilized capacity of production, "a phenomenon common to all Europe. In speaking of Europe, I include Germany. The German problem cannot be considered apart from the other problems. It is a European one."

The new Level of Industry Plan of August 1947 does not undertake to decide the issue. It does not permit the production of aluminum, beryllium, vanadium, and magnesium—all essential war materials, as essential as steel—prohibited under the previous Level of Industry Plan. But it keeps the door into the future open. No plants in these industries "will be made available for reparation purposes pending further review." Such a review, if approached in an unprejudiced spirit, will not miss the fact that those materials are as indispensable for peace industries as for war. "No change is proposed in arrangements made under the previous plan in regard to ball bearings, synthetic ammoniac, synthetic rubber, and synthetic gasoline and oil." What were these "arrangements"? Well, even the plan of March 1946 had to concede that facilities for the output of these products "will be temporarily retained to meet domestic requirements until the necessary imports are available *and can be paid for*." As the French say: *Rien ne dure que le provisoire* (nothing lasts as long as the provisional). For once, economic necessity has defeated political madness.

But the new Level of Industry Plan of August 30, 1947, has not yet solved the Ruhr problem, either in its international aspects or as object of German socialist aspirations. To the latter we will return in the next chapter. As for the former, they were clearly expounded in a French Government memorandum of February 1947 proposing "internationalization" of the Ruhr industries. This idea of "internationalization" of the Ruhr has appealed to many high-minded and experienced Americans. It requires therefore serious consideration and analysis.

The French proposal, which amounts to a blueprint, has the precious virtue of being detailed and specific. Although probably only of historical significance without a chance of being accepted by the United States, it deserves mention because it illustrates a frame of mind on political and economic matters that colors and explains in large measure the dismal trend European affairs have

taken. At the same time it demonstrates the impracticability of the idea of internationalization in a nationalistic world. It is, indeed, one of the most fantastic documents that have grown out of the fantastic history of our time.

The French memorandum begins by emphasizing "the importance of the Ruhr Basin from the point of view of the German war potential and consequently of the security of Europe and of the world." This taken for granted, no further explanation is offered. The French Government admits that "the de-industrialization pure and simple of the Ruhr Basin is obviously unthinkable." (It is by no means unthinkable to many supporters of the French position in this country.) Therefore this whole, entirely German territory, with all its mines and industries, must be placed under a special regime. The object of this regime is:

(a) to *limit* the production of the steel, mechanical and chemical plants to the figure agreed upon by the Allied Powers;

(b) to *develop* to the maximum possible the exploitation of the coal mines of the Ruhr.

Simple Allied control over the coal mines and steel industries, leaving them under German ownership and management, would not do. The property of all the mines and industries must be transferred as a joint possession to the nations united in the struggle against Germany (which obviously includes Russia and its satellites). All should receive "a right of eminent domain" over the resources that form the essence of the German war potential.

The properties thus transferred would include those of the former Reich and of local governments (the Prussian State, the Laender, the Gemeinden, and other legally constituted German authorities); also the properties of certain individuals. The private property of individuals is to be requisitioned. The owners are to receive compensation in bonds and stocks, except "war criminals and German citizens against whom special measures of a general or individual character shall have been taken" (sic), whose property will be confiscated without compensation.

We are assured that the administration of the whole business will not require a large Allied personnel, not more than 125 persons for the mines and 100 for the steel mills. How is it to be done? In three different ways—one for the coal mines, a second for the steel industry and a third for all other industries.

The coal mines will be run by an international administrative board, composed of one delegate each from the member countries and one delegate from the territorial authorities. Nothing is said about how they would vote, whether by simple or qualified majority, unanimity or whether certain powers would have a veto. The board would appoint a general manager who must be a citizen of an Allied country. He would be assisted by an advisory council composed partly of delegates of the Allied countries (chosen by the administrative board) and partly of representatives of the technical staff and the trade unions. Similarly, the manager of the centralized selling agencies would be appointed under the general manager. He would be assisted by the Allied heads of the sub-divisions. Inspectors would be placed at important marshalling yards of the Ruhr to supervise and check on the distribution and sale of coal. The entire territory would be divided into twelve districts, each under a district chief of Allied nationality. He might be aided by one or two Allied assistants and a German manager exercising powers over the German managers of the local mines. Only on that local level may Germans be employed in executive or managerial positions.

The steel industry is to be organized under a separate international administration along similar lines. For all other industries the French proposal foregoes direct administration. All other industries, mechanical and chemical plants, are to be covered by "compulsory trade organizations." (Possibly the French Government has thought this feature particularly palatable to the United States. It has apparently never heard of an American Anti-Trust Law or compulsory German de-cartellization.) An Allied commissioner, with the necessary powers "to regulate the activities of the enterprises grouped in the organization" would be placed in each organization. But this is not enough. In the enterprises that are most important, either from a security or economic point of view, a technical delegate (!) might be named with the necessary powers to control these industries. These trade organizations would by no means be confined to the mechanical and chemical industries.

To play doubly safe, the French Government insists that the status of the Ruhr industries be not only written into the Peace Treaty, but that they be placed under the special guarantee of the Security Council of the United Nations.

The international administrations will be endowed with unlimited power over their German subjects. "It is indispensable to provide for the presence in the Ruhr of a commissioner designated by the United Nations." This commissioner must be kept informed "of all legislative and regulatory acts affecting the controlled industries. . . . *Every legislative or regulatory act affecting the administrations with regard to certain subjects—such as labor, social insurance, transport rates—would be subject to his prior signature . . . To the commissioner also would be referred every conflict arising out of labor disputes and in general any situation adversely affecting the statute of the Ruhr industries.*"

It happens that the *New York Times*, on the reverse of the page on which this memorandum was printed in full, published David E. Lilienthal's statement on Democracy to the Congressional Atomic Committee, from which the following paragraphs are quoted:

"Traditionally, democracy has been an affirmative doctrine rather than merely a negative one. I believe—and I do so conceive the Constitution of the United States, to rest upon, as does religion—in the fundamental proposition of the integrity of the individual; and that all Government and all private institutions must be designed to promote and to protect and defend the integrity and the dignity of the individual; that that is the essential meaning of the Constitution and the Bill of Rights, as it is essentially the meaning of religion.

*"Any form of government therefore, and any other institutions which make men means rather than ends, which exalt the State or any other institutions above the importance of men, which place arbitrary power over men as a fundamental tenet of government or any other institutions, are contrary to that conception and therefore I am deeply opposed to them. [Author's italics.]"*

None else can be the American reaction to the French scheme for the future of the Ruhr. Though this be madness, yet there is method in it. But whatever scheme may be devised for an internationalized Ruhr, it will always be up against two unsurmountable obstacles. The one is that man is not a machine. The idea that Germans (or, for that matter, men of any other nationality) can be commandeered by foreigners, and resentful victors at that, to perform the most intricate, most highly complex

scientific, technical, organizational services cannot be supported by history or psychology. Slave labor is by its very nature limited to primitive work. Even now the treatment of the unmanageable Ruhr problem is vitiated by the all too mechanical approach to its human side. The occupation authorities are puzzled by the fact that every system of incentives loses its effect a short time after a striking initial success. The equation:  $x$  units of food =  $y$  units of calories =  $z$  tons of coal, does not work out in reality. There is no space in the equation for the inherent imponderables.

The second obstacle is the nature of an international regime composed of powers with conflicting interests. There is not the slightest reason to assume that these interests would not dominate policies in the Ruhr. We can take it for certain that, even if the powers refrain from outright industrial espionage (which there is no reason to expect), they will make sure that the Ruhr never becomes a disagreeable competitor. In other words, no international regime of a region like the Ruhr can be conceived that would not see to it that the region got the last of a boom and the first of a depression. The Ruhr would not be permitted to produce one ton of steel as long as one ton of unused steel capacity was left in any interested country. And the last furnace in the Ruhr would be damped or shut down before the first furnace in any Allied country reduced its output. However united the Allies may be as joint competitors for the Ruhr, so disunited will they be in the day-to-day decisions upon which the welfare of the plants and of millions of people living in that unhappy region depend.

Not to miss the grotesque note, the French blueprint is very explicit about how to deal with the forthcoming profits. But we search in vain for an answer to the unposed question of who is going to pay for the losses. The possibility of deficits has obviously never crossed the minds of the framers of that document. Yet these losses would be so gigantic that the whole scheme is doomed to fail within a short time. We can ruin the Ruhr most assuredly and easily by internationalization; we can make it prosper only as an integral part of the German economy.

However, the French interest in the Ruhr is positive as well as negative—the strong desire to build up a large steel industry

in Lorraine based on its minette ore reserves. Under the Monnet Plan, French steel capacity is supposed to be raised to 15 million tons of ingot, 5 million tons above the 1929 output—the highest ever achieved. From any point of view, this is a most praiseworthy ambition. The French maintain that this goal can be achieved only with adequate German deliveries of coke from the Ruhr. To this extent France is vitally interested in a speedy restoration of coal output in the Ruhr and a corresponding increase in German shipments. So are the Germans themselves and the Anglo-American administration. But the order of priorities is not the same. Until German coal output is restored almost to normal each ton of coal must be allocated to the spot where at the moment it will produce the maximum effect and these allocations may easily conflict with the demands of the French who understandably think of their own needs first. As long as coal is in short supply an international administration could not proceed differently from the present regime unless it is willing to increase indirectly the American burden by reducing Germany's capacity to pay by exports. Certainly, Ruhr coal allocation will remain under Allied supervision for a considerable period.

However, the French thesis, profusely backed by French Communist propaganda, that it is more rational to bring the Ruhr coal to the Lorraine ore than the Lorraine ore to the Ruhr coal, will be questioned by most except the French experts. From 1871 to 1918 Lorraine belonged to Germany. It was in this period that the German steel industry was expanded to its vast scale. During that period the strongly phosphoric minette ore was made usable by the invention of the Thomas process. Why did the German steel magnates not build their giant plants in Lorraine instead of Rhineland-Westfalia? They were no fools, they knew what they wanted, none of them entertained the slightest doubt that Alsace-Lorraine, conquered in the war of 1870-71, would be German forever. After World War I the test was repeated from the other side. In 1918 Alsace-Lorraine was returned to French sovereignty. From 1918 to 1940, until the country was overrun by Hitler's armies, French industry had almost a quarter of a century of time and opportunity to build a strong steel industry in Lorraine. There was no question of a shortage of coal and coke during all those years. The worry about coal in the twenties and

thirties was not how to buy but how to sell it. It was available in virtually unlimited quantities at depressed prices. Nor was there any shortage of French capital. The country was wealthy and accumulated large savings at low interest. Yet the Lorraine steel industry stagnated even in the twenties with their international boom. What reason have we to expect that a third try will be more successful? And why should it be paid for in advance by the destruction of the Ruhr industry at the expense of the American and British taxpayer? Once again, economic reason has to battle with political unreason.

The Ruhr not more and not less than the rest of the German industry must and will be controlled as to the observance of the military restrictions the Allies will impose on Germany. And the Ruhr coal will be allocated within a Western European scheme as long as the European coal shortage lasts. Neither of these two purposes requires or justifies a special regime for the Ruhr.

Beyond these two points there is no scope for internationalization. No scheme is conceivable that would serve any useful purpose, unless we believe that detailed "planning" for the whole of Western Europe is desirable or workable and that Western Europe will never return to a market economy where supply and demand and price determine what is produced and where the product is sold. The Ruhr, like any other industrial region in the world, has always produced what it could sell and has sold to anyone who was willing and able to pay the competitive price. Those who for whatever motives still advocate some sort of internationalization of the Ruhr and "allocation" of its products would be at a loss to mention one single example when a manufacturer in the Ruhr for political reasons refused to sell to a competitive buyer. The reproach so often levelled against the Ruhr industry was the opposite, the ruthlessness of dumping, of undercutting export prices or sharp methods of obtaining export orders. Is an international body under American auspices going to restrain competition, or what else is this international body supposed to do in a period in which Allied and German interests coincide to bring about as quickly as possible a maximum of German production and export volume? Are not the real German problems numerous and complex enough without being aggravated by sham problems of our own making?

## IX.

# *SOCIALIZATION AND DECARTELLIZATION*

THERE IS still another angle from which the German problem must be viewed: Germany's peculiar social structure and industrial organization. It presents us with the double issue of socialization and decartellization as methods of attack.

One of the most baffling aspects of European and particularly German reconstruction is how the phantom idea of socialism and socialization seems to have taken hold on the creative forces of European politics. In itself it is not altogether new or surprising. Once before, after the First World War, socialism swept the Continent as a tidal "wave of the future." It engulfed with special vehemence defeated and broken Germany. Then as now it had its origin in the East. The Bolshevik revolution had torn the traditional social fabric of a large part of the Continent. The lava from the eruption was still spreading with tremendous speed and flaming heat. The hopes not only of the revolutionaries but of many progressive and genuinely liberal spirits in the Western world were kindled by the eruption. Terror had not yet become essential to Bolshevik doctrine and practice, the idealism of the revolution was still strong and sincere, its roots in the soil of European liberalism had not yet altogether withered, its ideologies had not yet been ossified in the clichés of a bureaucratic skeleton.

But it was to Germany rather than Russia that the eyes of the Socialist workers of the world turned for salvation. It was on Germany and the German revolution that even the Russian leaders, still rather hapless and diffident, set their hopes. Germany after all, not Russia, was the home of Karl Marx, Germany the country with by far the largest Marxist Socialist party which the military collapse had thrown into power, Germany, not Russia, that had an immense, modern, intact industry, Germany, not

Russia, that had a vast industrial proletariat, excellently organized in trade unions with trained personnel, a long political tradition and administrative experience. Above all, the German Socialist labor movement had an intellectual background (largely lacking in the Russian masses). A huge literature, some of it of recognized high scholarly standards, in books, magazines, pamphlets, had been produced in several decades. There were training courses, theater guilds, orchestras, sport organizations and, on top of it all, a vast network of newspapers manned in part by brilliant editors, supplementing the daily political work and the activities of the Socialist representatives in Reich, Laender and municipal parliaments. German Socialists, in close brotherly connection with the Austrian Marxists, dominated the Second Socialist International from which the Russians, during the war and over the issue of peace, had only recently split in conferences held on neutral Swiss soil.

The split was not old or deep enough to be unbridgeable. When the German revolution came in 1918 the Bolsheviks already had their ample share in it. It was the German Spartacus Bund under the leadership of Karl Liebknecht and Rosa Luxemburg who, in intimate association with Lenin and Trotsky—still as equal partners, not as nowadays as subservient agents—tried to turn the revolution from democratic into dictatorial channels. But Moscow maintained its connections with the official Socialist party outside the Spartacus Bund. Russian agents and speakers flooded Germany over and across the empty trenches of the recent eastern front. Gregor Zinoviev, Karl Radek and many others appeared openly in the hectic meetings of the German socialists, pleading and arguing, imploring and exhorting, threatening and cajoling them to follow the revolutionary line set by Moscow and to establish the socialist millennium throughout Europe. Germany had the key position. Many bolshevik leaders were convinced that the future of Russian bolshevism would be decided by what Berlin was doing.

But the German revolution took a different turn than the Russian. It has become fashionable in certain "liberal" circles of the West to shower contempt on the German Socialists of that period for not having been radical enough. But in 1918 it was Germany, and Germany alone, that saved Europe from the Eastern flood

of barbaric despotism. Neither France nor Italy could contain the flood, and Britain after the First World War was not enough of a power on the Continent to turn the tide.

The young German Republic which performed that historic feat was a feeble and hapless child. It was not born out of the enthusiasm of a long desired liberation—Germany had been well along on the road to a free constitutional monarchy and in the vanguard of social progress; it was born out of collapse in misery and destitution. Whatever glowing faith in the ideals of Western democracy had existed before the war and grown rapidly during the war was tragically smothered by the terms of the peace and subsequent constraining policies of the Allies, particularly the French. To beat down the threat of revolutionary bloodshed and to restore that degree of public order without which reconstruction of the defeated country could not even be started, the young Republic had to accept the services of its enemies on the Right. But in 1920, when in the abortive Kapp-Putsch these enemies attempted to seize power, the republican and democratic forces were strong enough to repel the attack. During all this time there was revolution in the East, occupation in the West with continued threats of renewed military action (such as the seizure of three Rhine ports by the French in March 1921). There was a rapidly progressing depreciation of money, social disintegration and intense despair, particularly among the millions of the dispossessed and impoverished middle classes. But during all this time there was a socialist President and there were socialist Chancellors committed to the ideologies and promises with which they had grown up and gained control over the masses. Socialism had been the promise which suddenly asked for fulfilment.

It was evident now how much easier it is to promise than to fulfil. It is fatuous to reproach the Social Democratic leaders of that time with betraying the workers and selling out to their "class enemies." The simple truth is that these men were conscientious and responsible enough to realize how impossible it was to fulfil this promise without destroying the country both politically and economically. Few of them would admit it in so many words. In good faith government and party tried their best. They set up a Socialization Commission composed of some of the keenest brains from labor, government and the academic

world. The debates of this commission were on the highest level. But when its reports finally came out in 1920 the Social Democrats were split over several recommendations. The revolutionary fervor had evaporated, the glow of the socialist ideal had dimmed. The Left suffered defeats in the elections, there was a clear anti-socialist majority in the Reichstag, the country wanted to return to work and peace. The Russian revolution had degenerated into the bloodiest, cruelest civil war of all history, indulging in ever more ruthless terror, spreading untold misery over the unhappy country. And Western Europe had turned more and more to its pre-war pattern, while the United States set out on its unparalleled adventure in boom. Socialization was all but forgotten as ideal and as issue of practical politics.

What was left as the principal task of German Social Democracy, which never abjured formally and theoretically its loyal adherence to the Marxian creed, was the defense of the Republic and of parliamentary democracy, and comprehensive measures of practical socialism on a local and municipal basis, all-inclusive welfare services, better housing and extension of social insurance to limits not exceeded anywhere until Britain in 1946 enacted the Beveridge Plan.

Now that history seems to be repeating itself in Germany today, what are the similarities and differences? The clamor for socialization is again sweeping the country and again the opposition and resistance of dissenters is low at least to the point of rendering lip-service to the principle. Once again the champions of socialism arise from the welter of utter defeat a hundred times more catastrophic than in 1918. Once again Moscow has taken the lead in the social and political transformation of all Europe. Once again socialism seems to be the irresistible force to shape Europe's future, with the survival of "bourgeois" capitalism in precarious balance everywhere on the Continent.

But there are quite a few decisive differences between then and now. The Russia of 1947 is not the Russia of 1917. It is not the shattered battle-ground of a vanquished nation on which the flaming red banner is hoisted to lead the despairing and disinherited of the world into a glorious future of universal brotherhood, peace and justice. That dream has faded away. The Russia that has taken the lead in revolutionizing Europe today is a vic-

torious, thoroughly militarized, thoroughly bureaucratized imperialistic power, feared but not loved even by its admirers, a Russia that no longer woos and cajoles, but dictates to the proletariat of the countries to the west of its borders, a Russia exercising its power and influence with intolerance, with imperious gestures and demands for which a wholly mechanized propaganda machine supplies the slogans.

However paradoxical it may sound, Marxist communism has lost its revolutionary fervor and its revolutionary drive. The Communists in all countries today are led by a bureaucracy of Moscow-trained, Moscow-paid, Moscow-dominated agents who act not from revolutionary passion, but from calculated devious tactical considerations more often than not formulated abroad, imposed on them from abroad against their own better judgment. They thrive on defeat, they gather their following among the millions of suffering, among the hungry and hopeless. But they have not asked them yet to arise. They have asked them to work and to organize. They did not ask the workers to hang or decapitate their class enemies and drown resistance in blood, they asked them to keep discipline and fight for parliamentary majorities or for tactical advantages in parliamentary shuffles. The tactics may change and become revolutionary again if and when Moscow sees fit to order the change. But there is nothing spontaneous in that "revolution," there is only devious sophistication. This is indeed a communist movement different from that of 1918. Its persistent danger, nowadays, rests not in numbers, but in the capacity to stir up trouble from key positions occupied in the sweep of liberation, in strict uncompromising discipline which could enable a minority to seize power if chaos should envelop any of the Western countries, and finally in the backing by the strongest military power on the European continent.

More important than the changes in the east are the changes in the west. Socialism is no longer an ideal of the future, a vague slogan faced by forbidding obstacles to realization. Socialism is now a thirty-year-old reality in Russia, and a more than two-year-old reality in Great Britain. How much older it will grow in Britain and how much good or harm it will bring to the British people need not be discussed here. But it is a decisive fact that since the surrender of Germany, the British Labor Govern-

ment has been committed not only to socialism in Britain but to socialism wherever British power and influence extend. It sympathizes with socialism in France and Italy, it has promised to socialize the British zone in Germany, which includes the all-important core of German industrial organization, the Ruhr.

Paradoxically enough and explainable only by the spirit in which Yalta and Potsdam and the Level of Industry Plan of 1946 and their precursors, the Quebec agreement and the now defunct JCS 1067, were conceived, the greatest power among the victors, the most powerful of the occupiers of Germany, the United States, seems to remain "neutral" in this struggle, naïvely unconscious of its significance for its own future. But American power is neutral only in its intentions. In fact, by its German policies it has done more than even Russia and Britain to revolutionize the social and economic structure of Germany and to prejudice the reconstruction of Germany on the pattern of a free-enterprise society.

For, even more important than the changes in the character and ideological and political currents emanating from Germany's conquerors in the East and in the West is the all-out negation of the traditional foundations of German society—indeed, of the institution of private property itself. And it was American policy that, in the first two years after the downfall of Hitlerism, took the lead in this process. American public opinion is hardly aware to what extent America's German policy has been shaped by Marxist ideologies, slogans and propaganda. The ready acceptance of the myth that Hitler and National Socialism were merely stooges, partisans and champions of "monopoly and finance capitalism," the glib incrimination of big business and industry as instigators of the war,<sup>1</sup> the wholesale confiscation of private property to punish not guilty individuals but entire classes and, not least, the wholesale spoliation of German patents and technical

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<sup>1</sup> After these lines had been written we found them authoritatively confirmed in an article by the recently retired head of the Decartellization Branch of the American Military Government in the *New Republic*, October 6, 1947. This article and its author are typical of the spirit which, until the middle of 1947, permeated to a large degree our German policy and frustrated many changes initiated by Washington and General Clay.

knowledge, not confined to war industries but indiscriminately and systematically extended to the whole realm of German technical and industrial ingenuity—all this indeed has made the resurrection of a market economy in Germany almost hopeless, and has helped to undermine the last dams against the bolshevist flood which American foreign policy now strives fiercely to contain and to control.<sup>2</sup>

The role played by industry in the history of Germany goes back to the early years of the Bismarckian Reich. It was the tariff question that already in the 1870's induced German industry to organize to give proper weight to its demands in opposition to the conflicting interests of the landed classes which through family connections dominated Prussian policy and administration. As Germany expanded industrially with increasing rapidity, a deepening rift developed in the industrial camp. From the *Zentralverband deutscher Industrieller* (Central Federation of German Industrialists), founded in 1876, a *Bund der Industriellen* (League of Industrialists) separated in 1895. In the *Zentralverband* remained the big bosses of the heavy industries, coal and steel; in the *Bund* were organized the manufacturers of finished goods. The former stood for cartellization, high tariffs and intimate cooperation with the government; the latter advocated a liberal policy, fought against the tariff, strove to open export markets, championed free competition and freedom from government interference.

The trend of the time was definitely against the men of coal and steel. The new industries, the chemical and electrical, small, unimportant upstarts in the seventies, became the giants after the turn of the century. This trend reached its climax in the twenties when these new giants seized more and more control of the older basic industries. By 1926 when the *I.G. Farbenindustrie* was organized through the merger of the five biggest chemical concerns, it was itself a dominant force in coal and steel, as were the leading electrical concerns, particularly Siemens. All had to secure their own basic raw materials, and coal was becoming that essential raw material for an infinite variety of chemical products.

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<sup>2</sup>In the American prosecutors' indictment of the Nazi industrialists in Nuernberg, one finds much of the vocabulary of Mr. Vishinsky's speeches before the UN Assembly in autumn 1947.

The lost First World War led in 1919 to a merger of these two organizations of industrialists into the *Reichsverband der deutschen Industrie* (Reich Federation of German Industry). They had cooperated closely during the war. By 1919 the old issues separating basic and finishing industries had become obsolete. The new menace, against which unity seemed imperative, was social revolution. The Reichsverband, by and large, represented a liberal conservative policy. It had its right and its left wing and its center, but it backed consistently the Republican government on all crucial issues. The most important was the acceptance or rejection of the Dawes Plan. The positive attitude of the Reichsverband led to a split of the right-wing nationalists in the Reichstag and thereby saved the necessary two-thirds majority for the acceptance of the reparation scheme devised under American auspices.

Politically, the leaders of industry belonged to every one of the non-socialist parties, Hugenberg's German Nationalists, Stresemann's German Peoples party, Bruening's Center party, and a few to the left liberal Democrats. One lone industrialist was an early Nazi, Fritz Thyssen, whom communist propaganda has made a sort of legendary figure.<sup>3</sup>

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<sup>3</sup>Fritz Thyssen was the small, timid son of a big strong father. Old August Thyssen was one of the typical pioneers of heavy industry who were characteristic of the early history of iron and steel in all industrial countries. Reckless, despotic, completely impervious to social considerations, he was the supreme and sole authority in his shop and family, at the same time a God-fearing man, a faithful Catholic, and a power in the political organization of the Catholic Center Party. When he died in the twenties he was over eighty and his son and heir, Fritz, the crown prince of the dynasty, over fifty. He had spent youth and manhood in the shadow of his powerful father, and this fact shaped his own personality. Fritz Thyssen was nervous, excitable and possessed an adolescent mind. Having grown up in the oppressive atmosphere of his home, he had a tremendous urge to assert himself in public. Being timid, he longed to be regarded as a hero. His great opportunity came in 1923 when the French Army occupied the Ruhr and arrested him as one of the leaders of the resistance. At his trial he made a few high-sounding nationalistic speeches, and when sentenced he had become a national martyr. For a national martyr, nothing but the most radical and excessive nationalism seemed the proper ideology to embrace. Thus Thyssen came to Hitler. But Fritz Thyssen was never an active industrialist. Very soon after August Thyssen died, the Thyssen property was merged in the *Vereinigte Stahlwerke* (United Steel Works). This giant organization of the steel industry—with

The one real service Thyssen eventually rendered Hitler was to bring him into personal contact with the leading industrialists. The first contact did not take place until September 1932. At that late date Hitler was invited (or better, was permitted) to address a regular meeting of the so-called Duesseldorf *Langnam Verein* (Long-Name Association<sup>4</sup>), a club including all leading members of industry and finance in Rhineland-Westfalia. The club organized such dinner meetings with speeches and discussions on topical questions several times a season. Hitler had been preceded by two speakers, a Catholic industrialist with great influence on the Center party, and Mr. Cohen-Reuss, a right-wing Socialist. For the purpose of information it seemed proper to give the celebrated and highly publicized new figure, Adolf Hitler, a chance to present his ideas and at the same time to have a look at the strange animal whom hardly any member of the group had ever seen. On the evening over which for once Fritz Thyssen presided as chairman, Hitler as usual ranted for two or three hours. His audience, bored with the length and emptiness of his speech, was astonished at his confused mind and generally relieved at the harmlessness of a revolutionary figure with such small intellect. Only the nationalistic tirade with which Hitler as usual concluded his long speech brought him some applause. The meeting has become an important legend in most stories and books about National Socialism.<sup>5</sup>

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about half the capacity of the U.S. Steel Corporation—was formed at about the same time as the I.G. Farbenindustrie. Fritz Thyssen became the titular Chairman of the Supervisory Board, but did not participate in the active management. He was the largest single shareholder, but a long way from a controlling majority. Soon after the merger the stocks ceased to pay dividends and from 1928 until Hitler came to power Thyssen received no income from this, the principal part of his property. The idea that Fritz Thyssen was the financial sponsor of the Nazi party and thereby held Hitler with golden strings as his puppet is as preposterous as most Marxist interpretations of history. Even if Fritz Thyssen had been less stingy, he would never have been in a position to contribute more than a tiny fraction of the multi-million budget on which the Nazi party operated after 1929.

<sup>4</sup> The full name was "Association for the Representation of the Economic Interests in the Rhineland and Westfalia."

<sup>5</sup> This Duesseldorf evening is about the one big piece of evidence that German industry was responsible for Hitler's coming to power, that it was German industrial money which all the time financed the Nazi party, and

After the Duesseldorf speech the money of industry began to flow more freely into the various tills of the Nazi party, but still not to Hitler directly. The money was paid to Geheimrat Hugenberg, the leader of the numerically weak German Nationalist party, whose position as Hitler's ally was supposed to be greatly strengthened by this device. Hitler was never thought of as playing first fiddle. He was good enough to keep the unruly masses in check, but the real power was to rest in Conservative hands.

A few months later, on January 30, 1933, senile Reichspresident von Hindenburg called Adolf Hitler to head the German Government. It was not meant to be a National Socialist government at all. The fools who believed they could tame the Hitler revolution by the purse-strings they entrusted to the narrow-minded reactionary Hugenberg were responsible for the scheme into which they thought they had trapped Hitler when they made him Chancellor. He was to be the head of the government, but without the real instruments of governmental power. Both the army and the Prussian police were kept out of direct Nazi control—the army under a career general representing its old traditions of political neutrality and loyalty; the police under conservative von Papen as Prussian Premier.

Within a few weeks Hitler and his marching battalions swept away this whole scheme with a minimum of effort. The industrialists, who as late as autumn 1932 were doubtful whether they should allow the rabble rouser Adolf Hitler to join their company for an evening, found themselves courting his favors, fawning upon the grandees of the Nazi gang to catch a ray of the sun of power that soon decided on the life and death of every member of the German nation. It was a pathetic show of cowardice, job hunting, eagerness to participate in the blessings of the cornu-

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that Hitler had never been anything but the tool forged for the sinister, reactionary purposes of Germany's heavy industries. But this piece of evidence actually proves the contrary. By September 1932 Hitler was already the greatest single power on the German political scene, as absolute leader of a party which was represented in the Reichstag by 230 members (out of 607), more than Socialists and Communists together. How completely must German big business have kept out of the Hitler movement if he was not permitted to address this still powerful club in person and to make the acquaintance of its leading members until that late date!

copia of profits, privileges and positions showered over the subservient and denied to the doomed recalcitrants. Never in history had there been such a rush to jump on the bandwagon of the victor. Friend deserted friend, members of the same family betrayed and denounced one another, human relations carefully cultivated for decades were broken overnight. In an atmosphere of chiliastic hopes and appalling fears, of sycophantism and rapidly rising terror, of forged public statements, faked documents, German businessmen became the spineless helpers of a strong-willed revolutionary government. The few illusionists who had dreamed of becoming the masters of National Socialism soon found themselves its slaves. Hjalmar Schacht, Franz von Papen, Fritz Thyssen and Gustav Krupp von Bohlen were among them. But that does not mean that they, with the exception of Fritz Thyssen, had been or became Nazis. They were treated by Hitler and Goering and the rest of the gang with ill-concealed contempt, promptly put in their places when they meekly ventured a gesture of independence. Thyssen was appointed one of the several hundred members of the so-called Reichstag, i.e., he was graciously permitted every few months to listen to and applaud a speech by Hitler, which was all the Reichstag had to do. Every Gauleiter or local representative of Dr. Ley's Labor Front wielded more power than the most famous figures in the Ruhr industry. All were at the mercy of the Party bosses. It was indeed a pitiful sight, but it certainly does not prove a "conspiracy" on the part of industry, nor that they had any influence on the policies and adventures on which Hitler embarked. None was ever consulted on the formation of political plans or had a chance to voice warnings. They received orders, and they obeyed.

That is bad enough, but it does not imply what it is supposed to imply and what the philosophy behind JCS 1067 and the Nuernberg indictments assume. Most of these bank and business leaders were men without political judgment and political character. Not all. Quite a few kept their record clean although even they, in trying to discharge what they regarded as responsibilities entrusted to them, had to make concessions, and none, unless he was ready to die in a concentration camp or to emigrate, could avoid contact and some degree of cooperation with the Nazi system. We may stone them if we regard suicidal heroism as a

matter of course in our fellowmen. It would be a rather presumptuous yardstick to apply to anyone except oneself. Only if we ourselves are ready for the supreme sacrifice are we entitled to demand it from others. It is a moral problem of the most intimate personal sort, a problem belonging to the religious rather than the political sphere.

German industry and finance had no more to do with Hitler's foreign policy than workers or farmers or any other group. They were helpless tools, smaller or bigger wheels and cogs in a huge machinery that had been built up at the whim of the Nazi leadership. Their share in the responsibility for Hitler's orders and policies was just as great as that of the directors of Russian trusts and enterprises for the acts of Joseph Stalin and his Politburo. Once seized by the immensely complex and refined clockwork of a despotic totalitarian system no margin, no opportunity for free decision or opposition was left. The individual, however highly placed, had become irrelevant. He would disappear within an hour and no one would know the reason or circumstances. The most heroic effort would be futile if, by remaining secret, it was deprived of its exemplary effect. This was the tragic fate of the leaders of the German underground.<sup>6</sup>

Capitalism has created its own human type. Heroism is certainly not one of its characteristics. But the business class in Germany, as well as in Great Britain, grew up and became powerful in the environment of a predominantly feudalistic society. The British shopkeeper took his social and political ideas from the ruling aristocracy. His ideal was, after being financially successful, to become a member of that social hierarchy, though on the lowest stratum. To be awarded a knighthood or perhaps even a baronetcy, to add a few letters standing for some decora-

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<sup>6</sup> So ably analyzed and described in Allan W. Dulles' *The German Underground*, and James Stern's *The Hidden Damage* (both New York, 1947). One of the most humiliating American experiences during the war was the way in which the supreme sacrifice of the leaders of the German underground after the abortive putsch of July 20, 1944, was treated by many American commentators and broadcasters. The memory of their sneers should trouble them to their graves. Many of Germany's noblest men, comparable to the best of any nation, staked and lost their lives in the heroic attempt to accelerate the end of the nightmare by which the world was still beset.

tion to the name on his visiting card was the dream of a socially ambitious businessman or of his wife and children.

German capitalism grew in the shadow of a political regime that had its roots in an unbroken militarist tradition and was run by the descendants of the landed gentry. The German bourgeoisie never overcame this tradition. When the Kaiser and the Junker rule disappeared in 1918 they yearningly turned to the past. The militarily impotent republic which had no titles or decorations or social honors to award was to many of them a contemptible system to serve. These people—there is no gainsaying it—craved a powerful Germany. They were nationalists, conservative on questions of “national honor” to a morbid degree because they suffered under Germany’s impotence.

The process of adjustment to the new age that began at Versailles was painful. It nevertheless made progress, as each successive meeting of industrial organizations proved. These people did not love republic or democracy, but they did not wish to overthrow it by force. They longed for a militarily powerful Germany in order that Germany should be treated as an equal of other great powers, not for war and conquest. They shared with the great majority of the German people specific grievances against the Versailles Treaty, but they never indulged in dreams or schemes of world domination. As businessmen and capitalists they were timid, as businessmen and capitalists are all over the world. The stock markets register, like the most sensitive seismographs, any disturbance in the political atmosphere, the slightest political groundswell on the remotest spots of the globe. To think of German (or American, or British, or French) businessmen as being motivated by anything except the strongest desire for peace is to embrace the silliest dogma in the catechism of the Marxist creed. Nevertheless, official American policy by 1945 had accepted the thesis that capitalists want war to make profits or to conquer markets without which they cannot do. It is this preposterous belief in the sinister workings of “monopoly capitalism” by which the masters of the Kremlin are still obsessed today and which makes peace impossible.<sup>7</sup>

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<sup>7</sup>It is a little known but significant fact that Fritz Thyssen, summoned to the Reichstag meeting in which Hitler was to announce war against Poland, answered by a telegram to Hitler protesting against any war.

The entrepreneurial class with all the technical and managerial skill it embodied has largely disappeared from Germany. Into this vacuum the wave of socialist tendencies sweeps. It is not carried by widespread and genuine passion and conviction of the masses. It seems to offer itself as an easy answer to many questions the aftermath of the war has raised. "The barons of coal and the magnates of steel" have never been popular in Germany, any more than their contemporaries in the United States or Britain or France are in their respective countries. The legend that they were not only instrumental but responsible for Hitler and the war has taken deep root the world over. It was not hard to convince Mr. Bevin that the legend was true, for all Mr. Bevin knows about Germany he learned long ago from his contacts with his socialist colleagues from Germany at meetings of the trade unions and the Second International. It is easy to understand how their German domestic resentments were subconsciously assimilated by their British fellow fighter. And the unquestioned assumption that the whole entrepreneurial class was collectively guilty has of course been readily seized upon by those whose political philosophy engendered this assumption. In the peculiar lingo of the Marxist press this entrepreneurial class has become "politically unbearable." "There is no road back from Nuernberg to the Ruhr." So discredited is the entrepreneurial and managerial class that it will be difficult indeed to reinstate it.

But this solves none of our problems, for socialism is no solution to any of them. First of all, no highly developed industrial economy can be managed without a highly skilled, trained, experienced and self-assured managerial class, however that class is recruited—whether largely by inheritance and tradition as in Britain and pre-Hitler Germany; by a steady competitive rise from below under the opportunities of a free society as in the United States; or by artificial breeding in a totalitarian state as in Soviet Russia where the efforts of an entire generation have produced meager results. But Germany cannot wait an entire generation. It must depend on whatever reserves of managerial skill and entrepreneurial energy still exist. If unused, the men not born to be bureaucrats will by all available means leave the country in search of more promising fields for their abilities and

vigor. Already now a strong tendency in this direction is ominously evident.

Secondly, it is a mistake to identify the responsible leadership of big industry with its ownership. With the exception of the Krupps and Haniels, none of the big plants of the German coal and steel industry was family owned. None of the other corporations was controlled by majorities held in one or a few hands. Nobody owned the majority of the Vereinigte Stahlwerke or Hoesch and Harpen or I.G. Farben or Siemens or A.E.G., any more than a few men own the majority stock of U.S. Steel or General Motors or General Electric. The stocks were scattered among many thousands of stockholders, mostly small, who may have shared or been violently opposed to the political views of the directors of the corporations in which they held stocks, just as stockholders may agree or disagree with the political views of Mr. Du Pont or Mr. Fairless or Mr. Wilson without being swayed in their intention to buy, hold or sell General Motors, U.S. Steel or General Electric stocks. The expropriation of the hundreds of thousands of innocent stockholders already consummated in the East and threatening in the West is bound to compromise the very notion of private property as a fundamental social institution.

Thirdly, there is no economic sense in the socialization schemes for Germany. None of the reasons that prompted the socialization of certain British industries (realized or proposed) is valid for Germany. As for coal in particular, the most important industry in dispute, British socialization was predicated on the fact that because of a scattering of ownership over thousands of British coal mines they were technically hopelessly obsolete and by their smallness incapable of national operation and of raising the new capital required for modernization. And their owners were traditionally too self-willed and individualistic to agree voluntarily on comprehensive schemes of integration. Nothing of the sort was true of Germany. Here for more than two decades coal mining with all auxiliary industries had been integrated to the utmost degree and developed to the highest technical perfection attained anywhere in the world. Socialization, even if it could work, would add nothing to the rational organization or technical standards of the coal industry. At the very best it could preserve a status attained long ago, and most likely it would lead to rapid deteriora-

tion and squandering of a precious heritage even after the direct effects of the war had been repaired. The steel industry presents a still more difficult case because the product is immensely diversified and technical progress and the competitive position are still in flux. The British Labor Government has not yet dared to force the issue at home.

However, the whole debate, German and international, on the Ruhr problem suffers fatally from three delusions. The first, which views the Ruhr as potential for a future German war, has been dealt with. The second is to treat the Ruhr problem as if the present constellation of world markets were permanent. Unless Europe by a social upheaval is thrown into a vortex of economic chaos, there can be no doubt but that the present strangling shortage of coal and steel will be shortlived. Within a few years the worry of the industrial nations of the world will be where to sell coal and steel, not where to buy. In other words, within a few years competitive markets will be restored in which the most efficient and the most versatile will survive, where once again quality and price, not political pressure and administrative fiat will decide which goods are sold on which markets at what terms. The belief that in such a constellation of markets a socialized industry will be able to compete successfully with a private industry will be shared only by hopelessly prejudiced enthusiasts.

The third delusion is that labor works harder in socialized industries than in private. This argument, so appealing to the minds of the modern intelligentsia (to which *ex definitione* all newspapermen belong), is like a ghost beyond the reach of hard reality. How ever often refuted by facts, it never dies. The crisis of the socialized British coal mine is merely the latest and biggest, but by no means the first and only case in point. Throughout the world, from Australia to Scandinavia, experience has proved that labor efficiency declines under socialization. Nevertheless, the argument is successfully impressed on many sincere non-socialist experts who are grappling with the problem of socialization in Germany (as it was swallowed by many Conservatives in Britain). As a matter of fact, the rank and file of labor when they are working (not when attending a meeting of their political party or union) do not care a hoot who their boss is. They like or dislike him—as the case may be—whether he represents private stock-

holders or a distant governmental board. The real motivations of the worker, positive or negative, have little to do with the problem of private or public ownership. That goes for Germany just as much as for all other Western countries.

The issue of socialization in Germany is not confined to the Ruhr, or to coal and steel. However vague, socialization has become a rather comprehensive slogan. Germany has never known a capitalism on the American pattern. It was as remote from it as it was from the Russian pattern. German industry was thoroughly organized and cartellized. Germany was the only country where under the law cartel agreements were enforceable in the courts like any other private contract. Germany long before Hitler was nationalized and socialized to a degree that even the Labour Government in Britain has not yet dared to propose.<sup>8</sup> Railroads, the telephone and telegraph, most power plants, local traction, gas and water works had been socialized by Reich, Laender or municipalities for many years. During the Weimar Republic the government went into the banking business by founding several institutions which quickly rose to the rank of the big old private banks. Prussia and other Laender had state banks, which did a thriving business not only with or for the governments but for a private clientele. During the banking crisis of 1931 all but one of the big private banks were taken over (they were only formally re-privatized by Hitler). The Reich and several states owned huge aluminum and nitrate plants, coal mines, and many other industries. Even before Hitler, government control over business was practically ubiquitous.

No greater contrast with the American pattern could be imagined within the capitalist world. But this contrast—of the utmost political significance—is usually overlooked by the framers of Allied German policy. Not that the German industrialists were Nazis, militarists, war mongers or the like made it so easy for Hitler to gain control over German industry and finance. Government control over industry and finance was already established in a tight and effective network, which made German business dependent on and subservient to any government determined

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<sup>8</sup> For details see Gustav Stolper, *German Economy 1870 to 1940*, New York, 1941, pp. 70 and 198.

to make use of its power. Hitler had only to press the button to make the organization tick. The organization and the button had been prepared for him by the Republic. The two roots of statist philosophy in Germany were ably analyzed by Oswald Spengler in his pamphlet *Preussentum und Socialismus* (Prussianism and Socialism). Prussian militarism and Marxist socialism met and merged in their demands for universal control of the economy. It would be an irony of history were the Allies to destroy the one in order to enthrone the other.

But the current dispute about socialization has another widely ignored aspect. The official American policy at this moment is to keep the decision on socialization in abeyance until the Germans themselves can decide upon it by democratic processes. However, democratic processes have not even begun to operate. The first condition of a working democracy is free access of the people to information and free, unfettered debate. Neither exists in Germany today, certainly not in the Russian zone, and, though without direct pressure, not much more in the Western zones. No one who has followed the debates in the so-called German parliaments or in other public fora can have failed to be struck by the utter unreality of it all. Conducted on a level of vaguest generalities, age-old, obsolete slogans of political resentments or moralistic sermons are repeated endlessly.

Some of the debaters seem vaguely worried that the government has too much power or is too dependent on bureaucracy. Then they come forward with wild proposals of how to socialize without government. Some want to make the trade unions the owners of shares (understandably enough, the trade union leaders who are, for some good and some bad reasons, the whitehaired boys of the Western military governments are not averse to such a scheme). Others want to make the Co-operatives, now very fashionable in Germany, co-owners of the socialized industries, but the Co-operatives show little eagerness for the deal. Still others advocate the setting up of autonomous foundations with elaborate schemes for the organization of the management, and so on.

One looks in vain for a discussion of the question of who will pay the deficits. If there are no private interests, naturally the government alone is left on which these autonomous bodies can fall back. But is it conceivable in a democracy that governments

will pay the deficits without asking for power over the bankrupt applicants? "Production for use instead of for profit" has always been advocated by people who take the profit for granted. Invariably they are without experience in practical business and have no idea how hard it is to make and maintain even moderate profits in a competitive world. In fact, throughout Europe post-war socialized industries outside the field of public utilities are operating in the red by any standards of honest accounting. That is why etatism and socialism always lead to the exclusion of the competitive world, to a policy of autarky. Is this what America stands for?

While the decision on socialization is postponed until such an indefinite date as a yet to be born German central government will be able to decide, both the British pro-socialist and the American anti-socialist military governments are proceeding with breaking up the giant concerns of steel, coal and chemistry. All goes under the simple flag of "de-cartellization," but a pretty mess of new practical problems is piling up. If the British are aware of the insoluble contradiction between their commitment to socialization, which would be tantamount to legally compulsory cartellization under public ownership, and their breaking up of the highly concentrated heavy industries in their zones, there is no record of it. What happened in fact was that the I.G. Farbenindustrie, the mammoth concern of the chemical industry, was declared dissolved under an early Allied Control Council Law. The lawyer who could clearly define the present legal status of the scattered properties of that defunct organization would be a prodigy. As far as possible, the individual plants of the I.G. Farben are now in the charge of trustees appointed by the military governments, and there the matter rests. Unless earmarked for demolition or dismantling, they operate or not, as the case may be, if machinery and material are available. If they have bank balances they may draw on them; if they run out of funds they borrow and the local banks or the local governments advance the money. No balance sheet or profit and loss account has been made up or published under the new dispensation.

Who the stockholders are or what their fate will be no one knows. The coal mines have been taken over by the North-Ger-

man Coal Control operated originally by the British. In November 1947 management was transferred to a German board under combined Anglo-American control in which the Americans are in charge of production and finance, and the British of all other matters. Robert Moses, in his report to the War Department made at the request of General Lucius D. Clay, wittily and correctly described the system as it worked until then as follows:

"The present coal control by endless conferences, at which facts as well as objectives and policies are argued by bored American and British officials, and partially translated to bewildered Germans, spells further delay and perhaps even a decrease or collapse in coal production.

"Today the former mine owners are absent, dead or lost in cartels. They include non-Germans residing in other countries. None of the living know whether their properties have been or will be expropriated or condemned, or what, if anything, they will ultimately get as a result of the exercise of eminent domain. The British have in no wise clarified this aspect of the problem, but on the contrary have issued carefully prepared statements regarding expropriation and nationalization which mean one thing to us and something else to the former owners, German political leaders, managers and miners, not to mention the Russians, who have already expropriated the mines in their zones.

"Nothing healthy can come out of such equivocation. The mine managers do not represent management as we use the word, although they are still presumably loyal to the absentee owners and continue to operate mines for them at a loss, and do not know where they themselves will end up, to whom they are responsible and whether as individuals they have any future. . . ."

The Moses Report might have added that these managers live in constant fear of denunciation under the denazification laws if they incur the displeasure of a trade union leader, as they must whenever they try to enforce discipline among their crews. How far this will change under the new setup which is clearly transitional again, remains to be seen. The basic question is still wide open.

By "lost in cartels" Mr. Moses probably refers to the fact that most coal mines in Germany are so-called captive mines, i.e., they either belong to or are tied up by stock control with steel, chemical or electrical concerns. Yet the steel industry operates under a

different authority, the North-German Iron and Steel Control (90 per cent of all Western German steel plants—outside the Saar—are in the British zone). This authority administers as trustee the entire property of the iron and steel industry sequestered by the Military Government, and supervises its reorganization. The reorganization, which is supposed to be completed early in 1948, will split the few huge steel concerns into twenty-five to thirty independent units. In this process it is possible to some extent to restore the original units. But in most cases the technical integration of the original parts of these concerns was so complete that the break-up must follow rather arbitrary lines.

The economic sense and purpose of this painful process are not discernible. It certainly will not make the operation of the German steel industry more economical, and it will not restore a freely competitive steel industry (which not even the United States with all its anti-trust laws has altogether achieved). In the conditions under which the German steel industry will operate in the foreseeable future it will remain subject to uniform policies with respect to output and sales. It will remain dependent on allocations of coal and coke, on directives for the production programs as far as reparations and other political commitments are concerned, subject to priorities of public needs such as housing and transport. It will remain under the centralized allocation of foreign exchange for the import of ore, metals and materials. The plants will remain connected by schemes for the utilization of their energy and heat (power stations, production and distribution of gas and steam from cokeries and furnaces). They will be coordinated under transportation plans because no railroad system in the Ruhr could function otherwise. And finally, they will probably centralize or coordinate their research, since twenty-five to thirty individual units will not have the means to do it all for themselves individually. In other words, in an attack of political folly—to prevent the regeneration of a future “war potential”—one of the most perfect industrial organizations in the world has been smashed, only to have its shattered parts pieced together again in a most imperfect manner.

As with coal and chemicals, the question of property remains reserved for the future. The twenty-five to thirty newly set up steel corporations have a nominal capital of 100,000 marks, the

ownership of which is again vested in the trustee. What the assets of these new companies are actually worth nobody knows.

The attack of the Allies on the traditional industrial organization of Germany has been waged on a much broader general front. In this attack too the United States has been the driving force. In February 1947, after long discussions, the De-Cartellization Law was finally promulgated in the American and British Zones. The British law is identical in all essentials with the American, except that it exempts from de-cartellization all industries destined for socialization. The Allies were committed to that under the Potsdam Agreement, point 12: "The German economy shall be decentralized for the purpose of eliminating the present excessive concentration of economic power as exemplified in particular by cartels, syndicates, trusts and other monopolistic arrangements." The law reads like a German version of the Sherman Anti-Trust Act. As such it is very plausible to Americans, utterly strange to the British, who have nothing of the sort in their homeland, and of course is thoroughly inapplicable to the sovietized system of compulsory industrial trusts the Russians have organized in their zone. The British acquiesced as to a kind of American hobby. The Germans took it with the resignation of a people that has more serious matters to worry about than the organization of a no longer existing or operating industry.

But given flexible administration, the De-Cartellization Law may still prove a blessing in the economic future of Germany. It may force a reconstructed German industry into a healthier pattern than the one it evolved in the generations before the war. In Europe concentration of economic power and cartellization were not a German specialty. They gradually pervaded all industrial countries. The British without legal action resisted the trend of the times longest, but they too yielded in 1931 with the introduction of their tariff. Then they caught up with the other countries, rapidly and thoroughly. By 1939 Britain had imitated the German example with a vengeance, and while it is eagerly breaking up the concentration of no longer existing industrial power in Germany, even the Socialist Government has done nothing yet about that concentration at home.

Cartellization in Germany started early. But the Americans in charge of anti-trust action in Germany seem to have acted under

the illusion that the Germans themselves had never recognized the problem or done anything about it. In fact, the Germans had a well-organized system of legal supervision of cartels, the administration of which was entrusted to highly competent special courts.<sup>9</sup> It is curious (and significant) that the new De-Cartellization Law omits any reference to established German legal ideas, institutions or procedures. It might have been, from both a practical and psychological viewpoint, preferable to let the Germans write their own de-cartellization law under directives from the Allies than to let young American lawyers, in whose minds German history is a blank, write it for them.

Nevertheless, with or without Potsdam, something drastic had to be done about the structure of German industry. Germany was far advanced on the road to an economic system where free competition on an open market would be replaced by a system of concentrated economic power positions from which hardly any important branch was exempt. This system proved a welcome and valuable vehicle for Hitler. Through it he could advance the process of *Gleichschaltung* rapidly. For the democratic elements in it, such as the election of the executives, the Nazis had merely to substitute the "leader principle," i.e., appointed heads to whom the members, now called "followers," owed unconditional obedience. Many accepted the new principles eagerly; those who did not were simply thrown out and lost their positions, if not their lives. The question whether controls of the means of production remained in private hands was quite irrelevant. The I.G. Farbenindustrie or the Vereinigte Stahlwerke were no more private in any sense than Soviet trusts. The executives of all industries were in form or in fact instruments of the Party; their dividends were restricted to a low figure (6 per cent, as a rule); their orders came from the government, their prices, wages and other costs were fixed by the government; even their methods of production were chosen with the approval of, and were even prescribed by, the government. In other words, from complete cartellization to complete socialization (à la Nazi) was but a short step, and that step was taken in short order.

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<sup>9</sup>For the details of the German cartel problems and its history, see my *German Economy 1870 to 1940*, pp. 51, 83, 88 and 209 ff.

But the Nazi regime went further. In the Hermann Goering Works and the so-called People's Car Plant the government embarked directly on huge industrial ventures which no private industrialist in his senses dared challenge. In other cases, for inscrutable reasons, the government chose joint private and public capitalization, such as the Braunkohlen-Benzin A.G. for the expansion of synthetic oil production in Saxony. After 1936 this whole organized planned economy was directed toward one goal, speedy rearmament. In any armament era big industry has an enormous advantage over the middle and small fellow, not because it operates more cheaply or efficiently, but because in many instances it is necessary for the military authorities to confine their confidential communications and orders to as few firms as possible. In Germany by 1936 began the heyday of the big industrialists who were unscrupulous enough to throw in their lot with their criminal government.

A radical reversal had everything to commend itself when Germany had to break with its past in all other respects. The De-Cartellization Law today and in the foreseeable future has only symbolic, not practical significance for Germany. To provide a legal framework for the working of free competition in an economy where a shoe string and a match are coveted valuables is for the present generation of Germans a bitter joke. To safeguard a people against cartels when every effort of individual enterprise is immediately drowned in an ocean of bureaucratic red tape appears as an innocent, inconsequential pastime.

It has only two potentially serious implications. One is the limitation of any industrial concern to 10,000 employees (a rather funny limit for a law drafted by Americans), beyond which the burden of proof is with the concern that it does not constitute an excessive concentration of power in its field. The second, that there is no provision corresponding to the American Webb Pomerene Act, exempting from the law cartel agreements for the purpose of exports. This may become serious since Germany on its eastern and south-eastern borders will be surrounded by state-controlled economies which as buyers can play one German firm against the others, and as sellers set their prices by monopolistic fiat. Some of the most competent officers of the American Military

Government have seen the issue clearly, but an appropriate provision has been omitted for purely political reasons.

However, in the next few years this issue will hardly assume great practical significance. By the time German industry has brought the volume and quality of production to a competitive level and liquidated the maze of bureaucratic regulations in which it is now lost, a German government will be in office that will be free to modify even laws embodying such sacred American tabus as the De-Cartellization Law. By that time a much greater economic issue will have arisen: whether Germany will be a free-trade country or be permitted or forced to relapse into protectionism. By that time the more crucial problem of constitutional freedom for the future Germany may be decided. Into this final problem we now delve.

## X.

### *CONSTITUTIONAL PROBLEMS*

A NEWS ITEM of about two lines, datelined Moscow, announced the demise of Prussia. The Council of Foreign Ministers on March 10, 1947, approved the law "on the liquidation of the Prussian State," passed by the Control Council in Germany. The item went almost unnoticed through the non-German world and caused hardly a ripple of interest in Germany itself. The lack of interest was certainly a symptom of apathy in a people whose days and nights are absorbed by the effort to survive. But the indifference to what should have been felt as a historical event of the first magnitude has a much greater significance. It proved that the notion held by the Allies about the nature and role of Prussia in German history was just another myth. Yet this myth colors even today the American and British approach to the problem of Germany's future and position within Europe. What the Moscow Conference did was to inter a corpse without the honors of a solemn, dignified state funeral. There were no pall bearers and no obituaries.

Prussia died not at the hands of the Foreign Ministers; Prussia fell in the war and received its coup de grace when the lands east of the Oder and Neisse were ceded to Russia and Poland. The Mark Brandenburg, Pomerania, East and West Prussia, and Silesia—this was the territory on which, from the Great Elector to Frederick II, the military and bureaucratic tradition of what the world learned to call specifically Prussia was built. When the German monarchs disappeared from the scene in 1918, the Kings of Prussia ruled over a much larger territory, inherited by the Prussian Free State within the German Republic. The Prussia west of the Elbe was relatively newly acquired land of a very different character, history and tradition. It included Hannover, incorporated into Prussia as late as 1866 after having lived until 1837 under the British Crown; it included the Province of Saxony, the greater part of which did not accrue before 1815, and

above all it included Rhineland-Westfalia, awarded to Prussia by the Congress of Vienna, which extended the sway of the Hohenzollerns and their governmental system to Western Germany half a century before Prussia's position in Western Germany was consolidated.

In 1866 Kurhessen and Hessen-Nassau and the Free City of Frankfurt on Main were incorporated in the Prussian state, forming the southern bridge that connected Prussia proper with the Rhineland. The Rhineland was not conquered by the Prussians. At the Congress of Vienna the Hohenzollerns rather coveted the Kingdom of Saxony which seemed to round out their Brandenburg-Silesian domain much better. It was the Allies—particularly England—who insisted on expanding Prussia along the banks of the Rhine because they were anxious to erect a dependable barrier against the imperialistic, militaristic expansionism of France. It is a curious pastime indeed to compare historical facts with historical legends. A British Foreign Secretary who triumphantly announces to the House of Commons the end of Prussia betrays not a trace of recollection that the day of Waterloo could not have been won without the Prussian Army. But Lord Castlereagh in 1815 knew that better and the Londoners of Thackeray's day would not have dreamed of questioning it.

The Prussia of militarist tradition, under a social order strongly interspersed with feudalistic elements, is physically extinct. From most of its land the German population has been expelled, and what is left within Germany is swamped with refugees. The Junker class, or what little of it survived the war, has been exterminated, their lands expropriated and divided into tiny plots. A few scattered individuals who succeeded in escaping to the Western zones are working as farm hands.

This Prussia was not always an object of moral condemnation. The Great Elector with whom Prussian history really starts—a short history as European histories go—inherited a frightfully devastated country after the Thirty Years War, a country with poor soil, impenetrable forests and swamps and a small, half-barbarian population. It was the great historical contribution of the founders of Prussian power to have saved eastern Germany as an outpost of Protestant Christian civilization, to have preserved the rule of law, order and property from the furies of the

Thirty Years War. These early Prussian rulers were aggressors and conquerors but no more so than the other European monarchs of their time. Frederick II, who attacked the Austrian Empress Maria Theresia and tore most of Silesia from the Habsburgs, was not a target for moral indictment in his time. He was a wooed potential and actual ally. An ally of the French in the First Silesian War and of the British during the Seven Years War, he was loathed by the dissolute Empress Elizabeth of Russia and admired by her successors, Peter III and Catherine the Great.

For one hundred years thereafter Prussia was neither aggressive nor expansionist. In the Napoleonic era it played second fiddle. Conquered by Napoleon, it was reduced to a third-rate power, demilitarized, deprived of all its Western possessions, confined to a small Eastern stretch of land. When Napoleon met with disaster in Russia, the Prussian king had to be forced by his own subjects to join the Russians and with them the European coalition against the despotic French aggressor. Prussia had no desire for a national mission. Even in 1848 it still declined the leadership in a unified Germany. Not until the 1860's did Prussia take the lead in the unification of the German people, reluctantly, because it looked with some suspicion on the revolutionary character of the rising nationalistic tide. But the reluctance was finally overcome by the spirit of the age, an age in which national unity was regarded as a supreme political ideal. The Prussia of Bismarck was for Germany what the Savoy of Cavour was for Italy. Their historical mission was to sweep away the purely accidental hereditary, dynastic obstacles to national unity. Of this more in the next chapter.

Where the democratic revolution of 1848 had failed, Prussian conservatism succeeded. The constitution of the Reich, proclaimed in 1871, was founded on a compromise between the past and the future, between respect for dynastic rights and the needs for a modern industrial society. The compromise never worked satisfactorily. When the dynastic powers were overthrown in 1918, the preponderance of Prussia within the Reich still posed a serious problem to the framers of the Weimar Constitution. But it was not the Junkers and the army officers, not these historical classes largely deprived of political power, but the Social Democrats then responsible for the government who insisted on pre-

serving Prussia as a unit within the Reich. Indeed, between 1918 and 1932 Prussia of all the German Laender remained the bulwark of democracy, republicanism and social stability. It was Prussia that even under nationalistic or conservative Reich governments kept the so-called Weimar Coalition between socialists, liberals and Catholic centrists in its government. Hitler and his cohorts had to score their victories in non-Prussian lands, above all in Bavaria. Communist propoganda was successful in Saxony, in Thuringia. Prussia's majority remained constantly faithful to the parties of civil liberty and social democracy. It was Munich that conquered Berlin with the Austrian Hitler; it was not in Prussian Berlin that the wave of barbarism and despotism that engulfed Germany had its origin or main source of strength.

This very sketchy historical survey is essential if we want to evaluate the approach of the Allies to the problem of the future political configuration of Germany. The victors have become involved in a struggle that seems to grow more pointless by the month and to degenerate into a competitive sham fight for the German soul. In Potsdam it seemed to be agreed that within the truncated territory there should some day again be a German Reich. But the French were not at Potsdam, and French policy is even now reluctant to accept the restoration of a Reich inhabited by over 65 million people when the French number only 40 million. The American position was that the future Reich should be decentralized because a decentralized Reich would be much less a menace than a centralized one. The devil, so it was thought, was always the government in Berlin which imposed its "Prussian" ideas on the more pacifist and liberal provinces. The Berlin government was the symbol of an aggressive spirit; the South and the West were merely its helpless victims. That Hitler was an Austrian, Goering and Himmler Bavarians, Hess an Egyptian, Goebbels, Ley and Frick Rhinelanders, Rosenberg a Russo-German from the Baltic, and so on; in short, that not a single member of the supreme leadership of the Nazi party, the *Reichsleitung*, was Prussian escaped the attention even of most students of recent German history.<sup>1</sup> So deeply was the Prussian legend

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<sup>1</sup> As far as I can see, Trevor Roper in his *Last Days of Hitler* is the only author aware of this significant fact.

rooted in the propaganda versions of the German past. It was the Austrian Hitler and the non-Prussian, mostly Bavarian Nazis who for the first time in history created a German *Einheitsstaat* (centralized state), concentrating all instruments of power and policy in the hands of one totalitarian, unlimited government.

With the breakdown of the National Socialist regime it was reasonable to revert to the traditional elements of German history. But the dilemma was how to combine a politically powerless center with an economically healthy and satisfied body. That neat distinction between political impotence and economic vigor sounded well as a theoretical formula, but it was rather difficult to translate into reality and government practice. It would certainly not have worked if Potsdam had ever been carried out. But Potsdam was a dead letter before the signatures of the Big Three were dry. The fight between East and West has been on ever since. The permanent division between East and West is a dreaded, rapidly approaching necessity. In the struggle between East and West the debate over constitutional problems of the future has become one of the most potent instruments of competitive propaganda for German sympathies and loyalties. At the same time, the economic exigencies force decisions prejudicial to the future political order and in growing contrast to the original philosophies of the Allies.

At opposite poles of the debate are Soviet Russia and France. Late in summer 1946 the Russian sponsored and Russian dominated SED (*Socialistische Einheitspartei Deutschlands*—Socialist Unity Party) issued a complete draft of a German constitution (without arousing much public interest or discussion). At that very time, when the first political elections in the French zone were being prepared, at the opening of public meetings the speakers were handed a strict instruction from the occupation authorities to refrain from mentioning the future constitution of a Reich!

The accepted notion of the Allied victors was to reconstitute Germany in its historical components before the Bismarckian Reich was founded. But these components could not longer be found. What historical units still existed, with the sole exception of Bavaria, had been smashed for reasons of sheer military expediency to divide the zones of occupation among the Allies.

It was not only Prussia that was cut up into several pieces that had little to do with historical tradition. Wuerttemberg was cut in two, Baden was cut in two, and each of these newly created Laender was ordered to constitute itself an "independent" unit. The absurdity that, say, Stuttgart and Tuebingen, or Karlsruhe and Freiburg had suddenly to belong to different "Laender" did not prevent the politicians from writing in dead earnest, as ordered, constitutions with all paraphernalia of a claim to eternity. This has nothing to do with historical tradition or local patriotism. To tell a man in Stuttgart that from a certain day he owes loyalty to a different government than a man in Tuebingen, when both by descent and sentiment are simply Wuerttembergers and Germans, is worse than naïve.

The Germans themselves have no clear idea about their own ideals for a future German constitution. The time for that has not come, but the danger is that here as in the economic field present mistakes may impede the future growth of sound ideas. The Germans realize that they are at the mercy of the conquerors. This may facilitate the task of occupation, but it corrupts the whole political atmosphere. It makes the rank and file politically indifferent and cynical and renders ambitious local politicians willing tools of the special philosophies and interests of the occupying powers, with the by-effect of keeping some of the best and proudest elements of the people—of which there are not too many—out of public life. To build a future central government of delegates from the Laender (prime ministers or others) would create a body about as homogeneous and efficient as a four-power conference of foreign ministers or their deputies.

Meanwhile, the occupying powers exhort the Germans to make use of their democratic liberties and responsibilities. (In this respect also the French show remarkable restraint.) But the Germans were quicker than most Americans to notice that "democracy" means different things in different languages and different zones. Foreign occupation and democracy are mutually exclusive. The responsible men on all sides know that well enough, but they try to overcome the immense difficulties of every day in continuous cooperation and honest compromise. Quite a few good men are consciously sacrificing their political future in that

thankless, glamorless job. But the effect of democratic make-believe on the people is demoralizing.

At the beginning they took elections very seriously. To be permitted for the first time in almost one and a half decades to have an election campaign and to cast, free of fear and hindrance, a ballot was an exciting experience. The number of voters who went to the polls was remarkably great. But disappointment came fast. It did not take them long to realize how limited were the powers of these constitutionally elected representative bodies. The disappointment was intensified by the synthetic character of the parties that emerged from the political desert of the "monolithic" single-party dictatorship. The very word and idea of Party (except one) has been discredited to the present generation by all means of propaganda. The prestige of the new parties was not enhanced by the fact that they had to be "licensed" by the occupying powers. This may have been inevitable but it was another leaf from the book of the totalitarians. (By the way, this system of licensing parties is not confined to Germany. It is common in all Eastern Europe, including such a well-advertised "democracy" as Czechoslovakia where, for instance, the largest pre-Hitler party, the Agrarians, is not permitted to organize and to offer candidates for election.) Parties that have to apply to the victors for the stamp of approval have naturally a limited appeal to a people in whose ears the ranting noise of the Nazi press and the Nazi orators still echoes.

There were a few more handicaps to a revival of democratic public life, each big enough to prevent a German democracy from taking root. Of all the occupying powers the Americans were in the greatest hurry to hold elections, because to them elections and democracy were all but synonymous. Once the Americans had set the pace, the others, however reluctantly, had to follow. But that hurried improvisation of parties, without which no electoral contest was feasible, took place under circumstances where communication even over small areas was almost impossible. There were no trains, no automobiles, no telephones to bring candidates, speakers, party organizers and voters together. To hold a party meeting, to exchange information and opinions even on a county level was a major enterprise, more often than not unsuccessful. In consequence heterogeneous ele-

ments, largely by local accident, found themselves in the same party camp. There was little time or opportunity for debate on problems or platforms, and this among people that for a decade and a half had been deprived of the minimum political education. To find leaders and candidates of more than strictly local reputation and stature all parties had to turn to men who had been conspicuous in public life before 1933. There was no more than a handful whose record of behavior during the years of Nazi hell had been clean and decent enough to permit them to enter the political stage again, and nearly all were over sixty years old.

They had one thing in common, the dreadful suffering and humiliation during the best years of their lives. This common experience mitigated differences of political ideas and ideals. Men like Dr. Schumacher, the leader of the German Social Democrats, and Dr. Figl, the Christian Social Austrian Chancellor, are personal friends because they spent years in the same concentration camp. But that "anti-fascist" tie wore thin as time went on. With the past receding into the background under the urgent pressure of the future, to have been in a concentration camp was not enough qualification to cover up the emptiness of political ideas or the lacking knowledge of facts. The leaders had little to offer their presumptive followers except the repetition of slogans and phrases that were shallow and unattractive even before 1933 and had been utterly discredited by the triumphant Nazis. The new German democracy was born under an unlucky star.

Decentralization and democratization, which American policy urged with more zest than wisdom, had several unfortunate practical effects. By the very nature of the democratic process these newly elected ministries and parliaments and their administrative organizations quickly hardened into vested local interests. At the same time the painful necessities of economic life—if life it could be called—pressed for larger units. Each particular administrative or political border was a cumulative obstacle to the free flow of the economic bloodstream and even to the administrative execution of the policies ordered by the Allies themselves.

The American constitutional policy toward Germany was and still is designed by jurists, not by economists. Naturally enough,

they wanted to mold the future Germany after the image nearest their hearts and minds, that of the United States of America. Federalism and decentralization had been no handicap to the miraculous growth of this country. They overlooked the fact that federalism and decentralization are one thing in a vast, rich, free trade area and another in a small, pauperized and overpopulated country with a fettered economy, in a country where one cannot buy a loaf of bread or a shoestring without getting messed up with an infinite number of bureaucratic forms and regulations. The practical economic necessities, not German or Allied resistance, set a definite and rather narrow limit to the American policy of German decentralization.

So far we have tried to bridge this contradiction by more and more compromises. Within a year after Potsdam the economic merger of the American and British zones was agreed upon. This Bevin-Byrnes agreement went into effect on January 1, 1947. It was not meant to prejudice either the Potsdam decision, calling for an economically unified Reich, or the American idea of political and administrative decentralization. But it was soon evident that the merger of the Anglo-American zones would not work unless implemented by corresponding political and administrative bizonal agencies. The planners in Minden found that their most beautiful plans remained just so much scrap paper if the local authorities failed to cooperate whole-heartedly. But the Minister President of Bavaria had been encouraged to think in terms of Bavarian needs and interests, not national, and he was not eager to send food to Westfalia. Conversely, the Minister President of Westfalia, who may have been annoyed by particularistic or "reactionary" shenanigans of his Bavarian colleague, was not overanxious to see Westfalian coal being shipped from Essen to Munich or Augsburg. And the American authorities who had told the Germans that they must not think and speak in terms of a German Reich but just as citizens of their several federal (not yet federated) states complained, and justly, about the lack of German patriotism on the part of the recalcitrant local agencies.

Thus the bizonal agreement quickly turned out a failure. The next practical step proclaimed early in July 1947 was to reorganize the bizonal economic agencies. A characteristic Anglo-Saxon docu-

ment, this agreement compromises with the past. The organization is strictly provisional, "pending the creation of governmental and administrative institutions for Germany as a whole . . . for the purpose only of a more complete economic integration." This June agreement created:

(1) an Economic Council selected by the *Landtage* (diets) of the various Laender with one member for each 750,000 inhabitants and in proportion to the strength of the political parties. This is clearly the nucleus of an economic parliament elected by indirect vote;

(2) an Executive Committee of eight men, one from each land of the two zones, appointed by the Laender governments. This is clearly the nucleus for a bizonal central government;

(3) under the immediate supervision of the Executive Committee are five Executive Directors in positions corresponding to permanent State Secretaryships who will direct their respective departments (finance, food, industry and trade, transportation, and postal service).

How this machinery will work it is too early to say. The chances are that if it works at all it will quickly reduce the Laender governments and Laender parliaments to still greater insignificance, although the agreement goes out of its way to secure for the Laender authorities the administrative execution of the decisions made by the bizonal agencies. In all probability, both the bizonal Council and the military authorities which, in the form of a bipartite Board and a bipartite Control Office and bipartite "panels" (for each corresponding German department), reserve the right of closest supervision and veto of all measures taken by the Germans, will find it convenient to circumvent or go over the heads of the Laender authorities if they want speedy and effective action. But the whole machinery is so complicated that only a miracle can make it work.

Several sources of serious friction are already in evidence. Frictions between the bizonal agencies and the Laender arose quickly. The lack of direct executive power of the bizonal authorities over the Laender soon led to all sorts of obstruction. But these frictions may be minor compared with those within the bizonal organization: First, frictions between the Americans and the British, who have long been at cross-purposes on crucial

and trifling issues. There is no reason to hope that this discord will yield to a permanent love feast only because it is in a new framework. How under these circumstances the Board, the Control Office and the several panels can discharge their supervision over the corresponding German organs is hard to fathom. Then there are the frictions between the German parties composing the Council, the Executive Committee and the Executive Directors. The Council has a majority of Christian Democrats and a minority of Socialists and others, but the Executive Committee consists of six Socialists and two Christian Democrats. When the Christian Democrat majority in the Council refused to accord to the Socialists the post of the Executive Director for economics, the Socialists refused to appoint any member of the Executive Directorate; consequently, all five men are appointees of the Christian Democrats. In other words, from the very beginning the Executive Council and the Directors will be in politically opposite camps. And as party politics are rampant (as they must be in a country where the spoken word is devoid of effective responsibility) and the Germans have never been trained in party government, this bodes ill for fruitful cooperation. Probably the Executive Directors, being the experts and the immediate heads of the bureaucratic machinery, will run the show and the Executive Council may deteriorate into a debating society whose non-committal oratory the occupying authorities will not be able to keep within the confines of their assigned economic field.

How long this experiment will last depends upon the major decision whether and when the division of Germany between Russia and the Western powers is accepted in form as well as in fact. But the discussion among the Allies about the future constitution of Germany has long since degenerated into tedious shadow boxing. The degree of centralization or decentralization, the future relations between the government of the Reich and the governments of its constituent parts is no longer what is really at stake—nothing would be easier to compromise. The real stake is whether Soviet Russia shall have power over all Germany. The United States and Britain are determined to keep Russia out of the West. (This clear antagonism was for a time complicated by French demands for the internationalization of the

Ruhr, analyzed in another context.) The shadow-boxing match had its climax in the long drawn out, unenjoyable show at the Moscow session of the Council of Foreign Ministers, which went on for more than six weeks in March and April 1947.

Mr. Molotov suddenly discovered his enthusiasm for the Weimar Constitution of 1919; from it should be deleted only some reputedly undemocratic features, of which he mentioned merely one—the position of the Reichspräsident whose power should be reduced to that of a monarch in a constitutional monarchy. But the hitch was revealed when Mr. Molotov insisted on a German Advisory Council to which the drafting of the constitutional changes was to be entrusted; this Council, he insisted, must be composed largely of all the major Communist-front organizations the Russians have built up in their zone on a vast scale, which go under the collective name of “democratic anti-fascist organizations.” The Advisory Council should be composed of the trade unions (on which the communists have successfully concentrated their efforts throughout Europe), the “Society of Anti-Fascist German Women,” the “Peasant Mutual Aid Organization,” and the Kulturbund, all notorious Communist fronts. Mr. Molotov was emphatic that only such an Advisory Council would “enjoy prestige and would reflect a true expression of the German democratic circles.” Mr. Marshall and Mr. Bevin were not impressed.

Meanwhile, the political order in each of the four zones adjusts itself with growing alacrity to the constitutional pattern of each occupying power. The Eastern zone is sovietized, in fact if not in name. The British and the French, being citizens of centralized states (*la République une et indivisible*), retain a maximum of administrative power with the Military Government, with the effect that the British Military Government numbered four times the employees of the American, and the French, in proportion to the German population of their zone, twice as many again as the British. The widening differences between the zones of Germany have little more to do with the principle of federalism or with the historical tradition of Germany. These differences are due to the different political character and traditions of the four occupying powers.

The gulf is, of course, deepest and broadest between East and West. Germans on the two sides of the iron curtain are hardly

speaking the same political language. Their mutual estrangement has reached an amazing degree. The Easterners cannot help revealing traces of having lived in straight continuity since Hitler's day under totalitarian regimes, and the Westerners cannot help showing the effects of the free, more civilized atmosphere in which they are favored to live. The Americans and British in turn impress their own characteristics upon "their" Germans. The British run their zone with their own officials to a detail that reduces German self-government to little more than a mere formality. A document such as Ordinance 57 of December 1, 1946, on the "powers of Laender in the British Zone" has no parallel under the American occupation. It virtually defines the power of the Laender as non-existent.<sup>2</sup> As the struggle over the Ruhr and the failure of the British administration to revive coal mining and industrial production proves, the economic merger of the Anglo-American zones, if it succeeds at all, will be a much tougher proposition than its exponents ever thought.

But the vital issue for a more remote future, the constitution of a really free and independent democratic Germany within whatever confines, is unduly obscured by the prejudices of the victors. Once the Allies have decided to restore a German Reich government, the constitutional problem will not be nearly as difficult as it seems now. On this decision the Germans themselves have hardly any influence. Whether and when the Western Powers recall their occupying armies will be determined by the readiness of the Russians to evacuate their zone. But as long as Germany is occupied, it is pointless to speak of a free democratic German government. As long as Germany is occupied, no German constitution can be devised that will survive the occupation. It will be—rightly or wrongly—discredited from the day of its

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<sup>2</sup> It enumerates in four long schedules "subjects excluded from the competence of Laender legislatures"; "subjects in respect of which emergency powers are exercised by Military Government"; "subjects temporarily excluded from the competence of the Laender legislatures"; and "subjects with respect to which only the implementation of fundamental principles laid down by Military Government is incumbent on Land legislature." When one goes through these schedules one wonders what on earth the Laender legislatures are supposed to do. The schedules cover nearly the entire orbit of conceivable legislation, including (schedule B, point 9) timber felling and wood cutting.

birth. Once the occupation ceases—that day is not in sight—the Germans will draft their own constitution according to their own ideals, not those of the victors, and it is inconceivable that the democratic conscience of the Western world will permit their governments to interfere seriously with such a German enterprise—as long as it is in accordance with specific qualifications to be stipulated in a future German peace treaty. The most important and the only one of decisive relevance for the Allies will be that there shall be no armed organization on land, sea or in the air. This condition will be enforced by a permanent control organization and guaranteed by a long-term international treaty such as is proposed by the American government.<sup>3</sup>

Beyond that the Allies need not and should not go. Above all, it would be a grave mistake to deny to the future Reich, by outside pressure, the so-called "competence of competence," i.e., the legal right of constitutional change in matters affecting the Laender. The Reich of Bismarck conformed by and large to the American concept of federalism. All the powers not specially delegated by the constitution to the Reich were powers of the federal states. And the powers delegated to the Reich were so narrowly defined that they excluded even army and taxation. There was a Prussian, Bavarian, Saxonian and Wuerttembergian army, no Reich army until the days of the Republic. There was no Reich income tax until the Erzberger reform of 1920. Apart from customs and excises the Reich lived on contributions from the Laender. There was no Reich police until Hitler—the police fell under the jurisdiction of the Laender. Yet, certainly, if constitutional devices were to keep the Reich impotent, the Bismarck era amply demonstrates their futility. If a nation is united by a people determined to achieve certain national aims, that nation can achieve them under any constitution. Constitutional obstacles imposed from outside to prevent unity of national will have the opposite effect. They only make it suicidal for any man in public life to invoke the clauses if he dissents from the national policy.

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<sup>3</sup>In fact, the new American directive to the Military Government has declared this to be the American policy. "Your Government believes that, within the principles stated above, the ultimate constitutional form of German political life should be left to the decision of the German people made freely in accordance with democratic processes." (Art. IV, par. 6c).

A future Hitler, if he comes, will probably again originate in some region with separatist tendencies. Hitler himself conquered from Bavaria the Republican stronghold of Prussia to subjugate both to a degree of unification and centralization unprecedented in German history. Overnight the police was concentrated in the hands of the dictator, the Laender constitutions as thoroughly ignored as the constitution of the Reich.

Since Prussia has disappeared and its remnants are reasonably divided into several administrative regions, a federalist constitution would be entirely in accordance with German history and tradition. It would be proper to leave the police, education and the administration of justice to the authority of the Laender. Foreign policy will necessarily remain national, and economic and financial policy cannot in our time be too decentralized. This was acknowledged even by the dismal document of Potsdam. But the issue of the future constitution of a reconstructed German Reich seems at the moment so remote that its mere debate can only hinder, not help the mastery of the problems of the present.

## XI.

### *HISTORY AS BACKGROUND*

THE COMPLEXITY of German realities grows in inverse ratio to the distance from which we behold them. The trite question, what to do about Germany, implies optimistically that the victors in concert or the United States as the most powerful of them, are free to act as they please. They are not. The French saying that you can do everything with bayonets except sit on them is not quite true. You can sit on them for a considerable time, as modern dictatorships prove. But it is uncomfortable, costly and dangerous. Sooner or later the victors will wish to change their position. The Americans want to go home because they don't like occupation; the British have to go home because they can't afford occupation; and even the Russians have probably discovered that occupation is risky because it is mental and moral poison to their troops. Suddenly we discover the limitations of what can be done by means of war and force. One day the war ends, and behind the artificial screen of an army of occupation the perennial forces and problems of history again show their ugly or pleasing faces, however disfigured by the cruelties of war. History has a disagreeable way of asserting itself just when we think we have vanquished it. All European nations, great and small, carry their history with them—it is the one imperishable heritage war cannot destroy.

History is just the one most powerful factor we have disregarded or willfully distorted in our German policy. Whatever freedom of action we may have possessed we forfeited at Yalta and Potsdam. In an attack of unexampled recklessness our statesmen played God omniscient and omnipotent only to be quickly shown up as ignorant and impotent mortals. If the measure of greatness in statesmen is humility before history then Bismarck proved himself a giant when he said: "All that the statesman can do is to wait and hearken till he hears God's tread resound

through the events, and then jump forth and take hold of the mantle's seam." Of our contemporaries probably Winston Churchill alone has this sense of awe before history. American statesmen are disturbingly free from it because they do not know history, except perhaps that of their own country. Their minds are, as it were, one-dimensional, not three-dimensional. For them history starts the day they are assigned to the job. Their background is plastered with newspaper clichés, not experience replete with flesh-and-blood knowledge of the active forces and continuity of history in space and time into which their actions have to be fitted. The three-dimensional mind is shaped by the task of the present, the life of the past and the vision of the future. The creative statesman of great caliber is not content to devise a formula and fall for the mistake that by this device he has solved his problem. This is exactly what distinguishes the statesman from the politician.

Each nation acting on the stage of history has its own definite *Gestalt*, and there is nothing to be gained by distorting it for our own eyes. Unless we grasp the characteristics of these various *Gestalten* we shall not avoid grave blunders in our own actions. We return to our opening chapter. What war propaganda even in the freest country may dare to present to its public was most alarmingly exemplified in the film version of Joseph E. Davies' "Mission to Moscow." The Russian *Gestalt* is now radically—perhaps too radically—being corrected. The equally grotesque distortions of German history still linger on as a potent source of more blunders.

The theory that practically all wars of the nineteenth and twentieth centuries were German aggressions is of course beyond the pale of serious discussion. But in the decisive years of American preparation for peace this was the unqualified American view of German history. We treated Germany as a show-piece for an experimental laboratory, but the Germany we subjected to the experiment never existed. Our presumed object had little to do with German realities. And we treated Germany as an isolated problem; it will remain intractable unless and until we treat it as a European and world problem. Now that the direction of our policy is to be corrected, we discover with a shock that we are no

longer free to choose. In the words of Goethe's *Faust*, "*Das Erste steht uns frei, beim Zweiten sind wir Knechte.*"<sup>1</sup>

To recover a correct view of German history after the removal of propaganda rubbish we must follow two lines: Integrate German history into the history of Europe, and forego judging individual actions of German policy by standards other than those germane to the period of those actions. Prussia and Germany—until Hitler—were never out of tune with the spirit and the ethics of the times.

The theory of the Prusso-German aggressor goes back to Frederick II, two hundred years ago. The figure of Frederick the Great has not ceased to fascinate the historians of all nations, most of all the British. In Britain Frederick had his most passionate admirers and his most violent detractors. Between Carlyle and Macaulay it is indeed not easy to form a detached judgment. J. P. Gooch in his recent study<sup>2</sup> "ranks the rape of Silesia with the partition of Poland among the sensational crimes of modern history." But the same Gooch admits "that moral considerations meant little to any 18th century ruler (except Maria Theresia)." And he notes emphatically that "the 18th century was an epoch of dynastic wars, and every German prince played unashamedly for his own hand. The King of Prussia was merely the strongest and the most audacious, the gambler who achieved the most striking success." Not only all German princes, but all princes of Europe were in the same game. The indignation expressed at some courts in Frederick's time was insincere. Frederick was a contemporary not only of Maria Theresia; he was a contemporary also of Louis XV and Madame Pompadour. His sensational crime did not disqualify him for an alliance with France in the 1740's and with England in the Seven Years War from 1756 to 1763. It was this war that netted Canada to the British Crown, "won," in Pitt's famous phrase, "on the plains of Germany." And as for the other sensational crime, the partition of Poland, it is well to remember that only the first indecisive partition was suggested by Frederick to avert a war between Russia and Austria

<sup>1</sup>"The first we're free to choose, the second finds us slaves."

<sup>2</sup>*Frederick the Great, the Ruler, the Writer, the Man* (London 1947).

over the Balkans, while the second and third partitions took place after Frederick's death on the initiative of Russia.

It is well to remember too that Frederick was not only the representative of the morality of his time but also the incarnation of the cultural aspirations of that age of Enlightenment. To understand his abiding effect on the German historical character we have also to keep in mind that this unique personality was a great warrior as well as a philosopher, poet, musician, architect, and in an era of despotism and debauchery in France the champion of austerity, government by law and service to the nation. To understand Prussian history and all that evolved from there on later generations when Prussia was finally merged into Germany, we must appreciate the fact that Prussia was not the creation of its people, but of its rulers. The etatism dominant in Germany's political and social philosophy and culminating in the totalitarianism of Hitler can be traced to that root. The Prussia over which Frederick ruled and which he expanded into a major European power was a small patch of sandy soil overgrown with pine forests, inhabited by two million semi-barbaric, mostly illiterate peasants. Yet the Silesia raped from the Habsburg dynasty grew rapidly into one of the wealthiest provinces of Europe, while the Silesian counties that remained with Austria (they now form a part of Czechoslovakia), equally richly endowed by nature, fell strikingly behind. And what Prussian rule did to the raped provinces of Poland, as compared with the much larger part of Poland under Czarist and Austrian rule, can be gleaned by one glance at a railroad map of Europe. From national oppression the Austrian province of Galicia alone remained free. The Habsburgs, drawing the Polish aristocracy into their privileged service, rewarded the loyalty of the Poles with the liberty of oppressing their Ukrainian minority (in the part of Galicia "raped" by Soviet Russia under the Hitler-Stalin Pact).

With Frederick's death, Prussia's military power, deprived of its inspiring genius, without a natural basis, decayed quickly. Prussia declined once more to the minor position commensurate with its innate strength. But in that position, during the troublesome decades of the French Revolution and the era of Napoleon I, it played its part as one of the "United Nations,"

fighting against the totalitarian aggressor who at that time happened to be the France of Napoleon I.<sup>3</sup>

In the hundred years between the Congress of Vienna and the First World War Prussia-Germany was involved in three short victorious wars: 1864 against Denmark, 1866 against Austria, and 1870 against France. All three wars were wars of national unification. The war against Denmark was a joint action of Austria and Prussia, started as a "federal execution" voted by and on behalf of the German Bundestag against the King of Denmark as a member of the German Bund to enforce a London Protocol of 1852 which Denmark had violated by incorporating Schleswig.<sup>4</sup> Certainly, to the English cabinet, which had a strong traditional sympathy with Denmark, the issue did not appear as simply another typical act of Prussian aggression. The war ended with a condominium of Austria and Prussia over the two disputed provinces.

The war of 1866 against Austria had one clear, limited goal: the exclusion of Austria from Germany which was rapidly driving toward the ideal of national unification. The struggle between Austria and Prussia dominated the entire Central European history from 1740 to 1866. It was a struggle for the hegemonial position among the German states. Rarely is it remembered that both Austria and Prussia originated in exposed marches, the Ostmark and the Mark Brandenburg, both destined to be protective dams against the recurrent floods of Asiatic hordes, the Huns and the Avars and the Magyars, the Mongols and the Turks. By abandoning its historically German character, merging Slav and Magyar and Italian territories by wars of conquest and dynastic marriage contracts, Austria had expanded much earlier into a Great Power. Prussia, apart from its small slice of Poland, never sought any but German land. When by the middle of the nineteenth century the ideal of national integration had become

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<sup>3</sup> Which did not prevent some "historians" in the benighted years of war propaganda from including even the Napoleonic wars in Germany's "black record" of aggression.

<sup>4</sup> How complicated the legal issues of this Danish war appeared to contemporaries was pungently expressed by Lord Palmerston: "Only three men had ever understood the Schleswig-Holstein question, one was dead, one had gone crazy, and the third, himself, had forgotten everything again."

dominant in the world the open conflict between the two competing powers was inevitable. In the ideological atmosphere of the period the huge preponderance of its non-German populations disqualified Austria for leadership in the process of German unification. The war was over in four weeks and Bismarck insisted, against the pressure of king and army, that Austria should not lose one square foot of land or pay one penny of indemnity. The North German Federation was formed. And Italy—which, despite a double defeat by the Austrian Army, recovered Venetia, the last Austrian-held province, as the prize for its alliance with victorious Prussia—was also almost completely unified.

The war of 1870 against the France of Napoleon III was, of course, the most important of all. Its historical background is wide, deep and variegated. War was declared by France, not by Prussia. To dismiss this feature as a technical, irrelevant detail is, of course, unpardonable. No doubt, Bismarck wanted the war, but so did Napoleon III and his entourage. To depict Napoleon III, as has become customary nowadays, as an innocent victim of Prussian aggression is the supreme travesty of history. That peace-loving democrat, Napoleon, only two years after having made himself emperor, had attacked Russia in the Crimean War (1854). (Bismarck despite strong pressure kept Prussia out of it, thereby earning the gratitude of the Czar which later paid good dividends.) In 1859 he had fought against Austria in Italy supporting Cavour's Piedmont in its endeavor to unify Italy by the means and for the ends Bismarck's Prussia pursued in Germany. He incited and supported Poland in its rebellion of 1863 against Czarist Russia and soon thereafter occupied Mexico in clear defiance of the Monroe Doctrine, exploiting America's temporary weakness during the Civil War; to end his career of expansion and aggression in 1868 by supporting a deal concerning the French purchase of Belgian railroads which the Belgian Government, alarmed at the encroachment on its sovereignty, had to defeat by special legislation. This then was the innocent victim of "Prussian aggression." How passionately the French "war guilt" was condemned by contemporaries was emphatically expressed in the famous editorial of the *London Times* (of July 16, 1870), then altogether representative of English public opinion:

"The greatest national crime that we have had the pain of recording in these columns since the days of the First French Empire has been consummated. War is declared—an unjust, but premeditated war. The dire calamity, which overwhelms Europe with dismay, is, it is now too clear, the act of France, of one man in France. It is the ultimate result of personal rule.

"There can be no doubt as to the side on which the world's sympathies will be enlisted, and, whatever may on former occasions have been the offenses of Prussia, she will in this instance have on her side all that moral support which is seldom denied to those who take up arms in self-defense."

How correctly the "world sympathies" were mirrored by this *Times* editorial was corroborated by a confidential statement the American Minister in Berlin, Bancroft, himself a noted historian, made to the Under Secretary von Thile of the German Foreign Office on October 12, almost three months after the outbreak of the war and several weeks after Napoleon's abdication:<sup>5</sup>

"The leading statesmen as well as public opinion in America regard the present war essentially as an act of self-defense on Germany's part, and the outstanding task is to insure Germany permanently, by a better system of frontiers, against new wars of aggression on the part of her western neighbors, of which the past three centuries have brought so large a number."

This makes curious reading indeed in our days. But this is not the place to explore or retell Europe's diplomatic history

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<sup>5</sup> Passed on for strictly confidential information to the German minister in Washington on the following day. See *Napoleon III and the Rhine*, by Hermann Oncken, New York 1928 (Knopf).—Oncken, a liberal conservative, by no means a nationalist of the Treitschke type, adds a few observations which are of significance for our latter-day attempts to re-write and reinterpret history: "The real facts began to be obscured when, with the formation of the great coalition against Germany, the French conception was adopted by the political allies of France. And since the World War the question of the causes of the war of 1870 was, for political reasons, still more obscured and supplanted by a legend which described the latter as merely a step preliminary to the former. The causes of both wars were merged in one large question of guilt, so presented that those who, in France or in countries intellectually dependent on her, believed in the exclusive or principal responsibility of Germany for the World War, were led to believe also the legend that France was attacked by Germany in 1870."

during the nineteenth century. What for our purpose is essential is to emphasize again that, just as Frederick II was the product of the morality of his age, the Prussian wars in the 1860's were morally and politically the exact corollaries of the contemporaneous Italian wars of unification and the American Civil War. And they were part and parcel—in method and aim—of the whole contemporary scene. Whatever reasons later historians found to change the expert verdict, in the wars of the nineteenth century the Germans were backed by the sympathies of the Anglo-Saxon world as well as of their Italian ally. It was France that was isolated in the public opinion of the world. In the whole orbit of Western civilization, national union was accepted as the supreme moral ideal and war as a legitimate means of achieving it. It is absurd for American historians to extol Lincoln and to abuse Bismarck for pursuing the same ideal. (It would of course be foolish to put these two men on the same moral plane in most other respects.)

In the subsequent almost half century (between the Franco-Prussian War and the First World War), at the height of a rapidly growing military, political and economic strength, Germany remained the only Great Power on earth not engaged in a single war. Britain conquered most of Africa; France conquered Tunisia, Morocco, part of the Congo and Indo-China; Italy attacked Ethiopia (and was beaten) and sixteen years later attacked and defeated Turkey to annex Tripolitania; the United States had its wars with Spain and Mexico; Russia its wars with Turkey in the 1870's and its clash with Japan shortly after the turn of the century; even Austria-Hungary occupied in 1878 (and formally annexed thirty years later) the Turkish provinces Bosnia-Hercegovina, now a part of Tito's empire. Germany alone kept out of wars, not because it was pacifist—it remained as faithful as ever to its militaristic tradition and scale of values—but as a conscious policy. Bismarck's genius clearly realized that Germany had nothing to gain and everything to lose from war. He encouraged both his neighbors, Russia in the east and France in the west, to embark on vast colonial adventures for the sole purpose of engaging them as far as possible from the German borders. Bismarck, who was pursued by the *cauchemar des coalitions*

tion and was thinking only in Continental European terms, was definitely averse to colonial expansion by Germany itself. He formed alliances with both Austria-Hungary and Italy and was kept busy straightening out the smouldering conflict between these two former arch-enemies. At the same time he reassured Russia of his sincere friendship, which enabled him to mediate between Russia and Austria. ("The entire Balkans are not worth the bones of a single Pomeranian grenadier.")

It was a painfully elaborate system of carefully laid out and ingeniously pursued diplomatic schemes which step by step maneuvered Germany into the dominant position in Europe and still preserved peace. None but the master himself could control this intricate web of diplomatic threads. When Bismarck in 1890 was abruptly dismissed by his new sovereign, the young, ambitious, inexperienced and impulsive William II, it was not the Man of Blood and Iron who left the stage, but the stalwart champion of European peace. Germany, including the bitterest enemies of the Great Chancellor, was filled with grave forebodings. Bismarck's own son, Herbert von Bismarck, predicted Germany's collapse within two decades. He erred by only a few years.<sup>8</sup>

The catastrophe came in 1914. No single phase of all history has been searched and described in greater detail, with greater display of scholarly effort, than the origins of the First World War and the question of guilt for that tragedy of mankind. The Treaty of Versailles declared Germany to be the sole culprit. This ver-

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<sup>8</sup> Herbert von Bismarck received the news of his father's dismissal with the words: "This means the dissolution of the Reich." "That would make the life work of your father an Utopia" replied the man who reports these words, the Kaiserin's Court Marshall Baron Reischach. "No," countered Herbert, "only so delicate an artifice that it cannot support a violent test like the dismissal of the founder of the Reich. No one has formed a clear notion of the wide repercussions of that act, not even the Kaiser, I believe, and of such impulsive acts of the Kaiser there are many more to come. This the Reich cannot stand and in twenty years it will disintegrate. That is how long the treaties will still hold which my father concluded with Europe." (Translated from Johannes Ziekursch, *Politische Geschichte des neuen deutschen Kaiserreichs*, III, p. 3, Frankfurt, 1930.)

dict of the victors was needed to justify reparation clauses which plainly contravened President Wilson's terms. But the verdict of "Guilty" did not remain unchallenged long. Beginning with the twenties something unprecedented happened. The diplomatic archives of all nations whose governments had to defend their record or to attack that of their predecessors were opened, and the documents, together with a spate of memoirs of statesmen and generals, supplied the material into which the most eminent historians of all nations delved. Among the most valuable contributors were the Soviets. They supplied striking evidence of Czarist Russia's aggressive designs and actions. Messrs. Stalin and Molotov have conveniently forgotten it. Like St. Petersburg (not yet called Leningrad), Vienna was unhampered by efforts to cover up the exploits of a vanished regime. The documents of the Vienna Ballhausplatz, whence Count Berchtold had sent his ultimatum to Serbia, revealed unsparingly the tragic role played by Habsburg diplomacy.

The upshot of all the revelations and scholarly investigations was to the effect that the main responsibility for the catastrophe of 1914 rested with Austria and Russia who consciously gambled on war; that Germany and France shared in secondary guilt by not trying to restrain their respective allies; and that Great Britain alone was completely innocent, forced into the war not so much by its vague commitments toward France as by the German invasion of Belgium, the appearance of German armies in the Channel ports. Some powers came off better than others at the hands of the various authoritative historians. But not one historian of international repute of any nationality during the twenties and early thirties maintained that Germany alone was responsible, while several outstanding historians, particularly British and American, went far in establishing Germany's comparative innocence.

All this scholarly work, the fruit of years of sweat and eye strain, to establish the historical truth for truth's sake was wiped out literally overnight in September 1939 when Hitler invaded Poland. From that day on, the stock phrase "twice in one generation Germany has attacked the world" had unquestioned common currency on the political markets of the Allied world.

Russia, remember, did not yet belong. For Mr. Molotov in 1939 the war was still a war of British and French imperialism.<sup>7</sup>

And in the heyday of Hitler-Stalin fraternization it would have been tactless to mention the war of 1914. "Our friendship has been cemented by blood" wired Stalin to Ribbentrop while German bombs fell on London. So often and so unthinkingly is the stock phrase "twice in one generation" repeated that dispassionate writers whose knowledge and intellectual integrity are beyond question have fallen for it and use it without hesitation.

The war guilt problem of World War I which seemed to be settled once and for all in the early thirties has, thanks to Hitler's crimes, again assumed a weird importance. Those who so glibly accept the thesis that Germany is the perennial aggressor do not realize that thereby they implicitly exonerate Hitler. If this lunatic criminal followed what is essentially but ancient, unbroken German traditional behavior, why pick especially on him?

The astonishing fact has so far gone unnoticed that, just as the First World War was primarily the outgrowth of the crisis of Austria-Hungary, Hitler's foreign policy was the outgrowth of his Austrian origin. We shall not understand Germany's international position and policy unless and until we understand the significance of Austria as its background.

The crisis of Austria began in 1848. The revolution that overwhelmed Metternich's regime and the Holy Alliance introduced into the Habsburg Monarchy the victorious ideas of the French Revolution of 1789. The old Habsburg Monarchy, that product of conquest and dynastic marriages as we called it above, had to adjust itself not only to the democratic aspirations for civil liberties but also to the awakening of national self-consciousness among its many races. The ancient Monarchy was unable to cope with its new problems. Magyar troops beat down a Croat uprising, Russian intervention quelled the Magyar revolution. It was before Russian troops that Lajos Kossuth fled to the United States. The ensuing terror was not forgotten in Budapest. The second wave of Russian-inspired terror, equally forgotten, came

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<sup>7</sup> On October 31, 1939, Mr. Molotov declared: "It is the fear of losing world supremacy that dictates to the ruling circles of Great Britain and France the policy of fomenting war with Germany. To us the imperialist character of this war is obvious."

in 1919 with the Communist putsch executed by Bela Kuhn whom the successful counter-revolution of Admiral Horthy drove to Russia where he perished in one of the purges of the thirties. Thus, what is happening today in Hungary has familiar antecedents. Russian terror is nothing new to the Hungarian people.

The Austrian half of the Habsburg Monarchy has tumbled from one constitutional crisis into another since 1848. Only after the defeat of 1866 did the Crown have to concede a constitution providing for a central parliament, elected until 1908 under a closely restricted franchise, and similarly elected diets in the provinces. The two dominant ethnic groups were the Germans in Austria and the Magyars in Hungary. Only toward the end of the century were the Poles added as a third partner. But while the Magyar element maintained its unassailable predominance over the non-Magyar races, which constituted about one-half of the inhabitants of Hungary (Germans, Rumanians, Slovaks, Croats and Serbs), the German element in the Austrian half of the Dual Monarchy was in slow but continuous retreat before the rising pressure of Czechs, Poles, Ukrainians, Slovenes, Croats and Italians. The acerbity bred in this continuous interracial struggle not only burst into parliamentary battles that time and again for years on end completely paralyzed constitutional life; it expressed itself also in continuous guerrilla warfare over the smallest positions. By the end of the nineteenth century, the predominance of the German element was finally broken through by the collaboration of the Crown with the feudal aristocracy of Czechs and Poles. By 1897, Austria had at one time a Polish premier, a Polish foreign minister, and a Polish Reich finance minister. It sounds incredible today that William's II "brilliant second" of Algeciras fame was a Pole, Count Goluchovsky. But the effect of this shift by no means strengthened the foundations of the Habsburg Monarchy. It only drove the German element, particularly the Sudeten Germans and the university students, into the pan-German camp. There were National Socialist deputies in name, program and emblem (Swastika) in the Bohemian Diet before the name of Hitler was heard of. Austria-Hungary was by 1914 the other "sick man of Europe." It was kept alive by the inertia of an old body and by a relatively well-functioning bureaucratic and economic machine.

But both this inertia and the machinery could be maintained only in a quiet world. And Europe had not been quiet since the Turkish Revolution of 1908. The unrest grew quickly with the dangerous Balkan wars and Italy's attack on Turkey and culminated in the shot of a Serbian student that killed the Austrian heir to the throne, the Archduke Franz Ferdinand, in the streets of the Bosnian capital, Sarajevo. The rulers of Austria felt that the hour of decision had arrived. They believed that the only chance Austria-Hungary had to survive was by energetic action against Serbia at the risk of war. To yield, so they thought, would mean suicide. When the ultimatum to Belgrade was sent, the Austrian Foreign Office, backed by the army, was determined to go to war unless Serbia capitulated unreservedly, which would have entailed the diplomatic humiliation of Serbia's Russian protector (just as Tito's humiliation today would mean the humiliation of the Kremlin). What Austria wanted was certainly not a European war; it wanted its little war with Serbia. What Germany backed, and was forced to back, was Austria's effort at self-assertion even at the risk of war. It was the only great ally Germany had left after twenty-four years of bungling, provocative, intriguing and blustering diplomacy since Bismarck's death. The war ended with Germany's utter defeat, with Bolshevism in Russia, and with the dissolution of the Habsburg Monarchy into its ethnic components transformed into independent sovereign states.

What events and trends had produced the explosive European atmosphere, which could be ignited by a single revolver shot, are not for this book to explain. The two points relevant for our problem today are the bearing of the events of 1914 on our oversimplified theory of German aggression, and the bearing of these same events on a character named Adolf Hitler. When Austria was dissected into its ethnic parts, only one nationality was denied self-determination: the German. The Germans in the Alpine provinces, six and a half million of them, were forced into an independence they neither wanted nor liked, and three and a half million Sudeten Germans were forced into a community with the hated Czechs for historical reasons they never acknowledged. For Central Europe the war in 1918 did not end in peace but in starting another chain of crises, not in harmony but sowing new

seeds of hatred, hatred between Czechs and Germans, hatred between Czechs and Poles (over the unsettled rights to a part of Silesia), hatred between the Magyars and all the surrounding new states which became the heirs to half of the domain of the Holy Crown of St. Stephan, hatred between Croats and Serbs, Yugoslavs and Italians, between Italians and German Tirolians who never got over the Italianization of South Tirol, and so it went. A dragonseed sprouted which one day was to destroy the Continent.

It was no accident that an Austrian, Hitler, organized and performed this work of destruction. Hitler was the incarnation of all the hatreds he had soaked into his mad soul during his formative years in Vienna and in the shattering defeat of the German Army in which he served. When Hitler invaded Austria, he did not "invade" a foreign, sovereign country. He came home to his kin. When he fostered rebellion among the Sudeten Germans it would have been as absurd to him to treat them as foreigners as it would have seemed for Germany to exclude him as a foreigner from political activity. When he marched into Prague, his world picture did not conceive of it as the capital of a sovereign Republic. To him it was still the provincial town of old Austria, a preposterous upstart over languishing, shrinking Vienna. It was the Austrian Hitler who was filled with passionate contempt of all Slavs as "inferior races." He shared that contempt with the pan-German students who had terrorized the Austrian universities since the turn of the century. When he expelled and finally exterminated the Jews he was only repeating on a ghastly, magnified scale what for decades had been the time-hallowed popular weekly pastime of pan-Germanist Viennese students—to drive out their Jewish comrades with bleeding heads from the halls of the university. Just as it was no accident that Hitler was an Austrian it was no accident that Theodor Herzl, the noble founder of the Zionist movement, lived and worked in Vienna.

But the dragonseed has destroyed not only Germany, it is about to destroy the rest of Central Europe. The Czechs will not survive as a free nation the expulsion of their Germans, nor the Poles their act of revenge. They, as well as the Yugoslavs and the Magyars and Rumanians and Bulgars, have been submerged by the Communist flood or are in the last struggles before they drown. And once more as in the Middle Ages Berlin in the

Mark Brandenburg, and Vienna, the ancient Roman fort of Vindobona, are the last tenuously held outposts of Western civilization against the onslaught of the Barbarians. The forts are held by a handful of Americans and British. This much is left in Eastern and Central Europe of the high-sounding promise of Yalta.

Poland and Czechoslovakia, the two countries mentioned in the Potsdam declarations to be "purged" of their Germans, constitute two radically different cases as far as their German populations are concerned. As for Poland, the text of the Potsdam agreement leaves not a shred of doubt, if words have any meaning, that the transfer was to be confined to the Germans living in Poland proper, within its pre-1939 borders. Since the Potsdam agreement expressly declines to acknowledge the lands east of the Oder and Neisse Rivers, (historically and ethnically German for many centuries) as Polish and specifically places them only under the administration of Poland until a future peace conference fixes the western borders of the New Poland, the wholesale removal of Germans from the land under that administration deprives the reservation with respect to that future peace conference of all sense.

However, Poland always had a considerable German minority, which has been enlarged by settlers under the German occupation. That this minority and this alone was rather naïvely understood by the Americans to be the meaning of Potsdam was confirmed by the puzzling remark of President Truman in his report on the Potsdam conference: "one million and one-half Germans remained to be expelled." But while the President was reporting to the nation, even while he was "considering the question in all its aspects," the wholesale expulsion of Germans from the Polish "administered" territory was already in full swing. On his return from Berlin Mr. Bevin gave an eye-witness report, which called the mass of fleeing humanity "the most awful sight you could possibly see." And only four days after Mr. Truman's rather complacent report Winston Churchill described in one of his ringing speeches in the House of Commons the horrors of these mass expulsions: "A tragedy on a prodigious scale is unfolding

itself behind the iron curtain which at the moment divides Europe in twain."

The case of Czechoslovakia is altogether different. Czechoslovakia had lost nothing to be compensated for. The country, as far as the Western Allies were concerned, had been restored to its pre-war territory, and it was rather late that the Russian Ally asked his toll from his Czech protégé. The easternmost part of Czechoslovakia, former Carpatho-Russia, largely populated by illiterate Ukrainians, had to be ceded to the Soviets. It was done without demur in the most accommodating manner. But the Czechoslovak government in exile had long before made up its mind that the future Czechoslovakia could and would not live with Germans within its borders. That Czechs and Germans could not live under the same roof had been observed by the British mission headed by the Liberal Lord Runciman in the spring of 1938. The century-old feud between the two peoples of Bohemia and Moravia had been poisoned by Nazi propaganda to a point where some radical cut seemed inevitable. That cut was forced by Hitler in the shameful days of Munich, September 1938. For Britain and France it was then a question not of right or wrong but of how to avoid a war for which neither was prepared.

But it should not be forgotten that, once Hitler had been accepted as a treaty partner and Hitlerism with all its methods regarded as purely an internal affair of the Germans, the will of the people concerned could not be ignored by the Western democracies. In March 1938 in municipal elections which could not have been rigged by Hitler because they were conducted under the supervision of Dr. Benes' police, 93 per cent of the Sudeten Germans had voted for Henlein's party, which in all exact name was National Socialist. It was hard to imagine that the Western conscience could be aroused to the point of going to war to force a 93 per cent majority into a state that had been imposed on them against their will, without being asked, as recently as 1918 when Czechoslovakia was carved out of the carcass of the fallen Habsburg Monarchy. The Czechs had a good case when they assured the world that the Germans in their Republic have never been oppressed. They had an equally good case when they arraigned the arrogance and overbearing behavior of the nationalists among the Sudeten Germans. They have a far less

good case when they absolve themselves of any responsibility for the failure of the unwilling marriage which, for historical and strategic reasons, they forced on their Germans. The fact remains that they have failed to follow the glorious example of Switzerland which Thomas G. Masaryk hoped to imitate in 1918. Who will decide on right or wrong in an incompatible marriage whose partners have been at odds for centuries?

Their history had never moved on parallel lines. They were thrown together time and again, and somehow they not only managed to live together but had built one of the most thriving centers of European civilization. For many centuries the two peoples lived on their own lands by their own rights with very few changes in the borderlines between the two language groups along which interminable frictions had no lasting effects. They defended it toughly, resenting mutual encroachments into the smallest village. But there they lived, they and their forebears, tilled their soil, planted orchards, built towns with schools and theaters and museums, founded and expanded a vast modern industry, and at the same time cultivated traditional crafts, the products of which found their way throughout the globe. There they lived and loved and died, sang and mourned, in short, led a life very much after the pattern familiar to Western Europe. The University of Leipzig was founded in 1408 when professors and students from Prague (the oldest German university) fled from religious persecution. Between the fourteenth and seventeenth centuries German emperors resided on the Hradshin in Prague. In the castle whence Dr. Benes today looks far over a land from which all people of German ancestry have been driven like cattle, German emperors had ruled not as conquerors but as kings of Bohemia, as legitimate bearers of the crown of St. Wenceslas, just as legitimate as any in those centuries in which national consciousness had not yet sprouted but crowns were won and lost by wars and marriage contracts. From 1526 and 1918, Czechs and Germans lived together under the scepter of the Habsburg dynasty. This dynasty was not more or less oppressive to the Czechs than the Czechs thought they were to the Germans after 1918. The Czechs participated in the rise and fall of the Habsburg empire, under which they developed their civilization, their universities, their arts, their sciences, their newspapers, their in-

dustries, and not least their political and legal training and their civil service which enabled them to organize their own independent state in 1918.

This short historical and sociological digression was essential for an understanding of how momentous the expulsion of all Germans is from every angle, including the Czech. These Germans had lived on their own lands, as had the Czechs in their neighborhood. The origins of their settlements are lost in the darkness of the ancient past, in which history rises from mythology. Again, it has been reserved for our time to accept the principle that the land in which members of certain ethnic groups have lived, worked and died belongs by right not to them but to their government representing another ethnic group which can take it away from them if the government only has the power. So completely have the victors accepted the philosophy of the vanquished. The victors have consummated Hitler's triumph.

But not only in its historical background does the case of the Czechs differ from that of the Poles. It differs no less in the war experience of the two nations. Poland has been ravaged and devastated, its population decimated. Czechoslovakia survived the war physically almost completely intact, with considerable parts of its industry even modernized and enlarged because the Hitler regime exploited the industrial capacity of Bohemia and Moravia for its own purposes, in fact made it into one of the chief centers of the German armament industry. Pilsen, the site of the world-famous Skoda Works, and a few other industrial towns were bombed, but the damage done was slight compared with the damage suffered by the German or Polish industrial centers, and it was a small price indeed the Czechs had to pay for their liberation. Their active contribution to the victory of the Allies was negligible. Contrary to their experience with the Poles, the Nazis never had any difficulty in forming a Czech collaborationist government. Czech businessmen and Czech workers were always ready to man and operate the industrial machinery the Nazis took over. No evidence of large-scale sabotage or active underground organization was forthcoming until the German war machine was in full dissolution.

The years of the Nazi occupation of Czechoslovakia were as horrible there as anywhere. To live under the Nazi heel was as

cruel and humiliating for the Czechs as for any other nation (including Germany) overrun by the Gestapo. That the Czechs burned with the desire for revenge is understandable. That in order to satisfy this desire they committed what history will prove was their suicide as a nation will emerge clearly before many years have gone by.

It is through this background that the German and the Russian problems are linked. By making themselves "safe" against a no longer existing German menace, these successor states to the former Habsburg Monarchy have destroyed their community with the Western world, whose very conscious outposts they once were, and rushed into Russian-Asiatic servitude. This did not just happen; it was carefully prepared in Moscow from the early phases of the war. While the governments in exile, the Czechs and the Poles and the Yugoslavs, found refuge in London (their diplomatic representatives were driven from Moscow when Hitler overran their countries), Russian-dominated counter-governments were set up in Moscow as soon as Russia itself joined the war. Against the Polish Government in England, whose troops fought valiantly in several theaters of war, a Communist government was organized which later took its seat in Lublin and finally seized totalitarian control over all Poland. Against General Mihailovitch who with the scanty aid of the Western Allies almost single-handedly organized resistance against the Axis, Russia sent out Joseph Broz who, as Marshal Tito, sent his unhappy opponent Mihailovitch to the gallows and extirpated with uninhibited ruthlessness the last remnants of democracy after having first deposed the royal dynasty of Yugoslavia. Against the Czech Government of Dr. Benes and Jan Masaryk in London, a national committee of liberation was organized in Moscow under the Communist leader Gottwald who received Dr. Benes on his first visit to Moscow immediately after the war and presented his terms which Benes simply had to accept. Today Gottwald is Czech Premier; his henchmen control the police, have expelled millions and murdered thousands of Germans, and dominate all key positions in the socialized industry. The struggle for the survival of Czech liberties is fast drawing to a decision. To the former Axis countries simpler methods were applied. Bucharest, Budapest and

Sofia received their bosses from Moscow at the point of Russian bayonets. Once in power, the hangman does the rest.

But the greatest tragedy of Europe's past, enveloping its present and future, is not the history of German-Russian relations and of the Habsburg Monarchy, in whose shadow all the eastern countries now in the Russian orbit were conceived, born and tossed into the stormy sea before they had grown up and were strong enough to swim—the crucial tragedy of Europe is the rift in the West, the ever problematic relation between Germany and France. For a thousand years, since the Treaty of Verdun divided Charlemagne's empire into three parts in 843, its western and its eastern parts have been interlocked in unending struggle about the fate of the middle, possession of which decided the superiority of the one or the other. In this struggle France gained the ascendancy in the early sixteenth century when François I unified and centralized the country and the Holy Roman Empire broke up in the upheaval within the Christian Church. Reformation and Counter-reformation finished Germany as a political power for three hundred years until the time of Bismarck. France's domination of Europe reached its zenith when Germany's star sank to its nadir during the Thirty Years War, 1618-1648. The classic description of the meaning of this war for Germany we find in the opening chapters of Heinrich von Treitschke's *History of Germany in the Nineteenth Century*.<sup>8</sup> It could have been written today to describe the Germany of 1947:

“Then at length the last and decisive war of the epoch, the war of religions broke out. The home of Protestantism became also the battle-ground. All the powers of Europe took part in the war. The scum of all nations was heaped upon German soil. In a disturbance without parallel, the old Germany passed away. Those who had once aimed at world domination were now, by the pitiless justice of history, placed under the feet of the stranger. The Rhine and the Ems, the Oder and the Vistula, all the ways to the sea, became “captives of foreign nations”; on the Upper Rhine were established the outposts of French rule, while the south-east became subject to the dominion of the Habsburgs and of the

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<sup>8</sup> Treitschke's *History of Germany in the Nineteenth Century*, Vol. I., London, 1913.

Jesuits. Two-thirds of the entire nation were involved in this dreadful war; the people, degenerating into savagery, carrying on a burdened life among dirt and poverty, no longer displayed the old greatness of the German character, were no longer animated by the free-spirited and serene heroism of their ancestors. The dominion of an ancient civilization, that civilization which alone adorns and ennobles existence, had disappeared into oblivion; forgotten were even the craft secrets of the guilds.

"The entire life of Germany lay open without defense to the superior civilization of the foreigner. . . . Amid the petty sorrows of poverty-stricken every-day life, the very memory of the glories of the wonderful centuries of old disappeared from the mind of the masses; in the transformed world, the ancient cathedrals, witnesses to the former magnificence of German burghership, seemed strange and unfriendly. Not till a century and a half had elapsed were the treasures of ancient German poetry recovered by the laborious research of learned investigators, so that all were astonished at the wealth of the former treasure-house. Never was any other nation so forcibly estranged from itself and from its own past; (not even modern France is separated by so profound a chasm from the days of the old regime)."

But the beginning of the new history which Treitschke saw was not a continuation of the old which the Westfalian Peace ended. Germany was definitely in the eclipse. The center of gravity shifted to the two "marches" on Germany's periphery, first to the Austrian Empire, and only a little over a quarter of a century later, in 1675, with the Battle of Fehrbellin under the Great Elector, the founder of Prussian power, to the Mark Brandenburg. Ever since the Westfalian Peace, from Cardinal Richelieu, the great French statesmen who dominated the political scene under Louis XIII, through the era of Louis XIV and Louis XV to the days of Napoleon I and Napoleon III, France's foreign policy had one pivotal aim: to keep Germany divided and impotent to prevent the ascendancy of a politically united German nation. The basic difference between France's and Germany's foreign policy through the ages was their geographical position. France had only one direction in which to look, toward the uncanny, brooding, boiling eastern neighbor. Germany was a country of the middle, for centuries the battle-ground of all European wars, the object of the aspirations and intrigues of all its neighbors, powerless, prostrate,

the private domain of dozens of its tiny rulers, some stupid, some wise, some strong and others weak, austere and profligate, conscientious and reckless, some concerned with the welfare of their subjects, others exploiting them to pay for their debaucheries to the point of selling their blood as mercenaries to foreign armies—there is a remote but striking resemblance of seventeenth-century Germany to India's condition at the time of the British conquest.

This indeed was fertile breeding ground on which the virulent ideas of the Great French Revolution fell, to take quick and strong root: nationalism and civil liberty. These ideas swept Western and Southern Germany. Even when Napoleon invaded the country for the first time, he was still the prophet of the new religion of popular emancipation. It cannot be stressed too strongly how different the early reaction of the Germans to Napoleon was from that of Britain through whose history books America has learned most of its European history. Schiller's and Beethoven's hearts rose in praise of the genius who promised to cleanse Germany of its oppressive petty rulers. The enthusiasm did not last long; the seeds Napoleon's armies had strewn grew to become his undoing. The Congress of Vienna of 1815, which ended Napoleon's era and laid the foundations for the Europe of the next hundred years, did not restore a Germany. Among the Concert of Powers it instituted there was no German Reich. The latter had finally and formally been terminated ten years before when the ruler of Austria renounced his title, German Emperor, to replace it by the title, Emperor of Austria. This Concert included on the Continent France in the west, Prussia and Russia in the east, and Austria in the south east: Germany and Italy remained power vacua which had still to be filled, to be organized to find their places in the carefully guarded, intricate balance-of-power game. These power vacua were not, and could not be, organized from within; they had to be filled from without. But power vacua of that size never stay vacant. Inevitably and irresistibly they are always filled and no formula, however plausible and appealing such as neutralization and demilitarization, can keep them empty. Germany's fate, as we have seen, was decided in the struggle between the two "marches," between ancient Austria and the upstart Prussia. Prussia was the winner; Austria lost out and

eventually disappeared from the stage of history. (What is called Austria today has little more than the name in common with the historical notion of Austria. Once more it has been reduced to the original size of the Ostmark of more than a thousand years ago.)

But while the struggle over the power vacuum called Germany was brewing, a fundamental change had taken place in the structure of Europe—a revolutionary shift in the biological weight of the European nations. France's strength was broken by protracted blood-letting in the Napoleonic wars. Germany's vitality grew with unprecedented vigor. Toward the close of the eighteenth century, France's population almost equalled that of Germany and England together. By 1914 the German population exceeded the French by more than 25 million. France's population had fallen behind that of Britain and Italy, despite the large-scale immigration and assimilation of Italians, Spaniards, Poles and Russians. This decline in biological strength altered the French character profoundly. The French ceased to be expansive, bellicose, aggressive. After the days of Napoleon I they became genuinely a "peace-loving nation." Napoleon III was a tragic anachronism; his ambitions were in plain contradiction to the character of his people, whose ideal had become tranquillity and the enjoyment of an idyllic life. The French impressionist painters, the first great school of painting France produced, expressed that to the lasting admiration of the world. What France had lost in power it gained in sympathy of the outside world. The German temper, for opposite reasons, grew in the opposite direction, as a brilliant French historian has grasped better than anyone else: "Germany never understood that nations recommended themselves to foreigners more by indolence, carelessness and gracefulness, by spending their leisure time beautifully in pursuit of a real culture than by the exaltation of toil and the apologia for output. The pride of Germany was her effort to be at the same time attractive and very powerful. . . . Germany suddenly became a strange mixture of Prussianism, Romanticism and Americanism."<sup>9</sup>

But this profound change in the French position and character

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<sup>9</sup>Edmond Vermeil, *Germany's Three Reichs* (published London 1944); the French edition was concluded in September 1939, before the invasion of France.

—concomitant with the equally profound change in the German position and character—only accentuated the basic motivation of France's foreign policy. It was and remained fixed on the eastern neighbor, who grew stronger, stranger and more threatening by the year. The collapse of the Napoleonic regime in 1870 and the loss of Alsace-Lorraine intensified the sense of fear into an obsession. Bismarck, after the first critical years following the war, tried in vain to soothe it by encouraging France to build a huge colonial empire. These colonial successes, however great, never really caught the imagination of the French. They remained mentally a nation closely bound to its home soil, not like the British looking overseas, and their fears were not mitigated by continuous, growing domestic troubles. The Third Republic was never so definitely established as to be immune to internal assault. From General Boulanger's abortive putsch to the Dreyfus Affair, the Republic was still in need of watchful defense, imperiled above all by the officer corps of the army. This army as late as 1905, more than thirty years after the promulgation of the Constitution of the Third Republic (1875) had a majority of Monarchist (Bourbon or Bonapartist) persuasion, and the easy ascendancy of the Fascist element under Marshal Pétain proved that these anti-Republican forces had never really been eliminated. (The striking parallelism of the struggle between the Weimar Republic and the militarist anti-Republicans under the shield of the equally old and legendary Hindenburg has all too rarely been observed.) During this whole period, Germany's power seemed to be founded on rock.

The victory of 1918 did not improve France's psychological condition; it did not strengthen France's self-assurance or diminish its fear. Consciously or not, the French knew they were no match for their eastern neighbors, that they would have been crushed had the English-speaking world not come to their rescue. Twice the German armies had approached the gates of Paris, and the occupation and devastation of the north-eastern provinces were not forgotten. Once more French foreign policy concentrated on organizing a European system to keep Germany in check. When the United States and Great Britain withdrew into isolation and left France without the coveted guarantees, French diplomacy tried to build a ring of alliances around Germany. Poland, Czech-

oslovakia, Rumania and Yugoslavia, the last three bound in the Little Entente, kept the watch in the East, while France itself, allied with Belgium, kept it in the West with French troops stationed in the Rhineland. The western bank of the Rhine was demilitarized and Germany almost completely disarmed. For the first time Germany's encirclement was a reality, not a figment of the imagination of anxious German diplomats. But the links in the chain were weak. The eastern alliances were more troublesome than reliable, a source of weakness and complications rather than of strength and assurance. Moreover, France itself, with its domestic difficulties accumulating rapidly, felt itself losing the strength to fulfil the commitments it had assumed.

The test came shortly after Hitler seized Germany. In 1935 the Saar was lost by a 90 per cent plebiscite in favor of Germany. In the same year Germany introduced military conscription in open breach of the Versailles Treaty. The last doubts about France's readiness to defend the position it had obtained at Versailles vanished in 1936 when Hitler's remilitarization of the Rhineland evoked merely a lame, timid paper protest because France did not dare mobilize its army. The dénouement of the contradiction between aspiration and reality came in the Munich surrender of September 1938. From then to the outbreak of the war in September 1939, France was no longer master of its own policy; it was driven by the pace the reassertion of Great Britain imposed on it. The curtain rose on the last act of the drama. In it both France and Germany were defeated, reached the end of their historical careers as Great Powers.

It is rather idle to speculate today whether this double catastrophe was inevitable. But it is appropriate to remember that the fifteen years of the Weimar Republic were a period of eager and intensive efforts on both sides to bring about at long last the conciliation of these two great nations on the European Continent. On both sides strong forces were at work to promote mutual understanding, to create an atmosphere in which the specter of the past could be laid. Alsace-Lorraine was returned to France, and the overwhelming majority in Germany was reconciled to its loss being definite. On both sides were representative men with a large following, particularly among industrialists and war veterans, who realized that Europe was doomed unless French-

German amity was firmly established. The history of these attempts will undoubtedly find its narrator. The responsibility for their failure rests clearly on both sides. The French, anxiously clinging to the status quo ante, could and would not compromise with the German desires for some change. This applied not only, if primarily and ostensibly, to the clauses of the Versailles Treaty; it applied still more essentially to the two moods and modes of life.

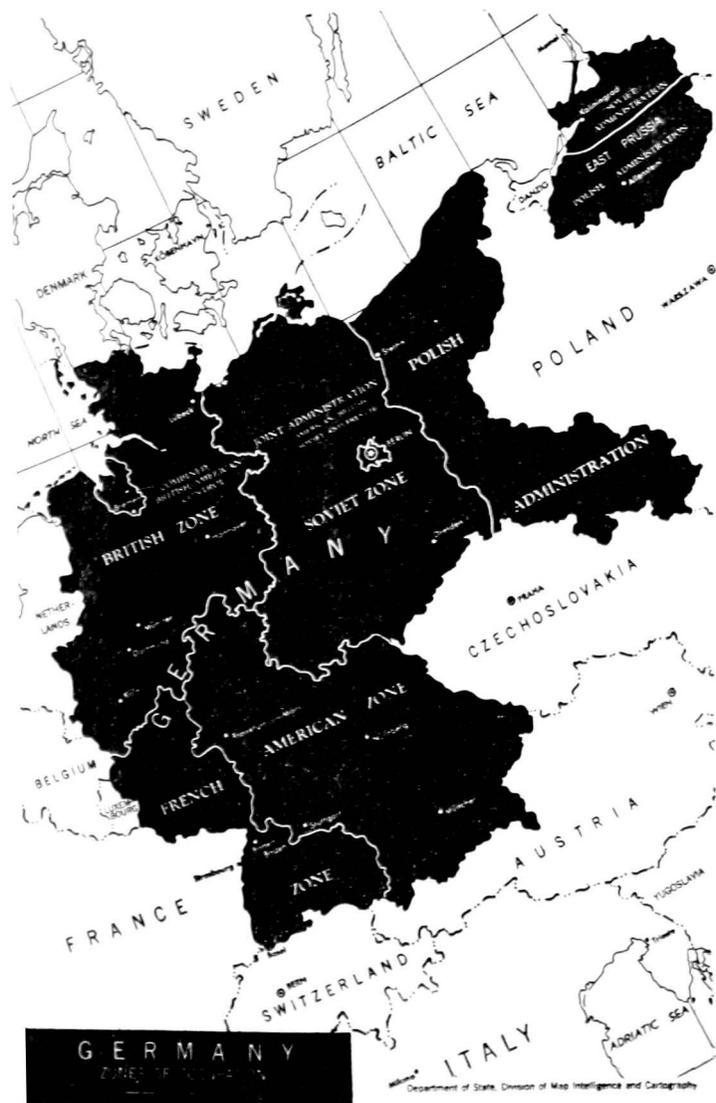
## XII.

### *PATTERN OF PEACE*

FROM THIS dark old wide background of history the German problem clearly emerges as an inherently European problem. The nightmare that is Europe today is not simply the making of a few wilful men in the Kremlin who suddenly decided to conquer the world after having until then been "peace-and-freedom-loving democrats." All the historical currents that erupted in 1914 had to join into one vast flood to submerge liberty and Western civilization on the whole European Continent. With the victory over Nazi Germany the flood receded to the Elbe River. Western Europe and Western Germany are once more regions where man can live his life in the dignity of a free individual. But the countries liberated and re-conquered for the values of our civilization are covered with swamps and boulders and debris, all the relics of the flood, and Western Germany lies prostrate in utter ruin. East of the Elbe River, as far as the sway of the Russian army extends, the flood is as deep as ever.

This elemental fact determines our approach to the job of making peace not with, but for Germany. Yet the drama of which our generation is both actor and audience promises no happy ending. Peace cannot be made in the foreseeable future for Germany as a whole. Unless a miracle surpassing all miracles occurs, we must confine our action to Germany's three western zones. They cover about one-half of the German territory of 1937, i.e., before the incorporation of Austria, and have a population of about 45 million. As is apparent from the map on page 239, it is a small strip of land, overcrowded among ruins to the bursting point. Such a special arrangement for Western Germany will be an untenable construction, but we have no choice. Whatever we may call it, it will be no peace. On that there must be no illusion. The division of Germany between west and east, however inevitable and urgent, will at best be a temporary solution. The pressure for change will be overwhelming, and will constantly be brought to bear from several directions.

# PREWAR GERMANY AND ZONES OF OCCUPATION



1. Let us consider the Russian position first. The eastern zone of Germany, as we have seen, is all but completely sovietized. No one who knew the nature and technique of the Russian regime could have had any doubt that it would be, on the day the division of Germany into four separate zones of occupation was agreed upon. At no time in its history has Soviet Russia shown any signs that it was constitutionally capable of collaborating on equal terms with anyone. How our responsible leaders after their own experience during the war were able to delude themselves on this point is one of the mysteries future historians will have to solve. The moment we decide to establish and organize a Western German state, a Soviet Germany will, in fact if not in name, be ready to be integrated into the system of Eastern European states living under the thumb of Soviet rule. What Russia is going to do beyond that with its eastern Germany is probably at this writing (November 1947) not yet decided by the Kremlin, if we may judge from the contradictory statements made by Russian spokesmen in their addresses to German audiences.

The Russian course is moving along two lines which, for the time being, are still running parallel but may soon run counter to each other. The one line is to use a bolshevized Eastern Germany as a springboard for the bolshevization of all Germany as the last preparatory step for the conquest of Western Europe by their Communist parties. Along this line the German Communists began long ago to pose as the champions of German unity and German "liberation," presenting Russia as the one great protector of a German renaissance for which Russia is the only hope. International bolshevism has for some time been, and undoubtedly will in the future be draped as national bolshevism. Pieck and Ulbrich, the Communist leaders in Eastern Germany, play that ultra-nationalist tune with the same glowing conviction with which Messrs. Thorez and Duclos have the appeal to ultra-nationalist instincts of the French ready on their tongues. Never mind the contradiction—it is merely one of many with which Russian policy is replete.

Unless the Western powers behave much more stupidly than we are justified to fear, the Communists have little chance of success along that line in Germany. The horrors committed by the Russian soldateska during the invasion are not forgotten,

the concentration camps in Eastern Germany are too visible reminders, the pall of fear and terror and intimidation that lies over the Russian zone is too thick to be pierced, the amount of destruction and dismantling of industrial plants is too widely known, and above all, the continuous trickle of returning prisoners of war, sick, emaciated, men doomed for the rest of their lives, tell too shocking tales about the workers' paradise in too impressive unison to miss their negative propagandist effect. To them it is Lincoln Steffens' famous dictum in reverse: They have seen the future, and it does not work.

But Soviet policy has an alternative line ready. If the appeal of Communism fails to attract popular support among the Germans, there is still the appeal to the traditional Russo-German friendship against the West, the appeal to German nationalism, pure and simple, irrespective of class division. As capitalism and property and bourgeoisie are all but destroyed in Germany, the Communists expect to meet little resistance to the offer of collaboration among former officers and Nazis and the part of the intelligentsia that, without roots and firm convictions, is always willing to lend its help to the powers that be. The lure that attracts even a certain type of American liberal intellectual, be it in New York or Hollywood, is many times stronger in the environment of destruction and nihilism that is the Germany of today.

This is the policy behind the Moscow German Committee of Liberation, behind von Paulus, von Seidlitz, von Einsiedeln and the other generals and officers who are organizing the remnants of the captured Stalingrad army as a potential free corps for Germany, to be used, when events require, as a substitute army of Russian occupation if the Russian armies themselves withdraw, or as shock troops to conquer Western Germany the day after the American, British and French troops leave. Even as these Germans are just Germans to the Russians, not generals or Junkers, businessmen or engineers, the Russians are to them just Russians, not Russian communists. These Germans learned in school (if they went to school before Hitler "purged" the texts) how friendship between Germans and Russians was the perennial tradition. Founded by Frederick II, it was carried on unbroken in the nineteenth century by Bismarck, surviving even his dismissal for another quarter century till 1914—on the very eve of the First World

War the Emperor and the Czar still exchanged their famous cordial "Willy-Nicky" letters—to be resumed at Rapallo almost immediately after the war. It was carefully fostered by the army under the Weimar Republic, which granted large credits to a Russian regime still boycotted by the United States and used Russia as training ground for military skills they were forbidden to practice in Germany.

To this German school, 1914 and 1941 only prove that Germany is lost when it breaks with Russia and can regain strength and power when, regardless of the character of the regimes in both countries, it restores the broken bond of friendship. The romantic memory of the wars of liberation against Napoleon I is kindled in German workers and soldiers and kept aflame by careful propaganda, the glamorous legend of the Free Corps of the early nineteenth century organized with the help of and in alliance with the powerful victorious armies of Alexander I in the days of Prussia's utter impotence and humiliation. When these Russian armies broke loose in pursuit of Napoleon and the fleeing, shattered remnants of his *Grande Armée*, these German Free Corps were in the vanguard up to the hour of the final triumph at Waterloo. It is amazing how bluntly the Russian propaganda strikes this chord in the sentimental historical tradition of the nationalistic folklore of Prussia.

Its effect would be much stronger if the tune were more credible. What spoils it most is the massive reality of the truncation of Eastern Germany in favor of Poland. Since the United States challenged Poland's western border of the Oder and Neisse Rivers, Russia had to commit itself too emphatically to the Poles. The Russians would have preferred to keep this whole nasty question in twilight—to hold out the bait to the Germans and the threat to the Poles of revision of the border, ready eventually to sell to the higher bidder and in the meantime to keep both the Poles and the Germans on the short leash of fear and hope, while Germans and Poles remained at deadly odds. The scheme was too clever, and the American attitude spoiled it. Still, Moscow tries to have both Poles and Germans chained to its chariot.

But it is not only Russian pressure of one kind or another that will be organized against a Western German state. If this product of Western statecraft succeeds, a tremendous pressure will arise

spontaneously among the Germans in the East. Even now, before the crucial decision is made, thousands and thousands of Eastern Germans try to cross illegally the closely guarded border between the world of slavery and the world of freedom, from the Russian into the American and British zones. Most are turned back if they are caught because the military governments believe that in view of their troubles feeding their own Germans they cannot afford to take on hundreds of thousands of eastern Germans. The cruelty and misery thereby continuously inflicted on innocent people struggling for sheer survival in a more decent although equally ruined environment, is incalculable. But what we have had to cope with so far is child's play compared with the flood of refugees who will press toward the West in the future. When finally the administration of Western Germany is no longer in American and British, but in German hands, it is inconceivable that a future West-German government, whatever its political color, can afford to be callous to fellow Germans from the East seeking refuge from oppression, political persecution or hunger. What explosive conditions, what permanent frictions will ensue along the entire border from the Baltic to the Bohemian mountains is easy to imagine. An irredenta of this size and intensity has never existed before.

The most tricky complication of this baffling problem is the peculiar status of Berlin. The City of Berlin, with more than three million inhabitants, is a four-power condominium in the middle of the Russian zone. The four separate sectors of Berlin house the supreme commanders of the four occupying armies and their staffs. Here the four-power Control Council, originally established as the inter-Allied organ for governing an economically unified Germany, while frustrated for many months, is still going through the motions of regular meetings, keeping up the fiction of a still existing four-power rule as instituted by the Potsdam pact. This gives Berlin an air of fascinating unreality. It is the sole spot on the globe from which the play and counter-play of the four powers can be observed at close range, and the Berliners are keen and smart observers. Today, they occupy the front rows in the international theater of political drama. They would prefer by far to be among the actors on the stage. Yet Berlin, economically worse off than even the industrial centers of the

Ruhr, is today amidst hunger and hopelessness probably the politically most lively place on earth.

Surrounded on all sides by Russian territory, Berlin is connected with the West by a single rickety railroad paralleled by a strictly Russian-patrolled automobile road through Brandenburg and Saxony to Hannover where it leads into the Anglo-American zones. Everyone knows that this stiflingly narrow corridor is at the mercy of the Russians. They can cut through this artery at any time they please, interrupt traffic, produce incidents, obstruct the food supply of three-quarters of the population of Berlin who are charges of the Western powers. No doubt, Washington and London are determined to hold this Berlin position. It is vital not only for the future of Germany but for the authority the Western powers still wield in the non-Russian world. Besides, Berlin is of great value as a source of information about the area beyond the iron curtain.

Still, if the Russians want to be nasty, they can make life so miserable for the Western Allies and their wards that Berlin may degenerate into a festering sore. And however determined we are to hold the fort, we may soon be confronted with a fateful decision on what risks we are ready to accept in its defense. On the other hand, we cannot take the implications of an eventual withdrawal from Berlin too seriously. It would mean not only panic among millions of Berliners, of whom many are compromised in Russian eyes because they sided openly with the West, but it could easily be the signal for all weak neighbors of Russia to jump on the Russian band-wagon because they might despair of protection by the Western powers when they have to face the open threat of Moscow. And Stalin's and Molotov's diplomacy is no more squeamish than Hitler's and Ribbentrop's method was.

This in rough outline is what a separate peace with Western Germany really would entail.

2. The problems of Germany's partition arising in the West, though less threatening, are not much easier to solve.

Except by a few stalwart warriors of the Vansittart-Morgenthau school, whose sorry lot is their incapacity to learn, it is today generally recognized that Europe cannot be rebuilt unless Germany

regains enough political and economic strength to stand on its own feet. Western Europe cannot live without the product of the brains and hands of Germany. That three years of this product have been wantonly wasted makes European reconstruction so much costlier, slower and more difficult.

European interdependence has not been broken, it has been intensified by the war. Curiously enough, the Great Depression until 1933 and the Hitler regime strengthened this interdependence. It is one of the fatuous myths—most of them “made in U.S.A.”—with which the Western view of European history of the last generation has been impregnated that Germany devised a devilish scheme by the use of political power to subjugate nearly all Europe economically. This is sheer nonsense. The Great Depression shut all markets except the German to the products of Eastern and South Eastern Europe, and in a buyer's market the buyers set the terms. Political designs have little to do with it. To whom could Rumania, Hungary, Yugoslavia, Bulgaria, Greece and Turkey sell their grain, their hogs, their tobacco, their raisins and rose oil except to Germany? Not to Great Britain, which was in the throes of a severe depression and by the Ottawa agreements just in these crucial years was reserving its markets for Empire products. Certainly not to the United States, which was, if anything, a competitor; and not to France, which was essentially self-supporting in agricultural products. Germany was the only big market left, and even this market bought on a reduced scale.

But the Great Depression did something else. It brought about a collapse of the free exchanges in Europe, so precariously restored after the First World War. When the German banks were thrown into insolvency by the consequences of the bankruptcy of the Austrian Creditanstalt in 1931, Germany was forced into a system of exchange controls, which by their very nature beget ever new controls until some large-scale outside help one day breaks the vicious circle. But while Germany gained economic “power” over Eastern and South Eastern Europe by its quasi-monopolistic position as buyer, it had to strengthen its position as seller of its manufactured goods by undercutting its competitors. Hitler's trite but much quoted slogan, “Germany must export or die,” was better understood in his time than later, when

illiberal economic dilettantes spun their political dogmas about Germany. Schachtism was never a program; it was the outgrowth of an economic emergency. The Germans compensated the Yugoslavs for grain deliveries with aspirin and cameras simply because they had nothing else to pay with. Up to 1939 Yugoslavia (and all South-eastern countries) would have been perfectly free to sell its grain and hogs and prunes to any market it wanted had there been one. That this economic emergency of Germany was perpetuated even when, by the middle of the thirties, Western Europe and the United States recovered economically was certainly due to Hitler's rearmament and policy of autarchy. But given the nature of this nefarious regime, everything else followed inevitably in the economic constellation of the world of the thirties.

The war years completed the process of economic interdependence as far as the Continent was concerned, because under the iron grip of the German armies something was achieved that Napoleon's Continental Blockade had tried for in vain: the economic unity of Europe for the single purpose set by a war economy. All occupied and unoccupied countries had to work for Hitler's war. And the war not only enhanced Germany's dominant position enormously but cut off the entire Continent from the rest of the world. We are still grappling with the problem of how to restore emergency bridges across the water; we have not solved it yet. But we have finally accepted the reality of inter-European economic dependence as the basis of our policy.

Our economic planning will be futile if it disregards the political realities. The most potent is the passionate hate with which the European nations are still obsessed. The idea of integrating even Western Germany into the Marshall Plan still horrifies most Frenchmen, including those who are intelligent enough to acknowledge economic necessities. Our outline of historical realities had to destroy the myth of the "three wars of German aggression" against France "within seventy-five years." But the fact remains that, if not always wantonly attacked, France was invaded three times by German armies. Whoever started these wars, France alone was militarily no match for its eastern neighbor, and this experience will retain its powerful, decisive effect on French psychology whatever history books tell about the origins of wars. Three invasions have left indelible marks on French psychology,

and World War II with its years of brutal, corrupting and humiliating occupation of the entire country was the climax of a century-old struggle. The peasants and workers and shopkeepers and craftsmen of France will not forget these years, whether the historical version they are taught is correct or false. Whatever role French diplomacy played thirty years before, they know that France most certainly did not want this last war.

The ordeal of Nazi occupation ended in liberation in an atmosphere of jubilant elation and expectation. But once more, victory seemed vain, and not only because France is in economic distress and political and moral confusion, living again in fear of another war not of its making. The specter of German superiority has not been laid by Germany's destruction. The French know dimly—by no means clearly, because French reporting is incredibly poor—that German cities are in ruins, but they know very well that against their 40 million there are still close to 70 million Germans who are regarded as an even greater threat because they are pressed into a smaller space and may concentrate their pressure to break out into the West since the Russian giant will never permit them to break out into the East.

France has not yet taken cognizance of German realities any more than the rest of the world. The most decisive of these realities, as we saw in Chapter II, is the irresistible, irreversible decline of the biological strength of the German people. The Germans have just passed through a secular catastrophe the effects of which will be ten times worse than the effects of the Napoleonic wars on the French people. The Napoleonic wars broke France's numerical superiority in Europe and the biological strength of the nation. Its birth rate became stagnant but it could still rise somewhat from the levels of the early nineteenth century, though only at a fractional rate of the other European nations. Germany's population will decline with accelerating speed within the next generation. The year is already in sight—between 1980 and 2000, that is, during the lifetime of the present generation—when the population of Germany (all Germany, not only the Western zones) will decline to the size of the French. Thus, the ghost of the past that still haunts the French is in reality already buried under the ruins of the war. As time marches on, the realities of life will shape the consciousness of the living. But mean-

while all efforts at European reconstruction, so bitterly and urgently needed, will have to battle the fears of the past.

3. The frame for this work of reconstruction is being created today. For those who have the vision to grasp what is really happening, it is a breath-taking endeavor, the first step of the creation of a new world order. Its pattern is radically different from the one of which the peace planners during the war dreamed so unrealistically. Whatever the future may harbor for a globe split in two, the enforced withdrawal—on Moscow's orders—of Russia's Eastern European satellites from the Marshall Plan and the division of Germany has immediate economic consequences of greatest significance. It means the emergence of a new pattern of economic integration, not as in the past under the natural influence of the economic forces of free markets but under compelling necessities of political dictation.

A rebuilt Western German economy, as far as it can be rebuilt at all, will be something very different from what it would have been had the reconstruction taken place in a unified Germany. So far from being "pastoralized," Western Germany will be industrialized far beyond anything in the past. For the next two decades, it will have to sustain a population larger than before the war. It will therefore, by hook or by crook, have to intensify its export drive beyond anything yet seen. Above all, it will have to create new industries to replace those it has lost in the East. It will have to build a new industry for electrical machinery and equipment to replace the huge plants lost in Berlin. It will have to find substitutes for the export industries of Saxony, particularly for textiles and textile machinery. It will even have to expand its chemical industry to replace the giant Leuna Works which fell to the Russians. In addition, the skill of the millions of workers driven from Czechoslovakia and from the land taken by the Poles will be utilized to build on Western German soil industries which the Czechs in their country have deprived of their manpower. All this will be a painful and slow process, on which three years after the end of the fighting hardly a beginning has been made.

The two chief handicaps Germany will have to overcome will be first, the physical condition of the land and its people, its

physical strength reduced and sapped by hunger and disease and the disorganization of its normal social life amidst the unimaginable ruins of the German towns. No one can yet say whether and when they can be cleared for a new life. The second handicap will be the shortage of capital. Even if enough productive capacity still exists in Germany to repair and rebuild its productive apparatus—a condition far from established—Germany lacks virtually all raw materials with the exception of coal and the partial exception of timber. It needs iron ore, cotton, wool and all other textile fibres, it needs all metals, essential chemicals, it needs rubber and oil unless the costs of synthetic rubber and oil can be reduced to an economical level in the near future. Until then Germany's synthetic production will not supply more than a fraction of its normal needs.

This prospect in itself is not alarming. Not alarming for the Germans who, however slow progress is, may receive a tremendous fillip from the mere fact that after so many years of disaster and despair the trend of their lives is once again upward. This alone may release immense energies for recuperation. Nor is the prospect necessarily alarming for the Western world to which it offers the challenge of a gigantic job of reconstruction. What is alarming is the problem of synchronization. By this we do not mean mischievous talk of giving Germany "priority" over its victims. The priority they enjoy—the priority of their comparative intactness (always speaking of Western Europe, not Eastern)—is so enormous that no conceivable German recovery can consume more than a small fraction of their advantage in the foreseeable future.

The problem of synchronization consists rather in the different nature of the German problem from that of the sixteen nations represented at the Paris Conference on the Marshall Plan. For these sixteen countries the task is to regain a new equilibrium for their economic life which has to a greater or lesser degree been disrupted by the war and elemental disasters of the postwar years (frosts and draughts and floods) but has remained intact in its essential structure. For Germany the task is to restore life itself. The first, the restoration of an equilibrium, is an economic proposition. The second, the struggle for life, transcends economic considerations and motivations.

With American help the first may be achieved within a few

years. The second—the restoration of German life—is a job the scope, cost and timing of which we have not even begun to appraise. At best it will certainly take very much longer than the rehabilitation of Europe west of the Rhine. But this means, in business terms, that German pressure on the markets will increase rapidly when today's "sellers' market" has changed to a "buyers' market," in other words, when the almost unconditionally urgent demand of today is satisfied and growing international competition confronts us with difficulties that are the reverse of the present ones. Germany once more, not by its own or anybody else's fault, may grow into a seriously disturbing element in the world economy as it will develop outside the Russian orbit.

4. Were the world peaceful and free, even the synchronization of German and Western European reconstruction would straighten itself out under the laws of the capitalist market. Capital would flow wherever it is needed in the quantities and under the terms determined by the merits of the case; the promise of profit, the degree of risk, the urgency of competitive demand would direct the movement of capital. It would take the form of such loans or investments as were appropriate to each need. The borrowers might be governments in one case, private industries in another. There would be no need for Marshall Plans or emergency loans and gifts paid by American taxpayers under laws voted by the American Congress with all their political implications and complications. Until 1914 to a large extent the United States and most other countries outside Europe were built up in this way by the help of European capital. The American economy began to reciprocate on a vast scale after the First World War had transformed it from a debtor into a creditor. America's foreign lending in the twenties and early thirties was by no means handled wisely, but it had a tremendous economic effect throughout the world just the same. After the First World War Europe was rebuilt with a minimum of direct financial support or other interference by the American government. The creditor acted on his own judgment and at his own risk. The money he raised and lost was not collected from the taxpayer. The recuperation of Europe after the First World War was achieved with miraculous speed, and it was neither a small nor an easy job. But

the incentives of the capitalist economy were still at work, and these incentives were strong enough to perform the miracle.

We live in a very different world today. To ask nostalgically for a return to a paradise lost will not lead us very far. But it may help to stop the conversion of this paradise into flaming hell. To embrace "planning" as a panacea because the mechanism of the capitalist system is out of function internationally would be to replace the devil by beelzebub. To erect new and higher barriers because the old ones have not been removed from the channels through which money and goods flow would be sheer madness. The way to restore health is more freedom and economic integration, not the reverse. This was the sound idea underlying the Marshall Plan. Europe was to help itself as much as possible before America was called upon to make up the remaining deficiency. Europe originally included Soviet Russia and its satellites. Mr. Molotov appeared in Paris in July and left again. Why he came at all is hard to fathom unless he was foolish enough to believe that he could sabotage the entire scheme. When he left he pulled with him his obsequious little satellites. What he may have accomplished was to lay the cornerstone for a United Western Europe.

Unfortunately the report of the sixteen nations presented by the Committee of European Economic Cooperation did not carry the work much beyond that cornerstone. Of all the weaknesses of this report the section devoted to European integration is the weakest. Those who dream of a European Customs Union as a possible prelude to the United States of Europe have been rudely disappointed. Yet, if ever this ideal could materialize the time is now, not in some nebulous future after an equally nebulous period of "transition." Revolutions cannot be laid on ice. If economic integration is ever to come it would be more feasible now when all economic terms of reference, value of money, prices, wages, domestic and foreign markets, communications are in the process of rapid, continuous change, not yet crystallized and stabilized. A revolutionary change is impossible once all economic relations have become vested interests. The first and only chance history has ever offered will be missed.

The reason for this failure is simply that Europe is not ripe,

psychologically, politically, or economically for integration and unification.

**Psychologically:** We cannot expect a continent, or even the most homogeneous part of it, to integrate and unite when it is thoroughly imbued with fear and suspicion. Western Europe can certainly not be integrated without Western Germany, but the passions and fears bred and inflamed by the war have not abated. The poison that destroyed Europe's body and soul is still too virulent.

**Politically:** Under Socialist etatism as the generally accepted political philosophy of the Continent (with the small exception of Switzerland and perhaps Belgium) the fragmentation of the Continent is sharper and deeper than it ever was. Almost all governments are committed to "Plans," although none of these Plans has the slightest chance of being realized and the political and economic leaders in every country know it. But no government will admit it and take the plunge into an experiment in which they would not have exclusive authority, the essence of a "planned" economy.

**Economically:** Government-directed business cannot be adjusted to a market economy. Socialism is not primarily an economic, it is a social philosophy. The advocates of the socialization of the steel industry in Britain do not promise their people cheaper steel than the private industry can produce. It is almost certain that, if that phase of socialization comes to pass, steel will cost more (with dire consequences for Britain's economic future). However, prices in socialized economies are not free but arbitrarily fixed and therefore not suited to an elastic market. The individual businessman can play the game of international competition in day-to-day transactions; governments or their agencies cannot. For these reasons all that even a generous Marshall Plan can achieve is to keep Western Europe alive as a going concern. It is extremely doubtful that it can bring about Western European prosperity once the most urgent tasks of reconstruction are completed. On a higher level than the present, but not far above it, Europe may once again enter a period of stagnation. And this will be the time when a partially reconstructed Germany will have to swamp the markets of the world at any price to gain the means for its most primitive requirements.

The Paris Report itself hints at this possibility when it emphasizes the necessity of resuming trade with Eastern Europe. But the prospects that trading will materialize on a major scale are bleak. Russia itself was never an important factor in world trade or even in European trade. It would have been negligible save for the power of the Russian Government, which was not restrained by considerations of cost and price, to disrupt individual markets such as those for grain, timber, metal and oil. The international trade of Russia's satellites was substantially larger, but it is sheer illusion to think that, unless the whole political structure of Europe changes, their trade can ever regain its former scope, size or direction.

The division of Germany, with a sovietized Eastern Germany together with Czechoslovakia, Poland, Hungary, Yugoslavia, Rumania and Bulgaria drawn forcibly into the Russian economic system, will radically alter the economic pattern of the whole globe. Just as Eastern Europe will be integrated into Russia's planning to serve the master who is in bitter need of his servants' help, Western Europe will be drawn much closer to its overseas markets, particularly the Americas.

Of the Eastern countries, three—Eastern Germany, Poland and Czechoslovakia—are hardly identifiable with their former selves of a decade ago. Eastern Germany, which has lost East Prussia, parts of Pomerania and Brandenburg and all Silesia, would be a shadow of what it was even if it had not been thoroughly pillaged by years of Russian occupation. This part of Germany, which once supplied its food and half of its exportable industrial surplus, has been degraded permanently into an overcrowded poorhouse whose inmates are despoiled even of their human dignity.

Czechoslovakia, which suicidally has expelled its German and Magyar population, has lost its ethnic identity and its European status. Once the generation of the founder of the Republic has disappeared from the scene (within the next few years) the Czechs may readily drown in the Slavic Sea with not much more autonomy than remains to Yugoslavia and Bulgaria. Economically, Czechoslovakia, reduced by one fourth of its population and with all important industries socialized and cut off from the West, will forever be a shadow of its former self.

Poland is not even geographically identifiable with the Poland of 1939. It has lost half of its land to Russia, and half of its present land was German. These new provinces, except the Silesian industrial center, were converted into a desert which, despite the strenuous efforts of the Warsaw Government, will never recover its former population and wealth. That is a gain for Poland, but a heavy net loss for the world. The integration of these Eastern countries into the Russian economic system will not offer serious difficulties, nor will it be very important. With their sharply curtailed productivity, they would have little to offer the world as buyers or sellers, even if Russia were to leave them free to buy and sell as they please. As the years go by, their life will be leveled down from Western to Eastern standards.

While political barriers break Europe in two, the oceans will cease to separate Western Europe from the Western world overseas. The Atlantic Community, to use Walter Lippmann's term, is clearly in the making. From overseas markets, not from Eastern Europe, the European West will receive the bulk of its food deficit. To overseas markets Western Europe will sell its industrial surpluses. Economically they will be drawn as close to each other as the war drew them politically, and Western Germany will be quantitatively the most sizeable element in this interplay, as it will be the most troublesome. American-European trade relations open a new chapter—of permanent revolutionary significance for American agriculture and European industry.

5. Germany's military history is at an end. This is final. The great mass of the German people are more clearly aware of it than the world of the victors. There may still be millions among them who cling tenaciously and bitterly to shattered dreams of glory and world domination. They need not bother the Western world. That the Germans regard this turn of history as ineffably tragic is only natural. No proud nation has ever reacted differently to the sudden loss of its position in the world. German nationalism will remain high-strung and sensitive for a long time to come. So will the nationalism of all nations of the world. In an age that may mark the beginning of the decline of national sovereignties, nationalism will reach its pinnacle. But most Germans know and fear that another war would exterminate the

last relics of German civilization and they sense that they have lost the biological strength to stage a military comeback even if the victors were to permit it.

But the consequences of the disappearance of Germany as a political power have not yet been grasped widely. The balance of Europe and thereby the balance of the world is upset, and the world can never regain peace until the balance of power has been restored. This is the crucial purpose of all our struggles. It is in particular the crux of the German problem. On the day we organize a Western Germany we set up once again as in the Middle Ages a "march" to protect the West against the East. But this march will have to be defended permanently, and it will not be defended by its own inhabitants. The Eastern frontier of that march will not be quiet and peaceful for one day. It will be Europe's most restive, most troublesome frontier. The whole Western world will remain occupied with the German problem, with the German realities.

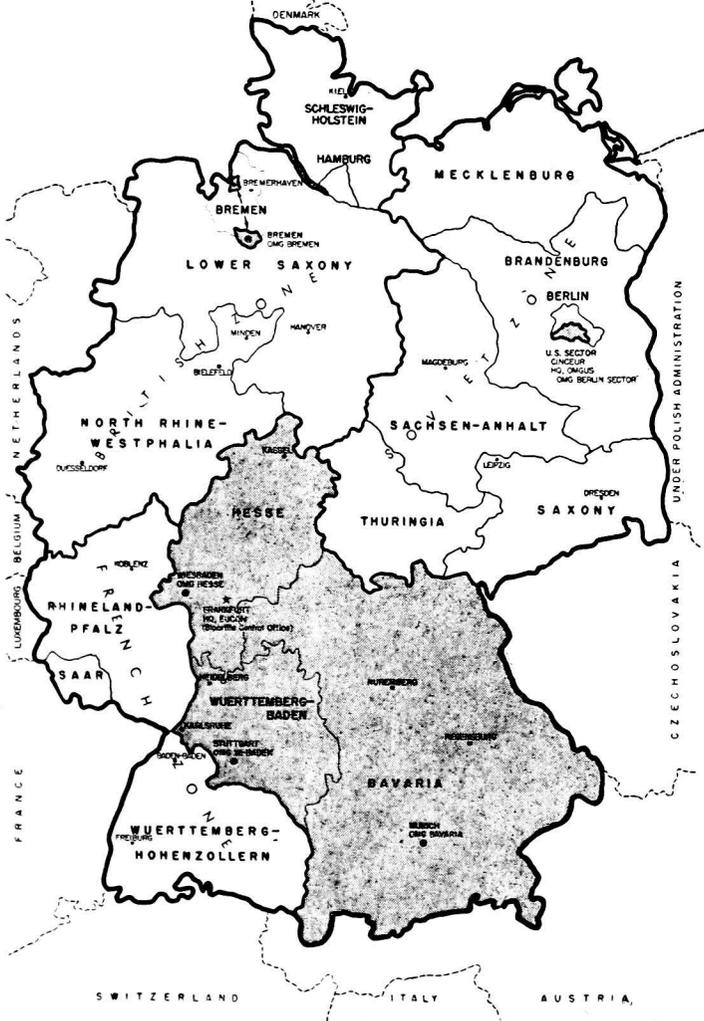
They will stay right in the center of American and British foreign policy, militarily and economically. Some force of military occupation will have to be kept there as far ahead as we can see, long after the Military Administration has been transferred to an elected German government. Washington and London will have to bend every effort to bring about a sincere conciliation between Germany and France. Without that, all attempts at political and economic integration of Western Europe would be utterly futile.

And finally, we shall have to decide more clearly and firmly than we have done so far what sort of Western Europe and Western Germany we wish to integrate. Our naïve experiments in democratization have been more ludicrous than successful. The tree of liberty grows slowly. It is a very tender plant indeed until its roots grow deep and strong and the trunk is sturdy enough to stand a storm without a prop. German democracy and German liberty can thrive only in a free and democratic Western Europe and as an integral part of it. Liberty and democracy are far from secure in Western Europe. They are endangered not only by the machinations of the fanatically active agents of Soviet imperialism and Soviet despotism. They are endangered also by the still vivid fear of Germany.

This Germany, shattered and prostrate, is still an uncanny mystery to the world, and will remain so until it again becomes articulate. The new Germany has not found its voice; it is not yet addressing and expressing itself to the outside world. All we hear is a subdued, chaotic orchestra, confusedly tuning its instruments in a low tone. The trained ear may hear shreds and fragments of incoherent themes. What political idiom will eventually emerge from this confusion, we cannot predict. But one certainly arises from all shadows of doubt: The future of Germany is the future of European liberty. In Germany it will triumph or die.

# OCCUPIED AREAS OF GERMANY WITH ZONES AND LAENDER

 U.S. ZONE and U.S. SECTOR of BERLIN



## THE EXPANSION OF THE RUSSIAN SPHERE OF INFLUENCE



Reproduced through courtesy of the *New York Times*

# APPENDICES

# APPENDIX A

## YALTA AGREEMENT

*Joint Report on Results of the Anglo-Soviet-American Conference  
(Crimea, 1945)*

*February 11, 1945*

### Excerpts

The following statement is made by the Prime Minister of Great Britain, the President of the United States of America, and the Chairman of the Council of People's Commissars of the Union of Soviet Socialist Republics on the results of the Crimean Conference:

#### *The Defeat of Germany*

We have considered and determined the military plans of the three allied powers for the final defeat of the common enemy. The military staffs of the three allied nations have met in daily meetings throughout the Conference. These meetings have been most satisfactory from every point of view and have resulted in closer coordination of the military effort of the three allies than ever before. The fullest information has been interchanged. The timing, scope and coordination of new and even more powerful blows to be launched by our armies and air forces into the heart of Germany from the East, West, North and South have been fully agreed and planned in detail.

Our combined military plans will be made known only as we execute them, but we believe that the very close working partnership among the three staffs attained at this Conference will result in shortening the War. Meetings of the three staffs will be continued in the future whenever the need arises.

Nazi Germany is doomed. The German people will only make the cost of their defeat heavier to themselves by attempting to continue a hopeless resistance.

#### *The Occupation and Control of Germany*

We have agreed on common policies and plans for enforcing the unconditional surrender terms which we shall impose together on Nazi

Germany after German armed resistance has been finally crushed. These terms will not be made known until the final defeat of Germany has been accomplished. Under the agreed plan, the forces of the three powers will each occupy a separate zone of Germany. Coordinated administration and control has been provided for under the plan through a central control commission consisting of the Supreme Commanders of the three powers with headquarters in Berlin. It has been agreed that France should be invited by the three powers, if she should so desire, to take over a zone of occupation, and to participate as a fourth member of the control commission. The limits of the French zone will be agreed by the four governments concerned through their representatives on the European Advisory Commission.

It is our inflexible purpose to destroy German militarism and Nazism and to ensure that Germany will never again be able to disturb the peace of the world. We are determined to disarm and disband all German armed forces; break up for all time the German General Staff that has repeatedly contrived the resurgence of German militarism; remove or destroy all German military equipment; eliminate or control all German industry that could be used for military production; bring all war criminals to just and swift punishment and exact reparation in kind for the destruction wrought by the Germans; wipe out the Nazi Party, Nazi laws, organizations and institutions, remove all Nazi and militarist influences from public office and from the cultural and economic life of the German people; and take in harmony such other measures in Germany as may be necessary to the future peace and safety of the world. It is not our purpose to destroy the people of Germany, but only when Nazism and militarism have been extirpated will there be hope for a decent life for Germans, and a place for them in the comity of nations.

#### *Reparation by Germany*

We have considered the question of the damage caused by Germany to the allied nations in this war and recognized it as just that Germany be obliged to make compensation for this damage in kind to the greatest extent possible. A commission for the compensation of damage will be established. The commission will be instructed to consider the question of the extent and methods for compensating damage caused by Germany to the allied countries. The commission will work in Moscow.

## YALTA AGREEMENT

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### *Unity for Peace as for War*

Our meeting here in the Crimea has reaffirmed our common determination to maintain and strengthen in the peace to come that unity of purpose and of action which has made victory possible and certain for the United Nations in this war. We believe that this is a sacred obligation which our Governments owe to our peoples and to all the peoples of the world.

Only with the continuing and growing cooperation and understanding among our three countries and among all the peace-loving nations can the highest aspiration of humanity be realized—a secure and lasting peace which will, in the words of the Atlantic Charter, “afford assurance that all the men in all the lands may live out their lives in freedom from fear and want.”

Victory in this war and establishment of the proposed international organization will provide the greatest opportunity in all history to create in the years to come the essential conditions of such a peace.

WINSTON S. CHURCHILL  
FRANKLIN D. ROOSEVELT  
J. STALIN

*February 11, 1945.*

# APPENDIX B

## POTSDAM AGREEMENT

*Joint Report on Results of the Anglo-Soviet-American Conference  
(Berlin, 1945)*

*Released August 2, 1945*

### Excerpts

#### *III. Germany*

The Allied armies are in occupation of the whole of Germany and the German people have begun to atone for the terrible crimes committed under the leadership of those whom in the hour of their success, they openly approved and blindly obeyed.

Agreement has been reached at this conference on the political and economic principles of a coordinated Allied policy toward defeated Germany during the period of Allied control.

The purpose of this agreement is to carry out the Crimea Declaration on Germany. German militarism and Nazism will be extirpated and the Allies will take in agreement together, now and in the future, the other measures necessary to assure that Germany never again will threaten her neighbors or the peace of the world.

It is not the intention of the Allies to destroy or enslave the German people. It is the intention of the Allies that the German people be given the opportunity to prepare for the eventual reconstruction of their life on a democratic and peaceful basis. If their own efforts are steadily directed to this end, it will be possible for them in due course to take their place among the free and peaceful peoples of the world.

The text of the agreement is as follows:

#### *The Political and Economic Principles to Govern the Treatment of Germany in the Initial Control Period*

##### *A. Political Principles.*

1. In accordance with the agreement on control machinery in Germany, supreme authority in Germany is exercised, on instructions from their respective governments, by the Commanders-in-Chief of the armed

forces of the United States of America, the United Kingdom, the Union of Soviet Socialist Republics, and the French Republic, each in his own zone of occupation, and also jointly, in matters affecting Germany as a whole, in their capacity as members of the Control Council.

2. So far as is practicable, there shall be uniformity of treatment of the German population throughout Germany.

3. The purposes of the occupation of Germany by which the Control Council shall be guided are:

(i) The complete disarmament and demilitarization of Germany and the elimination or control of all German industry that could be used for military production. To these ends:

(a) All German land, naval and air forces, the S. S., S. A., S. D., and Gestapo, with all their organizations, staffs and institutions, including the General Staff, the Officers' Corps, Reserve Corps, military schools, war veterans' organizations and all other military and quasi-military organizations, together with all clubs and associations which serve to keep alive the military tradition in Germany, shall be completely and finally abolished in such manner as permanently to prevent the revival or reorganization of German militarism and Nazism.

(b) All arms, ammunition and implements of war and all specialized facilities for their production shall be held at the disposal of the Allies or destroyed. The maintenance and production of all aircraft and all arms, ammunition and implements of war shall be prevented.

(ii) To convince the German people that they have suffered a total military defeat and that they cannot escape responsibility for what they have brought upon themselves, since their own ruthless warfare and the fanatical Nazi resistance have destroyed German economy and made chaos and suffering inevitable.

(iii) To destroy the National Socialist party and its affiliated and supervised organizations, to dissolve all Nazi institutions, to ensure that they are not revived in any form, and to prevent all Nazi and militarist propaganda.

(iv) To prepare for the eventual reconstruction of German political life on a democratic basis and for eventual peaceful cooperation in international life by Germany.

4. All Nazi laws which provided the basis of the Hitler regime or established discrimination on grounds of race, creed, or political opinion shall be abolished. No such discrimination, whether legal, administrative or otherwise, shall be tolerated.

5. War criminals and those who have participated in planning or carrying out Nazi enterprises involving or resulting in atrocities or

war crimes shall be arrested and brought to judgment. Nazi leaders, influential Nazi supporters and high officials of Nazi organizations and institutions and any other persons dangerous to the occupation or its objectives shall be arrested and interned.

6. All members of the Nazi party who have been more than nominal participants in its activities and all other persons hostile to allied purposes shall be removed from public and semi-public office, and from positions of responsibility in important private undertakings. Such persons shall be replaced by persons who, by their political and moral qualities, are deemed capable of assisting in developing genuine democratic institutions in Germany.

7. German education shall be so controlled as completely to eliminate Nazi and militarist doctrines and to make possible the successful development of democratic ideas.

8. The judicial system will be reorganized in accordance with the principles of democracy, of justice under law, and of equal rights for all citizens without distinction of race, nationality or religion.

9. The administration of affairs in Germany should be directed towards the decentralization of the political structure and the development of local responsibility. To this end:

(i) Local self-government shall be restored throughout Germany on democratic principles and in particular through elective councils as rapidly as is consistent with military security and the purposes of military occupation;

(ii) All democratic political parties with rights of assembly and of public discussion shall be allowed and encouraged throughout Germany;

(iii) Representative and elective principles shall be introduced into regional, provincial and state (land) administration as rapidly as may be justified by the successful application of these principles in local self-government;

(iv) For the time being no central German government shall be established. Notwithstanding this, however, certain essential central German administrative departments, headed by state secretaries, shall be established, particularly in the fields of finance, transport, communications, foreign trade and industry. Such departments will act under the direction of the Control Council.

10. Subject to the necessity for maintaining military security, freedom of speech, press and religion shall be permitted, and religious institutions shall be respected. Subject likewise to the maintenance of military security, the formation of free trade unions shall be permitted.

**B. Economic Principles.**

11. In order to eliminate Germany's war potential, the production of arms, ammunition and implements of war as well as all types of aircraft and sea-going ships shall be prohibited and prevented. Production of metals, chemicals, machinery and other items that are directly necessary to a war economy shall be rigidly controlled and restricted to Germany's approved post-war peacetime needs to meet the objectives stated in paragraph 15. Productive capacity not needed for permitted production shall be removed in accordance with the reparations plan recommended by the Allied Commission on reparations and approved by the governments concerned or if not removed shall be destroyed.

12. At the earliest practicable date, the German economy shall be decentralized for the purpose of eliminating the present excessive concentration of economic power as exemplified in particular by cartels, syndicates, trusts and other monopolistic arrangements.

13. In organizing the German economy, primary emphasis shall be given to the development of agriculture and peaceful domestic industries.

14. During the period of occupation Germany shall be treated as a single economic unit. To this end common policies shall be established in regard to:

- (a) Mining and industrial production and allocations;
- (b) Agriculture, forestry and fishing;
- (c) Wages, prices and rationing;
- (d) Import and export programs for Germany as a whole;
- (e) Currency and banking, central taxation and customs;
- (f) Reparation and removal of industrial war potential;
- (g) Transportation and communications.

In applying these policies account shall be taken, where appropriate, of varying local conditions.

15. Allied controls shall be imposed upon the German economy but only to the extent necessary:

- (a) To carry out programs of industrial disarmament and demilitarization, of reparations, and of approved exports and imports.
- (b) To assure the production and maintenance of goods and services required to meet the needs of the occupying forces and displaced persons in Germany and essential to maintain in Germany average living standards not exceeding the average of the standards of living of European countries. (European countries mean all European countries excluding the United Kingdom and the Union of Soviet Socialist Republics.)
- (c) To ensure in the manner determined by the Control Council

the equitable distribution of essential commodities between the several zones so as to produce a balanced economy throughout Germany and reduce the need for imports.

(d) To control German industry and all economic and financial international transactions, including exports and imports, with the aim of preventing Germany from developing a war potential and of achieving the other objectives named herein.

(e) To control all German public or private scientific bodies, research and experimental institutions, laboratories, et cetera, connected with economic activities.

16. In the imposition and maintenance of economic controls established by the Control Council, German administrative machinery shall be created and the German authorities shall be required to the fullest extent practicable to proclaim and assume administration of such controls. Thus it should be brought home to the German people that the responsibility for the administration of such controls and any breakdown in these controls will rest with themselves. Any German controls which may run counter to the objectives of occupation will be prohibited.

17. Measures shall be promptly taken:

(a) To effect essential repair of transport;

(b) To enlarge coal production;

(c) To maximize agricultural output; and

(d) To effect emergency repair of housing and essential utilities.

18. Appropriate steps shall be taken by the Control Council to exercise control and the power of disposition over German-owned external assets not already under the control of United Nations which have taken part in the war against Germany.

19. Payment of reparations should leave enough resources to enable the German people to subsist without external assistance. In working out the economic balance of Germany the necessary means must be provided to pay for imports approved by the Control Council in Germany. The proceeds of exports from current production and stocks shall be available in the first place for payment for such imports.

The above clause will not apply to the equipment and products referred to in paragraphs 4 A and 4 B of the Reparations Agreement.

#### *IV. Reparations from Germany*

In accordance with the Crimea decision that Germany be compelled to compensate to the greatest possible extent for the loss and suffering that she has caused to the United Nations and for which the German

people cannot escape responsibility, the following agreement on reparations was reached:

1. Reparation claims of the U.S.S.R. shall be met by removals from the zone of Germany occupied by the U.S.S.R. and from appropriate German external assets.

2. The U.S.S.R. undertakes to settle the reparation claims of Poland from its own share of reparations.

3. The reparation claims of the United States, the United Kingdom and other countries entitled to reparations shall be met from the western zones and from appropriate German external assets.

4. In addition to the reparations to be taken by the U.S.S.R. from its own zone of occupation, the U.S.S.R. shall receive additionally from the western zones:

(A) 15 per cent of such usable and complete industrial capital equipment, in the first place from the metallurgical, chemical and machine manufacturing industries, as is unnecessary for the German peace economy and should be removed from the western zones of Germany, in exchange for an equivalent value of food, coal, potash, zinc, timber, clay products, petroleum products, and such other commodities as may be agreed upon.

(B) 10 per cent of such industrial capital equipment as is unnecessary for the German peace economy and should be removed from the western zones, to be transferred to the Soviet Government on reparations account without payment or exchange of any kind in return.

Removals of equipment as provided in (A) and (B) above shall be made simultaneously.

5. The amount of equipment to be removed from the western zones on account of reparations must be determined within six months from now at the latest.

6. Removals of industrial capital equipment shall begin as soon as possible and shall be completed within two years from the determination specified in paragraph 5. The delivery of products covered by 4 (A) above shall begin as soon as possible and shall be made by the U.S.S.R. in agreed installments within five years of the date hereof. The determination of the amount and character of the industrial capital equipment unnecessary for the German peace economy and therefore available for reparations shall be made by the control council under policies fixed by the Allied Commission on Reparations, with the participation of France, subject to the final approval of the zone commander in the zone from which the equipment is to be removed.

7. Prior to the fixing of the total amount of equipment subject to removal, advance deliveries shall be made in respect of such equipment

as will be determined to be eligible for delivery in accordance with the procedure set forth in the last sentence of paragraph 6.

8. The Soviet Government renounces all claims in respect of reparations to shares of German enterprises which are located in the western zones of occupation in Germany as well as to German foreign assets in all countries except those specified in paragraph 9 below.

9. The Governments of the United Kingdom and the United States of America renounce their claims in respect of reparations to shares of German enterprises which are located in the eastern zone of occupation in Germany, as well as to German foreign assets in Bulgaria, Finland, Hungary, Rumania and Eastern Austria.

10. The Soviet Government makes no claims to gold captured by the Allied troops in Germany.

#### *V. Disposal of the German Navy and Merchant Marine*

The conference agreed in principle upon arrangements for the use and disposal of the surrendered German fleet and merchant ships. It was decided that the three governments would appoint experts to work out together detailed plans to give effect to the agreed principles. A further joint statement will be published simultaneously by the three governments in due course.

#### *VI. City of Koenigsberg and the Adjacent Area*

The conference examined a proposal by the Soviet Government that pending the final determination of territorial questions at the peace settlement the section of the western frontier of the Union of Soviet Socialist Republics which is adjacent to the Baltic Sea should pass from a point on the eastern shore of the Bay of Danzig to the east, north of Braunsberg-Goldap, to the meeting point of the frontiers of Lithuania, the Polish Republic and East Prussia.

The conference has agreed in principle to the proposal of the Soviet Government concerning the ultimate transfer to the Soviet Union of the City of Koenigsberg and the area adjacent to it as described above subject to expert examination of the actual frontier.

The President of the United States and the British Prime Minister have declared that they will support the proposal of the conference at the forthcoming peace settlement.

#### *VII. War Criminals*

The three governments have taken note of the discussions which have been proceeding in recent weeks in London between British, United States, Soviet and French representatives with a view to reach-

ing agreement on the methods of trial of those major war criminals whose crimes under the Moscow Declaration of October 1943 have no particular geographical localization. The three governments reaffirm their intention to bring those criminals to swift and sure justice. They hope that the negotiations in London will result in speedy agreement being reached for this purpose, and they regard it as a matter of great importance that the trial of those major criminals should begin at the earliest possible date. The first list of defendants will be published before September first.

#### *IX. Poland*

*B.* The following agreement was reached on the western frontier of Poland:

In conformity with the agreement on Poland reached at the Crimea Conference the three heads of government have sought the opinion of the Polish Provisional Government of National Unity in regard to the accession of territory in the north and west which Poland should receive. The President of the National Council of Poland and members of the Polish Provisional Government of National Unity have been received at the conference and have fully presented their views. The three heads of government reaffirm their opinion that the final delimitation of the western frontier of Poland should await the peace settlement.

The three heads of government agree that, pending the final determination of Poland's western frontier, the former German territories east of a line running from the Baltic Sea immediately west of Swinemunde, and thence along the Oder River to the confluence of the western Neisse River and along the western Neisse to the Czechoslovak frontier, including that portion of East Prussia not placed under the administration of the Union of Soviet Socialist Republics in accordance with the understanding reached at this conference and including the area of the former free City of Danzig shall be under the administration of the Polish State and for such purposes should not be considered as part of the Soviet zone of occupation in Germany.

#### *XIII. Orderly Transfers of German Populations*

The Conference reached the following agreement on the removal of Germans from Poland, Czechoslovakia and Hungary:

The three governments having considered the question in all its aspects, recognize that the transfer to Germany of German populations,

or elements thereof, remaining in Poland, Czechoslovakia and Hungary, will have to be undertaken. They agree that any transfers that take place should be effected in an orderly and humane manner.

Since the influx of a large number of Germans into Germany would increase the burden already resting on the occupying authorities, they consider that the Allied Control Council in Germany should in the first instance examine the problem with special regard to the question of the equitable distribution of these Germans among the several zones of occupation. They are accordingly instructing their respective representatives on the Control Council to report to their governments as soon as possible the extent to which such persons have already entered Germany from Poland, Czechoslovakia and Hungary, and to submit an estimate of the time and rate at which further transfers could be carried out, having regard to the present situation in Germany.

The Czechoslovak Government, the Polish Provisional Government and the Control Council in Hungary are at the same time being informed of the above, and are being requested meanwhile to suspend further expulsions pending the examination by the governments concerned of the report from their representatives on the Control Council.

#### *XIV. Military Talks*

During the conference there were meetings between the Chiefs of Staff of the three governments on military matters of common interest.

Approved:

J. V. STALIN  
HARRY S. TRUMAN  
C. R. ATTLEE

## APPENDIX C

### DIRECTIVE TO COMMANDER IN CHIEF OF U. S. FORCES OF OCCUPATION REGARDING THE MILITARY GOVERNMENT OF GERMANY

*JCS 1067/6—April 26, 1945*

*1. The Purpose and Scope of this Directive:*

This directive rescinds JCS 1067 and is issued to you as Commanding General of the United States forces of occupation in Germany. As such you will serve as United States member of the Control Council and will also be responsible for the administration of military government in the zone or zones assigned to the United States for purposes of occupation and administration. It outlines the basic policies which will guide you in those two capacities after the termination of the combined command of the Supreme Commander, Allied Expeditionary Force.

This directive sets forth policies relating to Germany in the initial post-defeat period. As such it is not intended to be an ultimate statement of policies of this Government concerning the treatment of Germany in the post-war world. It is therefore essential that, during the period covered by this directive, you assure that surveys are constantly maintained of economic, industrial, financial, social and political conditions within your zone and that the results of such surveys and such other surveys as may be made in other zones are made available to your Government, through the Joint Chiefs of Staff. These surveys should be developed in such manner as to serve as a basis for determining changes in the measures of control set forth herein as well as for the progressive formulation and development of policies to promote the basic objectives of the United States. Supplemental directives will be issued to you by the Joint Chiefs of Staff as may be required.

As a member of the Control Council you will urge the adoption by the other occupying powers of the principles and policies set forth in this directive and, pending Control Council agreement, you will follow them in your zone. It is anticipated that substantially similar directives will be issued to the Commanders in Chief of the U.K., USSR and French forces of occupation.

**PART I****General and Political****2. *The Basis of Military Government:***

**a.** The rights, power and status of the military government in Germany are based upon the unconditional surrender or total defeat of Germany. You will assure that the policies set forth in that Instrument are carried out in your zone of occupation even though the defeat of Germany is not followed by a formal signing of the Instrument.

**b.** Subject to the provisions of paragraph 3 below, you are, by virtue of your position, clothed with supreme legislative, executive, and judicial authority in the areas occupied by forces under your command. This authority will be broadly construed and includes authority to take all measures deemed by you necessary, appropriate or desirable in relation to military exigencies and the objectives of a firm military government.

**c.** You will issue a proclamation continuing in force such proclamations, orders and instructions as may have heretofore been issued by Allied Commanders in your zone, subject to such changes as you may determine. Authorizations of action by the Supreme Commander, Allied Expeditionary Force, may be considered as applicable to you unless inconsistent with this or later directives.

**3. *The Control Council and Zones of Occupation:***

**a.** The four Commanders-in-Chief, acting jointly, will constitute the Control Council in Germany which will be the supreme organ of control over Germany. . . . For purposes of administration of military government, Germany has been divided into four zones of occupation. . . .

**b.** The authority of the Control Council to formulate policy and procedures and administrative relationships with respect to matters affecting Germany as a whole will be paramount throughout Germany. You will carry out and support in your zone the policies agreed upon in the Control Council. In the absence of such agreed policies you will act in accordance with this and other directives of the Joint Chiefs of Staff.

**c.** The administration of affairs in Germany shall be directed towards the decentralization of the political and administrative structure and the development of local responsibility. To this end you will encourage autonomy in regional, local and municipal agencies of German administration. The German economic structure shall also be decentralized. The Control Council may, however, to the minimum extent required for the fulfillment of purposes set forth herein, permit centralized administration or establish central control of (a) essential

national public services such as railroads, communications and power, (b) finance and foreign affairs, and (c) production and distribution of essential commodities.

d. The Control Council should adopt procedures to effectuate, and you will facilitate in your zone, the equitable distribution of essential commodities between the zones. In the absence of a conflicting policy of the Control Council, you may deal directly with one or more zone commanders on matters of special concern to such zones.

e. Pending the formulation in the Control Council of uniform policies and procedures with respect to inter-zonal travel and movement of civilians, no civilians shall be permitted to leave or enter your zone without your authority, and no Germans within your zone shall be permitted to leave Germany except for specific purposes approved by you.

f. The military government personnel in each zone, including those dealing with regional and local branches of the departments of any central German administrative machinery, shall be selected by authority of the Commander of that zone except that liaison officers may be furnished by the Commanders of the other three zones. The respective Commanders-in-Chief shall have exclusive jurisdiction throughout the whole of Germany over the members of the armed forces under their command and over the civilians who accompany them.

g. The Control Council should be responsible for facilitating the severance of all governmental and administrative connections between Austria and Germany and the elimination of German economic influences in Austria. Every assistance should be given to the Allied Administration in Austria in its efforts to effectuate these purposes.

*4. Basic Objectives of Military Government in Germany:*

a. It should be brought home to the Germans that Germany's ruthless warfare and the fanatical Nazi resistance have destroyed the German economy and made chaos and suffering inevitable and that the Germans cannot escape responsibility for what they have brought upon themselves.

b. Germany will not be occupied for the purpose of liberation but as a defeated enemy nation. Your aim is not oppression but to occupy Germany for the purpose of realizing certain important Allied objectives. In the conduct of your occupation and administration you should be just but firm and aloof. You will strongly discourage fraternization with the German officials and population.

c. The principal Allied objective is to prevent Germany from ever again becoming a threat to the peace of the world. Essential steps in the accomplishment of this objective are the elimination of Nazism and

militarism in all their forms, the immediate apprehension of war criminals for punishment, the industrial disarmament and demilitarization of Germany, with continuing control over Germany's capacity to make war, and the preparation for an eventual reconstruction of German political life on a democratic basis.

*d.* Other Allied objectives are to enforce the program of reparations and restitution, to provide relief for the benefit of countries devastated by Nazi aggression, and to ensure that prisoners of war and displaced persons of the United Nations are cared for and repatriated.

*5. Economic Controls:*

*a.* As a member of the Control Council and as zone commander, you will be guided by the principle that controls upon the German economy may be imposed to the extent that such controls may be necessary to achieve the objectives enumerated in paragraph 4 above and also as they may be essential to protect the safety and meet the needs of the occupying forces and assure the production and maintenance of goods and services required to prevent starvation or such disease and unrest as would endanger these forces. No action will be taken in execution of the reparations program or otherwise which would tend to support basic living conditions in Germany or in your zone on a higher level than that existing in any one of the neighboring United Nations.

*b.* In the imposition and maintenance of such controls as may be prescribed by you or the Control Council, German authorities will to the fullest extent practicable be ordered to proclaim and assume administration of such controls. Thus it should be brought home to the German people that the responsibility for the administration of such controls and for any breakdowns in those controls will rest with themselves and German authorities.

*6. Denazification:*

*a.* A Proclamation dissolving the Nazi Party, its formations, affiliated associations and supervised organizations, and all Nazi public institutions which were set up as instruments of Party domination, and prohibiting their revival in any form, should be promulgated by the Control Council. You will assure the prompt effectuation of that policy in your zone and will make every effort to prevent the reconstitution of any such organization in underground, disguised or secret form. Responsibility for continuing desirable nonpolitical social services of dissolved Party organizations may be transferred by the Control Council to appropriate central agencies and by you to appropriate local agencies.

*b.* The laws purporting to establish the political structure of Na-

tional Socialism and the basis of the Hitler regime and all laws, decrees and regulations which establish discriminations on grounds of race, nationality, creed or political opinions should be abrogated by the Control Council. You will render them inoperative in your zone.

c. All members of the Nazi Party who have been more than nominal participants in its activities, all active supporters of Nazism or militarism and all other persons hostile to Allied purposes will be removed and excluded from public office and from positions of importance in quasi-public and private enterprises such as (1) civic, economic and labor organizations, (2) corporations and other organizations in which the German government or subdivisions have a major financial interest, (3) industry, commerce, agriculture, and finance, (4) education, and (5) the press, publishing houses and other agencies disseminating news and propaganda. Persons are to be treated as more than nominal participants in Party activities and as active supporters of Nazism or militarism when they have (1) held office or otherwise been active at any level from local to national in the party and its subordinate organizations, or in organizations which further militaristic doctrines, (2) authorized or participated affirmatively in any Nazi crimes, racial persecutions or discriminations, (3) been avowed believers in Nazism or racial and militaristic creeds, or (4) voluntarily given substantial moral or material support or political assistance of any kind to the Nazi Party or Nazi officials and leaders. No such persons shall be retained in any of the categories of employment listed above because of administrative necessity, convenience or expediency.

d. Property, real and personal, owned or controlled by the Nazi Party, its formations, affiliated associations and supervised organizations, and by all persons subject to arrest under the provisions of paragraph 8, and found within your zone, will be taken under your control pending a decision by the Control Council or higher authority as to its eventual disposition.

e. All archives, monuments and museums of Nazi inception, or which are devoted to the perpetuation of German militarism, will be taken under your control and their properties held pending decision as to their disposition by the Control Council.

f. You will make special efforts to preserve from destruction and take under your control records, plans, books, documents, papers, files, and scientific, industrial and other information and data belonging to or controlled by the following:

(1) The Central German Government and its subdivisions, German military organizations, organizations engaged in military re-

search, and such other governmental agencies as may be deemed advisable;

(2) The Nazi Party, its formations, affiliated associations and supervised organizations;

(3) All police organizations, including security and political police;

(4) Important economic organizations and industrial establishments including those controlled by the Nazi Party or its personnel;

(5) Institutes and special bureaus devoting themselves to racial, political, militaristic or similar research or propaganda.

**7. Demilitarization:**

*a.* In your zone you will assure that all units of the German armed forces, including para-military organizations, are dissolved as such, and that their personnel are promptly disarmed and controlled in accordance with policies and procedures set forth in the Instrument of Unconditional Surrender or in other directives which may be issued to you. Prior to their final disposition, you will arrest and hold all military personnel who are included under the provisions of paragraph 8.

*b.* The Control Council should proclaim, and in your zone you will effectuate, the total dissolution of all military and para-military organizations, including the General Staff, the German Officers Corps, the Reserve Corps and military academies, together with all associations which might serve to keep alive the military tradition in Germany.

*c.* You will seize or destroy all arms, ammunition and implements of war and stop the production thereof.

*d.* You will take proper steps to destroy the German war potential, as set forth elsewhere in this directive.

**8. Suspected War Criminals and Security Arrests:**

*a.* You will search out, arrest, and hold, pending receipt by you of further instructions as to their disposition, Adolf Hitler, his chief Nazi associates, other war criminals and all persons who have participated in planning or carrying out Nazi enterprises involving or resulting in atrocities or war crimes.

*b.* All persons who, if permitted to remain at large would endanger the accomplishment of your objectives will also be arrested and held in custody until trial by an appropriate semi-judicial body to be established by you. The following is a partial list of the categories of persons to be arrested in order to carry out this policy:

(1) Officials of the Nazi Party and its formations, affiliated associations, and supervised organizations, down to and including

Local Group Leaders (Ortsgruppenleiter) and officials of equivalent rank;

(2) All members of the political police, including the Gestapo and Sicherheitsdienst der S.S.;

(3) The officers and non-commissioned officers of the Waffen S.S. and all members of the other branches of the S.S.;

(4) All General Staff Corps officers;

(5) Officials of the police holding a rank, or equivalent positions of authority, above that of Lieutenant;

(6) Officers of the SA holding commissioned rank;

(7) The leading officials of all ministries and other high political officials down to and including urban and rural buergermeister and officials of equivalent rank, and those persons who have held similar positions, either civil or military, in the administration of countries occupied by Germany;

(8) Nazis and Nazi sympathizers holding important and key positions in (a) National and Gau civic and economic organizations; (b) corporations and other organizations in which the government has a major financial interest; (c) industry, commerce, agriculture, and finance; (d) education; (e) the judiciary; and (f) the press, publishing houses and other agencies disseminating news and propaganda. It may generally be assumed in the absence of evidence to the contrary that any persons holding such positions are Nazis or Nazi sympathizers;

(9) All judges, prosecutors and officials of the People's Court (Volksgerichtshof), Special Courts (Sondergerichte) and other extraordinary courts created by the Nazi regime;

(10) Any national of any of the United Nations or associated states who is believed to have committed offenses against his national law in support of the German war effort;

(11) Any other person whose name or designation appears on lists to be submitted to you by the J.C.S. or whose name may be so notified to you separately.

If in the light of conditions which you encounter in Germany, you believe that it is not immediately feasible to subject certain persons within these categories to this treatment, you should report your reasons and recommendations to your government through the Joint Chiefs of Staff. If you believe it desirable, you may postpone the arrest of those whose cases you have reported, pending a decision communicated to you by the J.C.S. In no event shall any differentiation be made between or special consideration be accorded to persons arrested, either as to manner of arrest or conditions of detention, upon the basis of wealth

or political, industrial, or other rank or position. In your discretion you may make such exceptions as you deem advisable for intelligence or other military reasons.

9. *Political Activities:*

a. No political activities of any kind shall be countenanced unless authorized by you. You will assure that your military governments does not become committed to any political group.

b. You will prohibit the propagation in any form of Nazi, militaristic or pan-German doctrines.

c. No German parades, military or political, civilian or sports, shall be permitted by you.

d. To the extent that military interests are not prejudiced and subject to the provisions of the three preceding sub-paragraphs and of paragraph 10, freedom of speech, press and religious worship will be permitted. Consistent with military necessity, all religious institutions will be respected.

10. *Public Relations and Control of Public Information:*

As a member of the Control Council, you will endeavor to obtain agreement for uniform or coordinated policies with respect to (a) control of public information media in Germany, (b) accrediting of foreign correspondents, (c) press censorship, and (d) issuance of official news communiques dealing with Control Council matters. U. S. policies in these matters will be sent to you separately and you will be guided by these in your negotiations on the Control Council.

11. *German Courts:*

a. All extraordinary courts, including the *Volksgerichtshof* (People's Court) and the *Sondergerichte* (Special Courts), and all courts and tribunals of the Nazi Party and of its formations, affiliated associations and supervised organizations will be abolished immediately.

b. All ordinary criminal, civil and administrative courts, except those previously re-established by order of the military government, will be closed. After the elimination of all Nazi features and personnel you will permit those which are to exercise jurisdiction within the boundaries of your zone to resume operations under such regulations, supervision and control as you may consider appropriate. Courts which are to exercise jurisdiction over territory extending beyond the boundaries of your zone will be reopened only with the express authorization of the Control Council and under its regulation, supervision and control. The power to review and veto decisions of German courts shall be included within the power of supervision and control.

12. *Police:*

With the exception of the *Reichskriminalpolizei* (criminal Police)

all elements of the *Sicherheitspolizei* (Security Police), e.g., *Geheimstaatspolizei* (Gestapo), and the *Sicherheitsdienst der S.S.* will be abolished. Criminal and ordinary police will be purged of Nazi personnel and utilized under the control and supervision of the military government.

13. *Political Prisoners:*

Subject to military security and the interests of the individuals concerned, you will release all persons found within your zone who have been detained or placed in custody on grounds of race, nationality, creed or political opinions and treat them as displaced persons. You should make provision for the review of convictions of alleged criminal offenses about which there may be substantial suspicion of racial, religious or political persecution, and in which sentences of imprisonment have not been fully served by persons imprisoned within your zone.

14. *Education:*

a. All educational institutions within your zone except those previously re-established by Allied authority will be closed. The closure of Nazi educational institutions such as Adolf Hitler Schulen, Napolas and Ordensburgen, and of Nazi organizations within other educational institutions will be permanent.

b. A coordinated system of control over German education and an affirmative program of reorientation will be established designed completely to eliminate Nazi and militaristic doctrines and to encourage the development of democratic ideas.

c. You will permit the reopening of elementary (*Volksschulen*), middle (*Mittelschulen*) and vocational (*Berufsschulen*) schools at the earliest possible date after Nazi personnel has been eliminated. Text-books and curricula which are not free of Nazi and militaristic doctrine shall not be used. The Control Council should devise programs looking toward the reopening of secondary schools, universities and other institutions of higher learning. After Nazi features and personnel have been eliminated and pending the formulation of such programs by the Control Council, you may formulate and put into effect an interim program within your zone and in any case may permit the reopening of such institutions and departments which offer training which you consider immediately essential or useful in the administration of military government and the purposes of the occupation.

d. It is not intended that the military government will intervene in questions concerning denominational control of German schools, or in religious instruction in German schools, except insofar as may be necessary to insure that religious instruction and administration of

such schools conform to such Allied regulations as are or may be established pertaining to purging of personnel and curricula.

15. *Arts and Archives:*

Subject to the provisions of paragraph 6 above, you will make all reasonable efforts to preserve historical archives, museums, libraries and works of art.

## PART II

### Economic

#### *General Objectives and Methods of Control*

16. You will assure that the German economy is administered and controlled in such a way as to accomplish the basic objectives set forth in paragraphs 4 and 5 of this Directive. Economic controls will be imposed only to the extent necessary to accomplish these objectives, provided that you will impose controls to the full extent necessary to achieve the industrial disarmament of Germany. Except as may be necessary to carry out these objectives, you will take no steps (a) looking toward the economic rehabilitation of Germany, or (b) designed to maintain or strengthen the German economy.

17. To the maximum extent possible without jeopardizing the successful execution of measures required to implement the objectives outlined in paragraphs 4 and 5 of this directive you will use German authorities and agencies and subject them to such supervision and punishment for non-compliance as is necessary to ensure that they carry out their tasks.

For this purpose you will give appropriate authority to any German agencies and administrative services you consider essential; provided, however, that you will at all times adhere strictly to the provisions of this directive regarding denazification and dissolution or elimination of Nazi organizations, institutions, principles, features, and practices.

To the extent necessary you will establish administrative machinery, not dependent upon German authorities and agencies, to execute or assure the execution of the provisions of paragraph 19, 20, 30, 31, 32, 39 and 40 and any other measures necessary to an accomplishment of your industrial disarmament objectives.

18. In order to decentralize the structure and administration of the German economy to the maximum possible extent, you will

a. ensure that the action required to maintain or restore essential public utilities and industrial and agricultural activities is taken as far as possible on a local and regional basis;

b. on no account propose or approve in the Control Council the establishment of centralized administration of controls over

the German economy except where such centralization of administration is clearly essential to the fulfillment of the objectives listed in paragraphs 4 and 5 of this directive. Decentralization in administration should not be permitted to interfere with attainment of the largest practicable measure of agreement on economic policies in the Control Council.

19. You will institute or assure the maintenance of such statistical records and reports as may be necessary in carrying out the objectives listed in paragraphs 4 and 5 of this directive.

20. You will initiate appropriate surveys which may assist you in achieving the objectives of the occupation. In particular you will promptly undertake surveys of supplies, equipment and resources in your zone. You will endeavor to obtain prompt agreement in the Control Council to the making of similar surveys in the other zones of occupation, and you will urge appropriate steps to coordinate the methods and results of these and other future surveys conducted in the various zones. You will keep the Control Council, United States Representative on the Reparation Commission and other appropriate authorities, currently apprised of the information obtained by means of intermediate reports or otherwise.

#### *German Standard of Living*

21. You will estimate requirements of supplies necessary to prevent starvation or widespread disease or such civil unrest as would endanger the occupying forces. Such estimates will be based upon a program whereby the Germans are made responsible for providing for themselves out of their own work and resources. You will take all practicable economic and police measures to assure that German resources are fully utilized and consumption held to a minimum in order that imports may be strictly limited and that surpluses may be made available for the occupying forces and displaced persons and United Nations prisoners of war, and for reparation. You will take no action that would tend to support basic living standards in Germany on a higher level than that existing in any one of the neighboring United Nations and you will take appropriate measures to ensure that basic living standards of the German people are not higher than those existing in any one of the neighboring United Nations when such measures will contribute to raising the standards of any such nation.

22. You will urge upon the Control Council that uniform ration scales be applied throughout Germany, that essential items be distributed equitably among the zones, that net surpluses be made avail-

able for export to Allied countries, and that imports be limited to the net deficits of Germany as a whole.

*Labor, Health, and Social Insurance*

23. You will permit the self-organization of employees along democratic lines, subject to such safeguards as may be necessary to prevent the perpetuation of Nazi or militarist influence under any guise or the continuation of any group hostile to the objectives and operations of the occupying forces.

24. You will permit free collective bargaining between employees and employers regarding wage, hour and working conditions and the establishment of machinery for the settlement of industrial disputes. Collective bargaining shall be subject to such wage, hour and other controls, if any, as may be instituted or revived by your direction.

25. Subject to the provisions of paragraph 48 of this directive you are authorized to direct German authorities to maintain or reestablish non-discriminatory systems of social insurance and poor relief.

26. You are authorized to direct the German authorities to maintain or reestablish such health services and facilities as may be available to them.

*Agriculture, Industry and Internal Commerce*

27. You will require the Germans to use all means at their disposal to maximize agricultural output and to establish as rapidly as possible effective machinery for the collection and distribution of agricultural output.

28. You will direct the German authorities to utilize large-landed estates and public lands in a manner which will facilitate the accommodation and settlement of Germans and others or increase agricultural output.

29. You will protect from destruction by the Germans, and maintain for such disposition as is determined by this and other directives or by the Control Council, all plants, equipment, patents and other property, and all books and records of large German industrial companies and trade and research associations that have been essential to the German war effort or the German economy. You will pay particular attention to research and experimental establishments of such concerns.

30. In order to disarm Germany, the Control Council should

- a. prevent the production, acquisition by importation or otherwise, and development of all arms, ammunition and implements of war, as well as all types of aircraft, and all parts, components

and ingredients specially designed or produced for incorporation therein;

*b.* prevent the production of merchant ships, synthetic rubber and oil, aluminum and magnesium and any other products and equipment on which you will subsequently receive instructions;

*c.* seize and safeguard all facilities used in the production of any of the items mentioned in this paragraph and dispose of them as follows:

(1) remove all those required for reparation;

(2) destroy all those not transferred for reparation if they are especially adapted to the production of the items specified in this paragraph and are not of a type generally used in industries permitted to the Germans (cases of doubt to be resolved in favor of destruction);

(3) hold the balance for disposal in accordance with instructions which will be sent to you.

Pending agreement in the Control Council, you will take these measures in your own zone. You will not postpone enforcement of the prohibitions contained in subparagraphs *a* and *b* and the instructions in subparagraphs *c* without specific approval of your government through the Joint Chiefs of Staff except that, in your discretion, you may permit the production of synthetic rubber and oil, aluminum and magnesium, to the minimum extent necessary to meet the purposes stated in paragraphs 4 and 5 of the directive pending action by the Joint Chiefs of Staff upon such recommendation for postponement as you may make.

31. As an additional measure of disarmament, the Control Council should

*a.* prohibit initially all research activities and close all laboratories, research institutions and similar technical organizations except those considered necessary to the protection of public health;

*b.* abolish all those laboratories and related institutions whose work has been connected with the building of the German war machine, safeguard initially such laboratories and detain such personnel as are of interest to your technological investigations, and thereafter remove or destroy their equipment.

*c.* permit the resumption of scientific research in specific cases, only after careful investigation has established that the contemplated research will in no way contribute to Germany's future war potential and only under appropriate regulations which (1) define the specific types of research permitted, (2) exclude from further research activity any persons who previously held key positions in

German war research, (3) provide for frequent inspection, (4) require free disclosure of the results of the research and (5) impose severe penalties, including permanent closing of the offending institution, whenever the regulations are violated.

Pending agreement in the Control Council you will adopt such measures in your own zone.

32. Pending final Allied agreements on reparation and on control or elimination of German industries that can be utilized for war production, the Control Council should

a. prohibit and prevent production of iron and steel, chemicals, non-ferrous metals (excluding aluminum and magnesium), machine tools, radio and electrical equipment, automotive vehicles, heavy machinery and important parts thereof, except for the purposes stated in paragraphs 4 and 5 of this directive;

b. prohibit and prevent rehabilitation of plant and equipment in such industries except for the purposes stated in paragraphs 4 and 5 of this directive; and

c. safeguard plant and equipment in such industries for transfer on reparation account.

Pending agreement in the Control Council, you will put such measures into effect in your own zone as soon as you have had an opportunity to review and determine production necessary for the purposes stated in paragraphs 4 and 5 of this directive.

33. The Control Council should adopt a policy permitting the conversion of facilities other than those mentioned in paragraphs 30 and 32 to the production of light consumer goods, provided that such conversion does not prejudice the subsequent removal of plant and equipment on reparation account and does not require any imports beyond those necessary for the purposes specified in paragraphs 4 and 5 of this directive. Pending agreement in the Control Council, you may permit such conversion in your zone.

34. Subject to the provisions of paragraphs 30 and 32, the Control Council should assure that all feasible measures are taken to facilitate, to the minimum extent necessary for the purposes outlined in paragraphs 4 and 5 of this directive

a. repairs to and restoration of essential transportation services and public utilities;

b. emergency repair and construction of the minimum shelter required for the civilian population;

c. production of coal and any other goods and services (excluding goods specified in paragraphs 30 and 32 unless measures to facilitate production are specifically approved by this Government

through the Joint Chiefs of Staff) required for the purposes outlined in paragraphs 4 and 5 of this directive.

You will assure that such measures are taken in your own zone pending agreement in the Control Council.

35. In your capacity as zone commander and as member of the Control Council you will take steps to provide for the equitable inter-zonal distribution and the movement of goods and services essential to the purposes set forth in paragraphs 4 and 5 of this directive.

36. You will prohibit all cartels or other private business arrangements and cartel-like organizations, including those of a public or quasi-public character such as the *Wirtschaftsgruppen* providing for the regulation of marketing conditions, including production, prices, exclusive exchange of technical information and processes, and allocation of sales territories. Such necessary public functions as have been discharged by these organizations shall be absorbed as rapidly as possible by approved public agencies.

37. It is the policy of your government to effect a dispersion of the ownership and control of German industry. To assist in carrying out this policy you will make a survey of combines and pools, mergers, holding companies and interlocking directorates and communicate the results, together with recommendations, to your government through the Joint Chiefs of Staff. You will endeavor to obtain agreement in the Control Council to the making of this survey in the other zones of occupation and you will urge the coordination of the methods and results of this survey in the various zones.

38. With due regard to paragraph 4a, the Control Council should adopt such policies as are clearly necessary to prevent or restrain inflation of a character or dimension which would definitely endanger accomplishment of the objectives of the occupation. The Control Council, in particular, should direct and empower German authorities to maintain or establish controls over prices and wages and to take the fiscal and financial measures necessary to this end. Pending agreement in the Control Council you will assure that such measures as you consider necessary are taken in your own zone. Prevention or restraint of inflation shall not constitute an additional ground for the importation of supplies, nor shall it constitute an additional ground for limiting removal, destruction or curtailment of productive facilities in fulfillment of the program for reparation, demilitarization and industrial disarmament.

#### *Power, Transportation and Communications*

39. Both as member of the Control Council and zone commander you will take appropriate steps to ensure that

*a.* power, transportation and communications facilities are directed in such a way as to carry out the objectives outlined in paragraphs 4 and 5 of this directive;

*b.* Germans are prohibited and prevented from producing, maintaining or operating all types of aircraft.

You will determine the degree to which centralized control and administration of power, transportation and communications is clearly necessary for the objectives stated in paragraphs 4 and 5 and urge the establishment of this degree of centralized control and administration by the Control Council.

#### *Foreign Trade and Reparation*

40. The Control Council should establish centralized control over all trade in goods and services with foreign countries. Pending agreement in the Control Council you will impose appropriate controls in your own zone.

41. Both as member of the Control Council and as zone commander you will take appropriate steps to ensure that

*a.* the foreign trade controls are designed to carry out the objectives stated in paragraphs 4 and 5 of this directive;

*b.* imports which are permitted and furnished to Germany are confined to those unavoidably necessary to the objectives stated in paragraphs 4 and 5;

*c.* exports to countries other than the United Nations are prohibited unless specifically authorized by the Allied governments.

42. Both as a member of the Control Council and as zone commander you will adopt a policy which would forbid German firms to participate in international cartels or other restrictive contracts and arrangements and order the prompt termination of all existing German participations in such cartels, contracts and arrangements.

43. You will carry out in your zone such programs of reparation and restitution as are embodied in Allied agreements and you will seek agreement in the Control Council on any policies and measures which it may be necessary to apply throughout Germany in order to ensure the execution of such programs.

### *PART III*

#### *Financial*

44. You will make full application in the financial field of the principles stated elsewhere in this directive and you will endeavor to have the Control Council adopt uniform financial policies necessary to carry out the purposes stated in paragraphs 4 and 5 of this directive. You will take no steps designed to maintain, strengthen or operate the

German financial structure except in so far as may be necessary for the purposes specified in this directive.

45. The Control Council should regulate and control to the extent required for the purposes set forth in paragraphs 4 and 5 the issue and volume of currency and the extension of credit in Germany and in accordance with the following principles:

a. United States forces and other Allied forces will use Allied Military marks and Reichsmark currency or coins in their possession. Allied Military marks and Reichsmark currency and coin now in circulation in Germany will be legal tender without distinction and will be interchangeable at the rate of 1 Allied Military mark for 1 Reichsmark. Reichskreditkassenscheine and other German military currency will not be legal tender in Germany.

b. The Reichsbank, the Rentenbank or any other bank or agency may be permitted or required to issue bank notes and currency which will be legal tender; without such authorization no German governmental or private bank or agency will be permitted to issue bank notes or currency.

c. The German authorities may be required to make available Reichsmark currency or credits free of cost and in amounts sufficient to meet all the expenses of the forces of occupation, including the cost of Allied Military Government and including to the extent that compensation is made therefor, the cost of such private property as may be requisitioned, seized, or otherwise acquired, by Allied authorities for reparations or restitution purposes.

Pending agreement in the Control Council you will follow these policies in your own zone.

You will receive separate instructions relative to the currency which you will use in the event that for any reason adequate supplies of Allied Military marks and Reichsmarks are not available, or if the use of such currency is found undesirable.

You will not announce or establish in your zone, until receipt of further instructions, any general rate of exchange between the Reichsmark on the one hand and the U. S. dollar and other currencies on the other. However, a rate of exchange to be used exclusively for pay of troops and military accounting purposes in your zone will be communicated separately to you.

46. Subject to any agreed policies of the Control Council, you are authorized to take the following steps and to put into effect such further financial measures as you may deem necessary to accomplish the purposes of your occupation:

*a.* To prohibit, or to prescribe regulations regarding, transfer or other dealings in private or public securities or real estate or other property.

*b.* To close banks, but only for a period long enough for you to introduce satisfactory control, to remove Nazi and other undesirable personnel, and to issue instructions for the determination of accounts to be blocked under subparagraph 48 *e* below.

*c.* To close stock exchanges, insurance companies, and similar financial institutions for such periods as you deem appropriate.

*d.* To establish a general or limited moratorium or moratoria only to the extent clearly necessary to carry out the objectives stated in paragraphs 4 and 5 of this directive.

47. Resumption of partial or complete service on the internal public debt at the earliest feasible date is deemed desirable. The Control Council should decide the time and manner of such resumption.

48. Subject to any agreed policies of the Control Council,

*a.* You will prohibit:

(1) the payment of all military pensions, or other emoluments or benefits, except compensation for physical disability limiting the recipient's ability to work, at rates which are no higher than the lowest of those for comparable physical disability arising from non-military causes.

(2) the payment of all public or private pensions or other emoluments or benefits granted or conferred:

(a) by reason of membership in or services to the former Nazi party, its formations, affiliated associations or supervised organizations,

(b) to any person who has been removed from an office or position in accordance with paragraph 6, and

(c) to any person arrested and detained in accordance with paragraph 8 during the term of his arrest, or permanently, in cases of his subsequent conviction.

*b.* You will take such action as may be necessary to insure that all laws and practices relating to taxation or other fields of finance, which discriminate for or against any persons because of race, nationality, creed or political opinion, will be amended, suspended, or abrogated to the extent necessary to eliminate such discrimination.

*c.* You will hold the German authorities responsible for taking such measures in the field of taxation and other fields of public finance, including restoration of the tax system and maintenance

of tax revenues, as will further the accomplishment of the objectives stated in paragraphs 4 and 5.

d. You will exercise general supervision over German public expenditures in order to ensure that they are consistent with the objectives stated in paragraphs 4 and 5.

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

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

(a) The German Reich, or any of the Lander, Gaue or provinces, any Kreis, Municipality or other similar local subdivision; or any agency or instrumentality of any of them including all utilities, undertakings, public corporations or monopolies under the control of any of the above;

(b) Governments, nationals or residents of other nations, including those of territories occupied by them, at war with any of the United Nations at any time since 1 September 1939;

(c) The Nazi Party, its formations, affiliated associations and supervised organizations, its officials, leading members and supporters;

(d) All organizations, clubs or other associations prohibited or dissolved by military government;

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

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

(g) Persons subject to arrest under provisions of paragraph 8, and all other persons specified by military government by inclusion in lists or otherwise.

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

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

You will take such action as will insure that any impounded or blocked assets will be dealt with only as permitted under licenses or other instructions which you may issue. In the case particularly of property

blocked under (1) (a) above, you will proceed to adopt licensing measures which while maintaining such property under surveillance would permit its use in consonance with this directive. In the case of property blocked under (2) above, you will institute measures for prompt restitution, in conformity with the objectives stated in paragraphs 4 and 5 and subject to appropriate safeguards to prevent the cloaking of Nazi and militaristic influence.

49. All foreign exchange transactions, including those arising out of exports and imports, shall be controlled with the aim of preventing Germany from developing a war potential and of achieving the other objectives set forth in this directive. To effectuate these purposes the Control Council should

*a.* Seek out and reduce to the possession and control of a special agency all German (public and private) foreign exchange and external assets of every kind and description located within or outside Germany.

*b.* Prohibit, except as authorized by regulation or license all dealings in gold, silver, foreign exchange, and all foreign exchange transactions of any kind. Make available any foreign exchange proceeds of exports for payment of imports directly necessary to the accomplishment of the objectives stated in paragraphs 4 and 5 of this directive, and authorize no other outlay of foreign exchange assets except for purposes approved by the Control Council or other appropriate authority.

*c.* Establish effective controls with respect to all foreign exchange transactions, including:

(1) Transactions as to property between persons inside Germany and persons outside Germany;

(2) Transactions involving obligations owed by or to become due from any person in Germany to any person outside Germany; and

(3) Transactions involving the importation into or exportation from Germany of any foreign exchange asset or other form of property.

Pending agreement in the Control Council, you will take in your zone the action indicated in subparagraphs *a*, *b* and *c* above. Accordingly, you will in your zone reduce to the possession and control of a special agency established by you, within your Command, all German foreign exchange and external assets as provided in subparagraph *a*. You will endeavor to have similar agencies for the same purpose established in the other zones of occupation and to have them merged as soon as practicable in one agency for the entire occupied territory.

In addition you will provide full reports to your government with respect to all German foreign exchange and external assets.

50. No extension of credit to Germany or Germans by any foreign person or Government shall be permitted except that the Control Council may in special emergencies grant permission for such extensions of credit.

51. It is not anticipated that you will make credits available to the Reichsbank or any other bank or to any public or private institution. If, in your opinion, such action becomes essential, you may take such emergency actions as you may deem proper, but in any event, you will report the facts to the Control Council.

52. You will maintain such accounts and records as may be necessary to reflect the financial operations of the military government in your zone and you will provide the Control Council with such information as it may require, including information in connection with the use of currency by your forces, any governmental settlements, occupation costs, and other expenditures arising out of operations or activities involving participation of your forces.

## APPENDIX D

### PLAN OF ALLIED CONTROL COUNCIL FOR REPARATIONS AND THE LEVEL OF POST-WAR GERMAN ECONOMY

*War Department press release of April 1, 1946*<sup>1</sup>

1. In accordance with the Berlin Protocol the Allied Control Council is to determine the amount and character of the industrial capital equipment unnecessary for the German peace economy and therefore available for reparations. The guiding principles regarding the plan for reparations and the Level of the Post-War German Economy, in accordance with the Berlin Protocol are:

a. Elimination of the German war potential and the industrial disarmament of Germany.

b. Payment of reparations to the countries which had suffered from German aggression.

c. Development of agriculture and peaceful industries.

d. Maintenance in Germany of average living standards not exceeding the average standard of living of European countries (excluding the United Kingdom and the Union of Soviet Socialist Republics).

e. Retention in Germany, after payment of reparations, of sufficient resources to enable her to maintain herself without external assistance.

2. In accordance with these principles, the basic elements of the Plan have been agreed. The assumptions of the Plan are:

a. That the population of post-war Germany will be 66.5 millions.

b. That Germany will be treated as a single economic unit.

c. That exports from Germany will be acceptable in the international market.

#### PROHIBITED INDUSTRIES

3. In order to eliminate Germany's war potential, the production of arms, ammunition and implements of war, as well as all types of aircraft and sea-going ships, is prohibited and will be prevented.

<sup>1</sup> Text as made available in Berlin March 28, 1946.

4. All industrial capital equipment for the production of the following items is to be eliminated:

- a. Synthetic gasoline and oil.
- b. Synthetic rubber.
- c. Synthetic ammonia.
- d. Ball and taper roller bearings.
- e. Heavy machine tools of certain types.
- f. Heavy tractors.
- g. Primary aluminum.
- h. Magnesium.
- i. Beryllium.
- j. Vanadium produced from Thomas Slags.
- k. Radio-active materials.
- l. Hydrogen peroxide above 50% strength.
- m. Specific war chemicals and gases.
- n. Radio transmitting equipment.

Facilities for the production of synthetic gasoline and oil, synthetic ammonia and synthetic rubber, and of ball and taper roller bearings, will be temporarily retained to meet domestic requirements until the necessary imports are available and can be paid for.

RESTRICTED INDUSTRIES

*Metallurgical Industries*

5. *Steel*

a. The production capacity of the steel industry to be left in Germany should be 7 million ingot tons. This figure to be subject to review for further reduction should this appear necessary.

b. The allowable production of steel in Germany should not exceed 5,800,000 ingot tons in any future year without the specific approval of the Allied Control Council, but this figure will be subject to annual review by the Control Council.

c. The steel plants to be left in Germany under the above program should, so far as practicable, be the older ones.

6. *Non-ferrous metals.* The annual consumption of non-ferrous metals (including exports of products containing these metals) is fixed at the following quantities:

Copper	140,000 tons
Zinc	135,000 tons
Lead	120,000 tons
Tin	8,000 tons
Nickel	1,750 tons

### 7. *Chemical Industries*

*a. Basic Chemicals.* In the basic chemical industries there will be retained 40% of the 1936 production capacity (measured by sales in 1936 values). This group includes the following basic chemicals: nitrogen, phosphate, calcium carbide, sulphuric acid, alkalis, and chlorine. In addition, to obtain the required quantities of fertilizer for agriculture, existing capacity for the production of nitrogen through the synthetic ammonia process will be retained until the necessary imports of nitrogen are available and can be paid for.

*b. Other Chemicals.* Capacity will be retained for the group of other chemical production in the amount of 70% of the 1936 production capacity (measured by sales in 1936 values). This group includes chemicals for building supplies, consumer goods items, plastics, industrial supplies, and other miscellaneous chemical products.

*c. Dyestuffs, Pharmaceuticals and Synthetic Fibers.* In the pharmaceutical industry there will be retained capacity for the annual production of 80% of the 1936 production, measured by sales (in 1936 value). Capacity will be retained to produce annually 36,000 tons of dyestuffs and 185,000 tons of synthetic fiber.

### 8. *Machine Manufacturing and Engineering*

*a. Machine Tools.* For the machine tool industry there will be retained 11.4% of 1938 capacity, with additional restrictions on the type and size of machine tools which may be produced.

*b. Heavy Engineering.* In the heavy engineering industries there will be retained 31% of 1938 capacity. These industries produce metallurgical equipment, heavy mining machinery, material handling plants, heavy power equipment (boilers and turbines, prime movers, heavy compressors, and turbo-blowers and pumps).

*c. Other Mechanical Engineering.* In other mechanical engineering industries there will be retained 50% of 1938 capacity. This group produces constructional equipment, textile machinery, consumer goods equipment, engineering small tools, food processing equipment, wood-working machines, and other machines and apparatus.

*d. Electro-engineering.* In the electro-engineering industries there will be retained 50% of 1938 production capacity (based on sales in 1938 values). Capacity to produce heavy electrical equipment is to be reduced to 30% of 1938 production or RM 40,000,000 (1936 value). Heavy electrical equipment is defined as generators and converters, 6000 KW and over; high tension switch gear; and large transformers, 1500 KVA and over. Electro-engineering, other than heavy electrical equipment, includes electric lamps and light fittings, installation materials, electric heating and domestic appliances, cables and wires,

telephone and telegraph apparatus, domestic radios, and other electrical equipment. Export of specified types of radio receiving sets is forbidden.

*e. Transport Engineering.*

(1) In the automotive industry capacity will be retained to produce annually 80,000 automobiles, including 40,000 passenger cars and 40,000 trucks, and 4,000 light road tractors.

(2) Capacity will be retained to produce annually 10,000 motor-cycles with cylinder sizes between 60 and 250 cubic centimeters. Production of motorcycles with cylinder sizes of more than 250 cubic centimeters is prohibited.

(3) In the locomotive industry available capacity will be used exclusively for the repair of the existing stock of locomotives in order to build up a pool of 15,000 locomotives in 1949. A decision will be made later as to the production of new locomotives after 1949.

(4) Sufficient capacity will be retained to produce annually 30,000 freight cars, 1,350 passenger coaches, and 400 luggage vans.

*f. Agricultural Machinery.* To permit maximization of agriculture, capacity will be retained for an annual production of 10,000 light agricultural tractors. Existing capacity for the production of other agricultural equipment, estimated at 80% of 1938 levels is to be retained, subject to restrictions on the type and power of the equipment which may be produced.

*g. Spare Parts.* In estimating capacities there will be taken into account the production of normal quantities of spare parts for transport and agricultural machinery.

*h. Optics and Precision Instruments.* Capacity will be retained to produce precision instruments in the value of 340,000,000 RM (1936 value), of which 220,000,000 RM is estimated as required for domestic use and 120,000,000 RM for exports. A further limitation for this industry is possible, subject to the recommendation of the Committee for the Liquidation of German War Potential.

MINING INDUSTRIES

*9. a. Coal.* Until the Control Council otherwise decides coal production will be maximized as far as mining supplies and transport will allow. The minimum production is estimated at 155,000,000 tons (hard coal equivalent), including at least 45,000,000 tons for export. The necessary supplies and services to this end will be arranged to give the maximum production of coal.

*b. Potash.* The production of potash is estimated at over 100% of the 1938 level.

**ELECTRIC POWER**

10. There will be retained an installed capacity of 9 million KW.

**CEMENT**

11. Capacity will be retained to produce 8 million tons of cement annually.

**OTHER INDUSTRIES**

12. The estimated levels of the following industries have been calculated as shown as necessary for the German economy in 1949:

a. *Rubber.* 50,000 tons, including 20,000 tons from reclaimed rubber and 30,000 tons from imports.

b. *Pulp, Paper and Printing.* 2,129,000 tons, based on 26 kg per head per annum in 1949 plus 400,000 tons for export.

c. *Textiles and Clothing Industries.* 665,000 tons of fiber, based on 10 kg per head for 1949, including 2 kg for export.

d. *Boots and Shoes.* 113,000,000 pairs, based on 1.7 pairs per head in 1949 (figures exclude needs of occupying forces). Production may exceed the above estimates in this paragraph (Other Industries) unless otherwise determined by the Control Council.

13. *Building.* No level will be determined for 1949. The industry will be free to develop within the limits of available resources and the licensing system.

14. *Building Materials Industries (Excluding Cement).* Existing capacity will be retained. Production will be in accordance with building licensing and export requirements.

15. *Other Unrestricted Industries.* For the following industries no levels have been determined for 1949. These industries are free to develop within the limitations of available resources. These industries are as follows:

a. Furniture and woodwork.

b. Flat glass, bottle and domestic glass.

c. Ceramics.

d. Bicycles.

e. Motorbicycles under 60 cc.

f. Potash.

**GENERAL LEVEL OF INDUSTRY**

16. It is estimated that the general effect of the plan is a reduction in the level of industry as a whole to a figure about 50 or 55 percent of the pre-war level in 1938 (excluding building and building materials industries).

**EXPORTS AND IMPORTS**

17. The following agreement has been reached with respect to exports and imports:

## OLD LEVEL OF INDUSTRY PLAN

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*a.* That the value of exports from Germany shall be planned as 3,000,000,000 RM (1936 value) for 1949, and that sufficient industrial capacity shall be retained to produce goods to this value and cover the internal requirements in Germany in accordance with the Potsdam Declaration.

*b.* That approved imports will not exceed 3,000,000,000 RM (1936 value), as compared with 4.2 billion RM in 1936.

*c.* That of the total proceeds from exports, it is estimated that not more than 1½ billion RM can be utilized to pay for imports of food and fodder, if this will be required, with the understanding that, after all imports approved by the Control Council are paid for, any portion of that sum not needed for food and fodder will be used to pay for costs of occupation, and services such as transport, insurance, etc.

### DETERMINATION OF CAPACITIES AVAILABLE FOR REPARATIONS

*18.* After the approval of this Plan, the existing capacities of the separate branches of production shall be determined, and a list of enterprises available for reparations shall be compiled.

*19.* After decisions have been given on the matters now referred to the Coordinating Committee, the Economic Directorate would propose to prepare the final plan embodying these decisions and including a description of the various features of the Plan, such as: disarmament, reparations, post-war German economy, and the German balance of trade.

# APPENDIX E

## THE PRESIDENT'S ECONOMIC MISSION TO GERMANY AND AUSTRIA

REPORT NO. 3—THE NECESSARY STEPS FOR PROMOTION OF GERMAN  
EXPORTS, SO AS TO RELIEVE AMERICAN TAXPAYERS OF THE BUR-  
DENS OF RELIEF AND FOR ECONOMIC RECOVERY OF EUROPE.

HERBERT HOOVER

*March 18, 1947*

The President  
The White House  
Washington, D. C.

Dear Mr. President:

I am sending you herewith my conclusions upon the problems of reviving German industry and thus exports with which to relieve American and British taxpayers from their burden in preventing starvation in Germany. These problems also involve economic stability and peace in Europe.

Whatever may have been our policies in the past, I am convinced that the time has come to face the realities that have developed. The mission you assigned to me would be less than performed if I did not state the stark situation and make such recommendations as seem to me necessary.

I wish again to express my appreciation to you for your consideration, to my colleagues Mr. Hugh Gibson, Dr. Gustav Stolper, Dr. Dennis A. Fitzgerald, Dr. William Sebrell, Jr., and Messrs. Louis Lochner, Frank Mason and Tracy Voorhees, and to our military and civil officials in Germany.

Yours faithfully,

HERBERT HOOVER

### INTRODUCTION

Inquiry into the economic policies in Germany which would relieve financial support from the United States was one of the subjects assigned to my mission to that country. Aside from a mass of information and statistical material secured on this journey, I have been familiar

with German economic problems over many years, including my experience before and after World War I. In view of the gravity of the crisis which confronts the world, it would be an ill service if I did not state my conclusions fully and frankly.

These conclusions are not the product of sentiment nor of feeling toward a nation which has brought such misery upon the whole earth. They are not given in condonement of the enormity of her crimes. They are the result of a desire to see the world look forward, get into production and establish a lasting peace. They are based upon the stern necessities of a world involved in the most dangerous economic crisis in all history.

At the present time the taxpayers of the United States and Britain are contributing nearly \$600,000,000 a year to prevent starvation of the Germans in the American and British zones alone. The drain is likely to be even greater after peace unless the policies now in action are changed. Therefore, entirely aside from any humanitarian and political aspects, policies which will restore productivity in Germany and exports with which to buy their food and relieve this drain upon us are of primary importance.

But our economic interest is far wider than this. We desperately need recovery in all of Europe. We need it not only for economic reasons but as the first necessity to peace. The United States, through loans, lend-lease, surplus supplies, and relief, in the last two years, has spent, or pledged itself to spend, over fifteen billions of dollars in support of civilians in foreign countries. Even we do not have the resources for, nor can our taxpayers bear, a continuation of burdens at such a rate.

There is only one path to recovery in Europe. That is production. The whole economy of Europe is interlinked with German economy through the exchange of raw materials and manufactured goods. The productivity of Europe cannot be restored without the restoration of Germany as a contributor to that productivity.

#### *Some Assumptions*

In order to offer constructive conclusions as to economic policies which will relieve the American taxpayer and will promote economic recovery in Europe, I make six assumptions, which I believe will be accepted by sensible people. They necessarily include certain political aspects which underlie all these economic problems.

First. I assume that we wish to establish a unified federal state in Germany, embracing mainly the present American, British, Russian and French military occupation zones, with economic unity and free

trade between the states. I shall refer to this area as the "New Germany."

Second. I assume that our objective must be to clear German life of the Nazi conspirators and to punish those who have contributed to this conspiracy, which murdered millions of people in cold blood and brought this appalling disaster upon the world.

Third. I assume that we will not make the major mistake of Versailles, but will complete absolute disarmament of the Germans so that they shall not be able again to engage in aggressions; that this disarmament will embrace destruction of all military arms, fortifications and direct arms factories, with certain control of industry; that the Germans will have *no* army, *no* navy, and *no* air forces, retaining only a constabulary in which no Nazi or previous army officer may be employed; that this disarmament must be continued for a generation or two, until Germany has lost the "know-how" of war and the descent of militarism through birth.

Fourth. I assume that these requirements must be safeguarded by international guarantees and effective police service by the nations.

Fifth. I assume, in our own interest and that of Europe, that we wish to restore the productivity of the continent, that we wish to revive personal freedom, honest elections and generally to reconstruct the German people into a peace-loving nation cooperating in the recovery of Western civilization.

Sixth. I assume that the United States will not join in such guarantees and policing unless the treaty with Germany is so concluded that it contributes to the restoration of productivity and lasting peace in Europe and promptly relieves us of drains upon our taxpayers.

#### *The German Economic Problems*

The German economic problems have two aspects:

First, the long-view, broad economic policies toward the New Germany which alone can produce the reconstruction of Europe and peace.

Second, our immediate problems in the joint Anglo-American military zones during the interregnum pending peace.

I therefore divide this discussion into these two parts.

#### PART I

##### *The Long View Economic Problem*

The long view economic problems involved in the peace with the New Germany and its aftermaths are greatly affected by war destruction, the boundary settlements for the New Germany, the plant removals for reparations, and the policies with respect to "war potential" of industry.

These effects may be summarized:

1. There was considerable destruction of non-war industry from the air and otherwise during the war. The loss to peaceful productivity has not been determined, but it is considerable.

2. The proposed annexations to Poland and Russia, and the possible annexation of the Saar Basin by France, will take from Germany, as compared to 1936,\* about 25% of her food supply, about 30% of her bituminous coal and about 20% of her manufacturing capacity.

3. The population of Germany in 1936 was about 68,000,000. The population of the New Germany by 1949 will be about 71,000,000, due to the expulsion of Germans from the Polish and Russian annexations, from Czechoslovakia, Hungary, Austria, Yugoslavia, Roumania and the return of prisoners into this area.

4. The Allied economic policies toward Germany are of two categories: the first involves world safety, and the second, reparations for wrong done:

a. There has necessarily been, or will be, a demolition of all arms plants as part of disarmament. This destruction, however, has included some plants which might have been converted to peaceable production.

b. Reparations have been provided by assignment for removal to the different allies of certain percentages of "usable and complete industrial equipment." What proportion of Germany's peaceable productive plant has been, or is, in the course of removal in the French and Russian zones is not known. Certainly they have been very large from the Russian zone. The total for all Germany amounts to an important segment of its peaceful productivity. These removals include a large amount of "light industry" (producing mostly consumers' goods) as well as "heavy industry" (producing mostly capital goods). The removal of plants from the American and British zones has been halted because of the refusal of Russia and France to cooperate in inter-zonal economic unity as provided for at Potsdam.

5. In addition to the above courses of action, there have been general policies of destruction or limitation of possible peaceful productivity under the headings of "pastoral state" and "war potential." The original of these policies apparently expressed on September 15, 1944, at Quebec, aimed at:

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\* I have adopted 1936 as a basis for economic comparisons because it was a full year before German industry was distorted by her annexations and her most intensive armament activity.

"converting Germany into a country principally agricultural and pastoral,"  
and included,

"the industries of the Ruhr and the Saar would therefore be put out of action, closed down . . ."

This idea of a "pastoral state" partially survived in JCS Order 1067 of April, 1945 for the American zone. It was not accepted by the British. The "pastoral state" concept was not entirely absent in the Potsdam Declaration. It was partially ameliorated or its name changed for another concept, "the level of industry," developed by the agreement of March 26, 1946, and signed by Russia, Britain, France and the United States. This agreement was a compromise between the drastic terms proposed by Russia and France and the more liberal terms proposed by the other two nations.

One major theme of this "level of industry" concept is to destroy Germany's "war potential." Under this concept certain industries are to be blown up or prohibited, others are to be limited as to production. The emphasis was placed upon the limitation of "heavy industry" with the view that Germany could export enough goods from "light industry" to buy her food and necessary raw materials.

The absolute destruction or prohibition includes ocean-going ships, shipbuilding, aircraft, ball bearings, aluminum, magnesium, beryllium, vanadium and radio-transmitting equipment, together with synthetic oil, ammonia and rubber. Some of these provisions may be essential to disarmament. Such exceptions are not included in the discussion which follows.

Beyond these prohibitions, however, the "level of industry" concept provides elaborate restrictions, mostly on heavy industry. The following items are illustrative:

Iron and steel production to be reduced from 19 million tons (as in 1936) to a capacity of 7.5 million tons, with a maximum production of 5.8 million tons and only the "older plants" to be used.

Heavy machinery production to be .....	31%	of 1938
Light machinery production to be .....	50%	of 1938
Machine tools to be .....	38%	of 1938
Electrical machinery to be .....	from 30% to 50%	of 1938
Agricultural implements to be .....	70%	of 1936
Automobiles to be .....	10%	of 1936
Trucks to be .....	67%	of 1936
Basic chemicals, including nitrogen, calcium carbide, sulphuric acid, chlorine and alkali to be .....	40%	of 1936

Cement to be ..... 65% of 1936  
 Electric power produced to be ..... 60% of 1936  
 No new locomotives until 1949.

Some "light industries" were also to be limited:

Textiles to be ..... 77% of 1936  
 Paper to be ..... 65% of 1936  
 Boots and shoes to be ..... 70% of 1936  
 Precision instruments and optics to be ..... 70% of 1936  
 Miscellaneous chemicals to be ..... 70% of 1936  
 Pharmaceuticals to be ..... 80% of 1936  
 Dyestuffs (export) to be ..... 58% of 1936

#### *The Consequences to Food Supply*

We may first examine what has happened, and what will happen, to the German food supply under all the circumstances of annexation and industrial controls.

Germany in 1936 was, by most intensive cultivation, able to produce about 85% of her food supply. This 85% has now been reduced by 25% through the Russian and Polish annexations, or is down to about 64% because even a larger population is to be concentrated in the New Germany.

Her production, however, was greatly dependent upon intensive use of fertilizers. The New Germany will require at least 500,000 metric tons of nitrogen and 650,000 tons of phosphoric anhydride, she having sufficient potash.

Under the level of industry agreement, the domestic production of nitrogen eventually would be reduced to under 200,000 tons; the production of phosphoric anhydride, would be reduced to about 200,000 tons. A larger production of nitrogen is allowed pending an opportunity to import. Part of this reduction is due to the "level of industry" steel reduction from which some nitrogen and a large percentage of phosphoric anhydride requirements were obtained as by-products.

From these figures it is obvious that a great discrepancy exists between minimum agricultural needs and the possible fertilizer production under the "level of industry" plan. If we persist in these policies, unless there are large imports of fertilizer, Germany's food production is likely to drop under 60% of her requirements even with an austere diet.

New Germany, if there is to be a will to work, to maintain order and to aspire to peace, must have an average food supply of at least

2600 calories per person per day, with adequate fats and protein content. (The British average being 2800-2900 calories at present and prewar Germany about 3000 calories.)

Taking the above limitations into consideration and based upon actual experience in the American and British zones, and extending that experience with adaptations to the Russian and French zones, the indications are that New Germany would need, at present prices, to import over \$1,250,000,000 annually in food and animal feed alone.

At the end of the war Germany had a very large nitrogen capacity. Despite losses from war destruction, its potential production was still about 700,000 tons per annum. This capacity, if it had been preserved, would have supplied not only her own needs but large exports to neighboring countries as well. Fertilizers are now sorely needed all over Europe for crop restoration. Therefore, through the fertilizer reduction Germany not only loses in her own food production but her export potential to pay for food, and the crops elsewhere in Europe are reduced.

*Consequences of "Level of Industry" upon "Heavy Industry"*

The effect of the agreed "level of industry" is stated in American official reports that "The 'heavy industry' products for which Germany was noted will virtually disappear from her exports."

I have exhaustively examined the production and exports of Germany over some years in the light of this "level of industry" and they amply confirm this statement. What the result may be is indicated by the fact that her exports during peace from now-restricted "heavy industries" comprised between 60% and 70% of the total German exports. In 1936, for instance, a generally prosperous year, they amounted to about \$1,900,000,000 out of a total of about \$2,700,000,000, both figures converted into present prices. Under the "level of industry" most of this 60-70% is to be abolished, and Germany must pay for most of her imports from exports of "light industry."

Germany must not alone import food and animal feed, but also reduced amounts of copper, lead, zinc, iron ore, leather, cotton, wool, and other raw materials. Due to the prohibitions, she must import all of her oil and rubber, and considerable nitrogen for fertilizers.

It is indeed a cynical fact that today we are supplying Germany with oil and nitrogen at the expense of the American and British taxpayer, at a rate of \$70,000,000 per annum, which, except for the "level of industry" and the Russian refusal of zonal cooperation, Germany could have produced herself.

*Consequences upon Light Industry*

As I have said, the assumption is that exports from the German "light industry," from coal and native raw materials, such as potash, can pay for her imports of food and other necessities. There are two reasons for believing this assumption to be completely invalid.

Had there been no loss of "light industry" plants by annexation, had there been no destruction of them by war, had there been no removals for reparations, they could not have produced enough exports to pay the food bill alone. And the situation is made doubly impossible by the restrictions now imposed on what "light industry" is left, as, for instance, on textiles.

If Germany is to buy food and the necessary imports of raw material for the "light industry," she would require not only complete restoration to pre-war level in "light industry" but a much larger equipment than she had even before the war.

Then Germany, with the expansion of these industries, would be in a competitive field of consumers' goods with all the rest of the world whose "light industries" have been little damaged by war.

*Some Economic Illusions*

There are several illusions in all this "war potential" attitude.

a. There is the illusion that the New Germany left after the annexations can be reduced to a "pastoral state." It cannot be done unless we exterminate or move 25,000,000 people out of it. This would approximately reduce Germany to the density of the population of France.

b. There is an illusion in "war potential." Almost every industry on earth is a "war potential" in modern war. No industry (except direct arms manufacture) is a war potential if the energies of a people are confined to the paths of peace. If Germany be disarmed in the way I have assumed above, there must be a control commission to see that they do not have any army or any navy. And two score of intelligent men, as part of that commission, could see that there is no arms production and that no industry is manufacturing or storing materials for evil purposes. Moreover, industry is not likely to waste its substance, either by storing or manufacturing for war, when there is no army or navy to use it.

The question here is not "level of industry." The real question is whether the Allied nations will stick to their abolition of militarism itself in Germany. If they do that, there is little danger from "war potential" in industry.

c. Another illusion is that the "light industry" in Germany can be

expanded to a point where she will be able to pay for her imports. In my view, it cannot be done for years, and even then it is doubtful in the face of competition with the "light industries" of other parts of the world.

d. The over-all illusion is that Germany can ever become self-supporting under the "levels of industry" plan within the borders envisioned at present for New Germany.

e. A still further illusion is that Europe as a whole can recover without the economic recovery of Germany.

#### *Consequences to Europe Generally*

Thus there is a still wider aspect of this "level of industry"—the needs of the rest of Europe. Germany had been for a century one of the great European centers of production of capital goods—"heavy industry," which I may repeat are construction materials, factory equipment, railway equipment, electrical and heavy machinery. The other nations of Europe are in desperate need of such goods for reconstruction from war damage. Moreover, a considerable part of the European equipment on these lines is German-made, and today, they cannot even get replacements and spare parts, in consequence of which their productivity lags.

From the standpoint of other nations, the expansion of "light industry" to a point of self-support for Germany will, by competition, injure these industries in the rest of Europe. On the other hand, the products of "heavy industry" is Europe's first necessity for recovery.

It must not be overlooked that Germany was the market for every nation in Europe and such a reduction of her economy will tend to demoralize the industries and employment in those countries. For instance, Germany was the market for over half the exports of Turkey and over one-third those of Greece. In consequence, their loss of this market contributes to increase the relief they seek from us now.

Another illustration is the proposed limits on steel. Large and efficient steel and iron plants, undamaged or only partly damaged, are standing idle in Germany. Formerly the Germans imported millions of tons of iron ore from France and Sweden. These mines, under the "level of industry," must remain idle until a new steel industry is built elsewhere. That will require years and an amount of capital that is not in sight. In the meantime, Europe needs steel for reconstruction as she never did before.

To indicate the anxiety of surrounding states a memorandum of the Netherlands Government of January 1947, in presenting the absolute necessity to the surrounding nations that a productive economic state

be created in Germany, said: "The provision of the plan for reparations and the level of German economy of March 1946 require to be revised . . . it is inadvisable to lay down maximum quota for production of German industries including the iron and steel industries."

The sum of all of this is: Germany, under the "level of industry" concept, unless she is to be allowed to starve, will be a drain on the taxpayers of other nations for years and years to come. In the meantime, if her light industries were built to become self-supporting, she would become an economic menace to Europe; if her heavy industries are allowed to function, she has an ability to export and would become an asset in Europe's recovery. To persist in the present policies will create, sooner or later, a cesspool of unemployment or pauper labor in the center of Europe which is bound to infect her neighbors.

We can keep Germany in these economic chains but it will also keep Europe in rags.

#### *A New Economic Policy*

Therefore, I suggest that we adopt at once a new economic concept in peace with New Germany.

(1) We should free German industry, subject to a control commission, which will see that she does no evil in industry, just as we see that she does not move into militarism through armies and navies.

The difference between this concept and the "level of industry" concept is the saving of several hundred millions of dollars a year to the American and British taxpayers. It is the difference between the regeneration and a further degeneration of Europe.

(2) The removal and destruction of plants (except direct arms plants) should stop.

(3) A further obstacle to building Germany as an essential unit of European economy arises from the Russian Government's acquiring a large part of the key operating industries in their zone. Germany in peace must be free from ownership of industry by a foreign government. Such ownership can thwart every action of control or of up-building by joint action of other nations. German industry must be operated by Germans if any international control is to work, if she is to recover production and is to serve all nations equally.

(4) There can be no separation or different regime of the Ruhr or Rhineland from the New Germany. That is the heart of her industrial economy. Any control commission can dictate the destination of coal or other exports from that area and even such control would not be needed after the era of scarcity passes from Europe.

## PART II

*The Interregnum before Peace*

How long it may be before there is such a constructive peace with Germany, no one can tell. It may be long delayed. In the meantime, we are faced with the feeding of the people in the Anglo-American zones on a level just above starvation until we can develop enough export goods from these zones so that the Germans may pay for their food. I have said, American and British taxpayers are called upon for about \$600,000,000 a year for relief.

We have an admirable staff in Military Government of Germany under Generals Clay and Draper but their administration is constantly frustrated in building up the needed exports to pay for food and minimum raw material imports. A large part of these delays is due to the following:

a. The Russians and the French have failed to carry out the provisions of the Potsdam agreement for economic unity in the four zones. The Russian zone ordinarily produces a surplus of food but that surplus is used elsewhere, thus increasing the burden of imports on the Anglo-American zones. Both the Russian and French zones are producing industrial commodities which would relieve necessities in the Anglo-American zones and could contribute to exports with which to pay for food. The net effect is that the United States and Britain through relief are paying Russian and French reparations.

b. The inability to determine what specific plants are to be the victims of "level of industry," or destruction or the removal for reparations, produced stagnation because the Germans do not know where to begin work.

c. There is lack of working capital with which to import raw materials for such industries as are allowed to function.

d. An inflated currency and no adequate banking system hampers all forward movement in such industry as is left.

e. While de-Nazification and de-cartelization are necessary and important certain phases of them limit recovery. They are so involved as not to warrant description here.

*Conclusion as to the Bi-zonal Administration*

If, however, we cannot get a quick and sound peace on the lines I have recounted, the Anglo-American zones should abandon the destruction of plants, the transfer of plants for reparations and the "level of industry" concept, and start every plant, "heavy" as well as "light," which can produce non-arms goods. This will relieve far more rapidly

great costs to our taxpayers; it will do infinitely more for Europe than American loans and charity.

Indeed the Congressional Committee on Postwar Economic Policy urged, on December 30, 1946, that the "levels of industry" be ignored wherever they conflict with exports so that there may be earlier recovery and payment for food.

The violation by Russia and France of the agreement for economic unification of the four zones of military occupation and the additional burdens this imposed upon us in consequence certainly warrant our ignoring all agreements for "level of industry," transfer and destruction of non-arms plants.

If this interregnum is to endure for long, we could build a self-sustaining economic community out of the Anglo-American zones alone. This could be only a temporary expedient, not a final solution. Building a lasting peace in Europe should be our objective.

## APPENDIX F

### NEW DIRECTIVE, APPROVED BY THE STATE, WAR AND NAVY DEPARTMENTS, TO GEN. LUCIUS D. CLAY, UNITED STATES COMMANDER IN GERMANY, ON THE MILITARY GOV- ERNMENT OF THAT COUNTRY:

*Washington, July 15, 1947*

#### I

##### 1. Purpose of This Directive

This directive, issued to you as commanding general of the United States forces of occupation and as Military Governor in Germany, constitutes a statement of the objectives of your Government in Germany and of the basic policies to which your Government wishes you to give effect from the present time forward. It supersedes JCS 1067/6 and its amendments.

##### 2. Authority of Military Government

a. Your authority as Military Governor will be broadly construed and empowers you to take action consistent with relevant international agreements, general foreign policies of this Government and with this directive, appropriate or desirable to attain your Government's objectives in Germany or to meet military exigencies.

b. Pending arrangements for the effective treatment of Germany as an economic and political unit, you will exert every effort to achieve economic unity with other zones.

#### II

##### 3. United States Policy Toward Germany

The basic interest of the United States throughout the world is just and lasting peace. Such a peace can be achieved only if conditions of public order and prosperity are created in Europe as a whole. An orderly and prosperous Europe requires the economic contributions of a stable and productive Germany as well as the necessary restraints to insure that Germany is not allowed to revive its destructive militarism.

To accomplish the latter purpose the United States Government has proposed to the other occupying powers a treaty for the continuing disarmament and demilitarization of Germany and it has committed itself to maintain a United States army of occupation as long as foreign occupation of Germany continues.

As a positive program requiring urgent action, the United States Government seeks the creation of those political, economic and moral conditions in Germany which will contribute most effectively to a stable and prosperous Europe.

## III

## 4. Demilitarization

There should be no relaxation of effort to complete and effectively to maintain the disarmament and the demilitarization of Germany.

## IV

## 5. United States Political Objectives in Germany

It is an objective of the United States Government that there should arise in Germany as rapidly as possible a form of political organization and a manner of political life which, resting on a substantial basis of economic well-being, will lead to tranquillity within Germany and will contribute to the spirit of peace among nations.

Your task, therefore, is fundamentally that of helping to lay the economic and educational bases of a sound German democracy, of encouraging bona fide democratic efforts and of prohibiting those activities which would jeopardize genuinely democratic developments.

## 6. German Self-Government

a. You will continue to promote the development in Germany of institutions of popular self-government and the assumption of direct responsibility by German governmental agencies, assuring them legislative, judicial and executive powers consistent with military security and the purposes of the occupation.

b. It is the view of your Government that the most constructive development of German political life would be in the establishment throughout Germany of federal German states (Laender) and the formation of a central German government with carefully defined and limited powers and functions. All powers shall be vested in the Laender except such as are expressly delegated to the Central Government.

c. Your Government does not wish to impose its own historically developed forms of democracy and social organization on Germany and believes equally firmly that no other external forms should be imposed.

It seeks the establishment in Germany of a political organization which is derived from the people and subject to their control, which operates in accordance with democratic electoral procedures and which is dedicated to uphold both the basic civil and human rights of the individual. It is opposed to an excessively centralized government which through a concentration of power may threaten both the existence of democracy in Germany and the security of Germany's neighbors and the rest of the world. Your Government believes finally that, within the principles stated above, the ultimate constitutional form of German political life should be left to the decision of the German people made freely in accordance with democratic processes.

#### 7. Inter-Zonal German Administrative Agencies

Pending the establishment of central German administrative agencies and of a central German government, you will continue, consistent with the objectives of Paragraph 6, to make arrangements with other zonal commanders for the creation and operation of inter-zonal German administrative agencies.

#### 8. Political Parties

a. You will adhere to the policy of authorizing and encouraging all political parties whose programs, activities and structure demonstrate their allegiance to democratic principles. Political parties shall be competitive in character, constituted by voluntary associations of citizens in which the leaders are responsible to the members, and with no party enjoying a privileged status.

b. You will likewise give support to the principle that Military Government and the German authorities should afford non-discriminatory treatment to duly authorized political parties. Every authorized political party should have the right freely to state its views and to present its candidates to the electorate, and you will tolerate no curtailment of nor hindrance to the exercise of that right; if, however, you find that an authorized party is adopting or advocating un-democratic practices or ideas, you may restrict or withdraw its rights and privileges.

c. You will urge in the Control Council the recognition of nationwide political parties and the uniform treatment of all authorized parties in all zones of occupation. You will advocate quadripartite supervision of political activities and of elections throughout Germany as a whole.

#### 9. Denazification

You will implement in your zone the decisions on denazification

taken April 23, 1947, by the Council of Foreign Ministers, as may be agreed in ACC (Allied Control Council).

#### **10. War Crimes**

You will make every effort to facilitate and bring to early completion the war crimes program subject to the conclusions and recommendations with respect to organizations and members thereof contained in the judgment of the International Military Tribunal.

#### **11. Courts and Judicial Procedures**

a. You will exercise such supervision over German courts as is necessary to prevent the revival of National Socialist doctrines, to prohibit discrimination on grounds of race, nationality, creed or political belief, to enforce the application of the principles expressed in Control Council Proclamation No. 3 and compliance with the provisions of Control Council and Military Government legislation. You will foster independence of the German judiciary by allowing the courts freedom in their interpretation and application of the law and by limiting the control measures instituted by Military Government to the minimum consistent with the accomplishment of the aims of the occupation.

b. You will maintain sufficient Military Government courts to try persons accused of offenses involving the safety and security of United States and Allied personnel and all cases in which the interest of Military Government requires such procedure.

c. You may extend the jurisdiction of the German courts to all cases which do not involve the interests of Military Government or persons under the protective care of Military Government. Any German tribunal established for the purpose of determining internal restitution claims may exercise jurisdiction over any person, irrespective of his status, who institutes a proceeding therein.

d. As a basic objective of the occupation is the re-establishment of the rule of law in Germany, you will require all agencies under your control to refrain from arbitrary and oppressive measures. Except when it clearly appears that detention is necessary for the security of the occupying forces, no person will be detained except when he is charged with a specific offense and is subject to trial by a duly constituted tribunal. You will protect the civil rights of persons detained under charges assuring them a fair trial and ample opportunity to prepare their defense. You will by regulation limit arrests for security purposes to cases where over-riding considerations of military necessity require such procedure. Persons so detained will be permitted to communicate with their nearest relative or friend unless urgent security considera-

tions require an exception, and you will review their cases periodically to determine whether further detention is warranted. When in your opinion it will be compatible with security considerations, you will eliminate such arrests without prejudice to a revival of the practice in emergencies.

## 12. Legislation

You will exercise your power of disapproval over German legislation only when such legislation conflicts with the legislation or other policies of Military Government.

## 13. Movement of Persons

a. You will implement the decisions taken 23 April 1947 by the Council of Foreign Ministers with regard to United Nations displaced persons and population transfers.

b. You will, in cooperation with IRO (International Refugee Organization), facilitate the emigration to other countries of those displaced persons unwilling to be repatriated.

c. Pending the movement of displaced persons, you will retain overall responsibility for their appropriate care, maintenance and protection. You will utilize the IRO to the maximum possible extent in assisting you to discharge this responsibility.

d. The term displaced persons as used above refers to displaced persons and refugees as defined in the IRO Constitution.

e. You will hold the German authorities responsible for the care and disposition of nationals of former enemy countries not otherwise provided for herein, and you will continue to facilitate their repatriation.

f. You will require that persons of German extraction who have been transferred to Germany be granted German nationality with full civil and political rights except in cases of recognized disqualifications under German law. You will take such measures as you may deem appropriate to assist the German authorities in effecting a program of resettlement.

g. You will continue to permit the exchange of Germans seeking permanent residence between the United States zone and other zones on a reciprocal basis. You will permit free movement for temporary purposes to the greatest possible extent consistent with security considerations and with inter-zonal or quadripartite agreement.

h. You will continue to receive those Germans whose presence abroad is deemed by your Government to be contrary to the national interest. You will likewise permit the re-entry of German and former German

nationals who desire to return permanently, but in view of restricted facilities you will give priority to those who are willing and able to contribute to the peaceful reconstruction of Germany.

*i.* You will permit only those Germans to leave Germany who are included in categories approved by Allied agreements or your Government's instructions.

#### 14. Prisoners of War

In carrying out the decision of the Council of Foreign Ministers of 23 April, 1947, you will press in the Control Council for the earliest possible return of all German prisoners of war still located in the territories of the Allied powers and in all other territories.

#### 15. General Economic Objectives

The economic objectives of the United States Government in Germany are:

- a.* to eliminate industry used solely to manufacture and to reduce industry used chiefly to support the production of arms, ammunition and implements of war;
- b.* to exact from Germany reparation for the losses suffered by United Nations as a consequence of German aggression; and
- c.* to encourage the German people to rebuild a self-supporting state devoted to peaceful purposes, integrated into the economy of Europe.

Although the economic rehabilitation of Germany, within the framework of these objectives, is the task and responsibility of the German people, you should provide them general policy guidance, assist in the development of a balanced foreign trade and insure that German efforts are consistent with, and contribute to, the fulfillment of your Government's objectives.

#### 16. Economic Disarmament and Reparation

*a.* Your Government continues to desire the general fulfillment of the principles of the Potsdam Agreement regarding reparation and industrial disarmament.

*b.* Your Government believes that the level of industry eventually agreed upon for Germany as a basis for reparation removals, while eliminating excess industrial capacity which has been used by Germany for the purpose of making war, should not permanently limit Germany's industrial capacity. The German people after the period of reparation removals should not be denied the right, consistent with continued disarmament, to develop their resources for the purpose of achieving higher standards of living.

*c.* Your Government does not agree to reparation from Germany

greater than that provided by the Potsdam Agreement. Nor does your Government agree to finance the payment of reparation by Germany to other United Nations by increasing its financial outlay in Germany or by postponing the achievement of a self-sustaining German economy. Your Government reaffirms the principle that the proceeds of authorized exports shall be used in the first place for the payment of authorized imports.

*d.* You will attempt to obtain Control Council recognition of the principle of compensation for property taken for reparation or where it has been necessary to destroy property under the agreements for economic disarmament, such compensation to constitute a charge against the German economy as a whole. Except in prohibited industries, you will endeavor to insure, to the greatest extent practicable, that no plant in which there is foreign ownership or control is removed for reparation as long as German-owned plants are available for that purpose.

*e.* You will continue to assist in the location of cloaked German-owned assets abroad and where possible you will assist in their liquidation.

#### 17. Restitution

*a.* You will proceed, consistent with agreements on restitution reached in the Control Council, to restore such identifiable property other than gold and transport essential to minimum German economy, to the Government of the country from which it was taken. You will not consent to any extensive program for the replacement of looted or displaced property which has been destroyed or cannot be located whenever such replacement can be accompanied only at the expense of reparation, a self-sustaining German economy or the cultural heritage of the German people.

*b.* You will turn over monetary gold uncovered in Germany to the Tripartite Gold Commission in Brussels for distribution in accordance with the terms of the Paris Act on Reparation.

*c.* In accordance with JCS 1570/9, you will make available for the rehabilitation and resettlement of non-repatriable victims of German action valuable personal property looted from Nazi victims which is not restitutable.

*d.* It is the policy of your Government that persons and organizations deprived of their property as a result of National Socialist persecution should either have their property returned or be compensated therefor and that persons who suffered personal damage or injury through National Socialist persecution should receive indemnification in Ger-

man currency. With respect to heirless and unclaimed property subject to internal restitution you will designate appropriate successor organizations.

*18. Economic Unity and Recovery*

*a.* Your Government is desirous of securing agreement in the Control Council to the treatment of Germany as an economic unit, the formulation of common policies in all matters affecting Germany as a whole and the establishment of central German administrative agencies for the purpose of implementing such common policies in the fields of finance, transport, communications, agriculture, economics (including industry and foreign trade) and such other fields as the Control Council may consider necessary and appropriate.

*b.* Your Government likewise desires to secure the adoption of a production and foreign trade program for Germany as a whole which should be directed toward an increasing standard of living in Germany and the attainment at the earliest practicable date of a self-sustaining German economy. Such a program should give highest priority to increased production of coal, food and export goods; provide for such allocation and distribution of German indigenous output and approved imports throughout Germany as are necessary to carry out the production program and attain the agreed standard of living; insure full payment for all goods and services exported from Germany (other than reparation or restitution) in approved imports or in foreign exchange which can be utilized for the payment of approved imports and provide for the pooling of all export proceeds to be made available, first to meet the import needs of Germany as a whole for such time and in such amount as may hereafter be determined, and secondly to compensate the occupying powers for past expenditures pursuant to terms and conditions to be established hereafter, priority in the latter case being given to payment of costs sustained for essential imports in direct proportion to the expenditures made by the occupying powers.

*c.* In cases where the restoration of normal international commercial relations between Germany and the rest of Europe would involve an increase of United States dollar expenditures for the government of Germany, or a delay in the attainment of a self-supporting German economy at an appropriate standard of living, funds for German expenditures shall be increased, or the German economy compensated through provision by the United States of sufficient relief monies to the country or countries so benefited to enable them to pay Germany. You will consult other European countries and international organizations representing such countries in matters of German production

and trade mentioned above, and insure that emphasis is given, in the selection of items for export, to goods needed by European countries for their economic recovery and rehabilitation in so far as these countries may provide in payment needed imports for Germany, or foreign exchange which can pay for such imports. Proposed transactions of a substantial nature which would lead to a restoration of general European trade or normal international commercial relations or restore normal trade exchanges between Germany and other European countries, but which would not conform to the principles stated in this paragraph, should be referred to the United States Government for decision.

*d.* You will support the removal of existing trade barriers and will encourage the return of foreign trade to normal trade channels.

#### 19. Finance

*a.* Your Government views the reorganization of German finances on a sound basis and the attainment of financial stability in Germany as among the main factors essential to German economic recovery along democratic and peaceful lines. To that end, you will endeavor to have the Control Council adopt uniform financial policies in conformity with the principles and the objectives set forth in this directive.

*b.* Pending agreement in the Control Council, or until receipt of further directive from your Government, you will continue to be guided by the following policies in your zone:

(1) You will control, within the scope of your authority, all financial transactions of an international character in order to keep Nazi influence out of the field of finance and prevent outward movements of capital from Germany,

(2) you will exercise general supervision over German public expenditures and measures of taxation in order to insure that they are consistent with the objectives of the Military Government;

(3) you will take such action as may be necessary to prevent the establishment of a centralized German banking system and an undue concentration of financial power, but will encourage the establishment of a central authority for the production, issuance and control of currency and for technical banking supervision. You will also encourage the Germans to re-establish normal banking facilities within the limitation prescribed above and within the present blocking of assets and accounts under Military Government Law No. 52;

(4) you will use the resources of the German economy to the maximum extent possible in order to reduce expenditures from appropriated funds of your Government. You are authorized, as provided in the

Potsdam Agreement, to use the proceeds of exports to pay for imports which you deem essential, subject to strict accounting and auditing procedures;

(5) you will continue to aid economic recovery by collection of full payment for exports of German goods and services; and

(6) you will continue to prevent nonessential imports.

c. You will press for the adoption by the Control Council of a program for financial reform which provides for a substantial and appropriate reduction in outstanding currency and monetary claims, including public and private debt; for the equitable sharing of the costs of war and defeat; and for ancillary measures including adjustments in the wage-price structure necessary to the restoration of balance between the financial structure and the economic realities.

d. (1) You will maintain such accounts and records as may be necessary to reflect the financial operations of the Military Government (United States) in Germany, including also such operations undertaken jointly by you with the Military Government in the British and other zones of occupation in Germany.

(2) You will take measures necessary for calculating occupation costs distinguishing those now incurred within Germany and supported by the German economy, and external occupation costs for eventual settlement with Germany. You will endeavor to agree on a definition of occupation costs of both types within the Control Council and to limit and control internal occupation costs on a quadrilateral basis.

## 20. Agriculture

a. In accordance with the decision of 23 April 1947 of the Council of Foreign Ministers, you will insure the carrying out and completion of land reform in your zone in 1947.

b. You will require the appropriate German authorities to adopt and implement policies and practices which will maximize the production and provide for the effective collection and distribution of agricultural products.

c. You will require the appropriate German authorities to adopt and implement similar policies and practices in respect to forestry and fishing resources.

## 21. Economic Institutions

a. Pending agreement among the occupying powers, you will in your zone prohibit all cartels and cartel-like organizations, and effect a dispersion of ownership and control of German industry through the dissolution of such combines, mergers, holding companies and inter-

locking directorates which represent an actual or potential restraint of trade or may dominate or substantially influence the policies of governmental agencies. You will not, however, prohibit governmental regulation of prices or monopolies subject to Government regulation, in fields where competition is impracticable. In so far as possible, you will coordinate your action in this field with the commanders of other zones of occupation.

*b.* You will permit the formation and functioning of cooperatives, provided they are voluntary in membership and are organized along democratic lines and do not engage in activities prohibited under the above paragraph.

*c.* While it is your duty to give the German people an opportunity to learn of the principles and advantages of free enterprise, you will refrain from interfering in the question of public ownership of enterprises in Germany, except to insure that any choice for or against public ownership is made freely through the normal processes of democratic government. No measure of public ownership shall apply to foreign-owned property unless arrangements which are satisfactory to your Government have been made for the compensation of foreign owners. Pending ultimate decision as to the form and powers of the Central German Government you will permit no public ownership measure which would reserve that ownership to such Central Government.

*d.* Pending agreement among the occupying powers, you will limit new foreign investment in your zone of Germany and will continue to insure that all property, however owned, and all production and manpower in your zone are subject in all respects to the decisions and directives of the Control Council and to Military Government and German law.

*e.* (1) You will permit the organization, operation and free development of trade unions, provided that their leaders are responsible to the membership and their aims and practices accord with democratic principles. Any federation of trade unions shall not impair the financial and organizational autonomy of member unions. You will encourage the trade unions to support programs of adult education and to foster an understanding of democratic processes among their members. You will permit trade unions to act in the interests of their members and to bargain collectively regarding wages, hours and working conditions within the framework of such wage and price controls as it may be necessary to maintain.

(2) Trade unions may represent the occupational, economic and social interests of their members in accordance with the authority con-

tained in their constitutions. Their basic functions may include participation with appropriate authorities in the establishment and development of a peaceful economy.

f. You will permit the organization and functioning of work councils on a democratic basis for the representation of the interests of employes in individual enterprises and will not prohibit the cooperation of trade unions therewith.

g. You will also permit the establishment of machinery for the voluntary settlement of industrial disputes.

## VI

### 22. Cultural Objectives

Your Government holds that the re-education of the German people is an integral part of policies intended to help develop a democratic form of government and to restore a stable and peaceful economy; it believes that there should be no forcible break in the cultural unity of Germany, but recognizes the spiritual value of the regional traditions of Germany and wishes to foster them; it is convinced that the manner and purposes of the reconstruction of the national German culture have a vital significance for the future of Germany.

It is, therefore, of the highest importance that you make every effort to secure maximum coordination between the occupying powers of cultural objectives designed to serve the cause of peace. You will encourage German initiative and responsible participation in this work of cultural reconstruction and you will expedite the establishment of these international cultural relations which will overcome the spiritual isolation imposed by National Socialism on Germany and further the assimilation of the German people into the world community of nations.

### 23. Education

a. In recognition of the fact that evil consequences to all free men flow from the suppression and corruption of truth and that education is a primary means of creating a democratic and peaceful Germany, you will continue to encourage and assist in the development of educational methods, institutions, programs and materials designed to further the creation of democratic attitudes and practices through education. You will require the German Laender authorities to adopt and execute educational programs designed to develop a healthy, democratic educational system which will offer equal opportunity to all according to their qualifications.

b. You will continue to effect the complete elimination of all Na-

tional Socialist, militaristic and aggressively nationalistic influences, practices and teachings from the German educational system.

**24. Religious Affairs**

*a.* You will, in the United States area of occupation, continue to assure freedom of religion. You will assure protection of religious activity and support these principles in the deliberations of the Control Council.

*b.* You will give freedom to the Germans to decide all questions concerning the constitution, the religious activity and the amalgamation of purely ecclesiastical bodies.

*c.* You will continue to take such action as may be necessary to prevent the revival of National Socialist and militaristic activity under the cloak of a religious program or organization.

**25. Monuments, Fine Arts and Archives**

*a.* You will respect, and permit German authorities to protect and preserve, the property of all cultural institutions dedicated to religion, charity, education, the arts and sciences, historic monuments and historic archives, together with their collections and endowments. You will apply the same principle to all other property of cultural value, whether publicly or privately owned, except for institutions and monuments specifically devoted to the perpetuation of National Socialism or to the glorification of the German militaristic tradition.

*b.* You are authorized to make such use of German records and archives as may be appropriate.

**26. Public Information**

*a.* You will, in the United States area of occupation supervise, encourage and assist in the development by the Germans of media of public information designed to advance the political and cultural objectives stated in this directive.

*b.* You will arrange through the Allied Control Council for the implementation of the decision of 23 April 1947 of the Council of Foreign Ministers on the free exchange of information and democratic ideas by all media in all of Germany.

*c.* You will develop and maintain organizations and facilities for the operation of media of information, including those sponsored by Military Government, designed to further the objectives of your Government.

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### **27. Re-establishment of International Cultural Relations**

In furtherance of the program of the reorientation of the German people and the revival of international cultural relations, you will permit and assist the travel into and out of Germany of persons useful for this program within the availability of your facilities. You will also permit and assist, to the extent of your facilities, the free flow of cultural materials to and from Germany.

# APPENDIX G

## REVISED PLAN FOR THE LEVEL OF INDUSTRY IN THE UNITED STATES—UNITED KINGDOM ZONES OF GERMANY

*Berlin, Aug 29, 1947*

### PREAMBLE

In March, 1946, the four occupying powers, acting through the Allied Control Authority, adopted a plan for reparations and the level of the postwar German economy. The objectives of the plan were to eliminate Germany's war potential, to provide reparations and yet to leave within Germany the necessary plant and equipment to permit the rebuilding of a viable peaceful economy.

Experience has shown the necessity for revision of the plan, which was based on specific assumptions that have not been fulfilled. Neither the bi-zonal area nor all of Germany can regain economic health under the plan as it now stands. Moreover, it has become increasingly apparent that under present conditions Germany cannot contribute her indispensable part to the economic rehabilitation of Europe as a whole.

The revised plan continues to observe the same objectives as the original plan.

Consideration has been given throughout to the necessity for insuring that the bi-zonal plan can be assimilated into a plan for Germany as a whole. The offer to the other occupying powers to join the bi-zonal area in developing a unified German economy still stands. The plan has been developed with due regard to the hope that this offer will be accepted.

### GENERAL CONSIDERATIONS

The industrial capacity retained under the March, 1946, plan was estimated to provide production equal to 55 per cent of 1938, which would have been about 70-75 per cent of the 1936 production. The effect of the new plan will be to retain sufficient capacity in the bi-zonal area to approximate the level of industry prevailing in Germany

in 1936, a year that was not characterized by either boom or depressed conditions.

The old plan provided for very sharp cuts in production capacities in the metals, machinery and chemicals industries, from which the bulk of reparations were to be obtained. It is impossible to provide a self-sustaining economy in the bi-zonal area without materially increasing the levels of these industries. Substantially the entire difference between the original and the revised plan is in these reparations industries, since the original plan already provided for maximum, and in some cases unrealistic, levels for nonreparations industries. Under the revised plan, capacities in the metals, machinery, and chemicals industries will be sufficient to permit production at levels averaging about 5 or 10 per cent less than 1936. As compared with the war year 1944, the proposed levels represent a reduction of 55 to 60 per cent.

It must be borne in mind that the bi-zonal area already has a population at least 6,000,000 more than in 1936 and by 1952 may be expected to have a population of from 8,000,000 to 10,000,000 greater than before the war. On the basis of an expected population of 42,000,000 to 44,000,000 in the bi-zonal area by 1952, the per capita production capacity provided in the new plan would be approximately 75 per cent of 1936.

In developing the bi-zonal plan, the overriding requirement has been to provide a level of industry necessary to make the area self-supporting. In determining levels for specific industries, for example, steel and machinery, requirements for exports, for internal needs of the bi-zonal area and for trade with the rest of Germany have been taken into account. In evaluating the requirements for trade with Germany and imports, account had to be taken of removals of capital equipment from the other zones and Berlin. The potential output of particular industries therefore allows for the needs of the rest of Germany through trade, and the capacities retained for this purpose represent the requirements of the bi-zonal area. In other words, the bi-zonal area, in order to be self-supporting, must obtain products in which it is deficient either as imports from outside Germany or in trade from the rest of Germany.

#### REQUIREMENTS FOR A BALANCED ECONOMY

In addition to its pre-war foreign trade, the bi-zonal area must produce a surplus over its internal requirements for trading with the remainder of Germany; this particularly affects the requirements for industrial capacity in steel and steel products, which are the most needed and therefore most dependable trade commodities required

by the rest of Germany in exchange for key products essential to the bi-zonal economy.

#### *Change in Price Relationships*

World food and raw material prices have increased more rapidly than the prices of manufactured goods since 1936, and this situation seems likely to continue. Consequently the bi-zonal area must be prepared to exchange in foreign trade proportionately larger quantities of industrial products in return for the necessary food and raw material imports.

#### *Imports*

In a general way the bi-zonal area accounted for the whole of Germany's pre-war food deficit, as the remainder of Germany was about self-sufficient in foodstuffs, it is estimated that imports of food, seed and fertilizer sufficient to make possible an essential diet will amount to \$1,000,000,000 to \$1,250,000,000 at current prices.

Firstly, industrial imports from other countries to the bi-zonal area were approximately 1,500,000,000 Reichsmarks in 1936, which represents at least \$1,000,000,000 at current prices. But the altered character of German trade will make it possible to reduce this figure.

Secondly, the invisible items of Germany's foreign trade were approximately balanced before the war. Present calculations, which make no provision for invisibles on either side of the account may be optimistic.

Thirdly, the foregoing considerations lead to the conclusion that the total bi-zonal requirements from outside Germany will be approximately at least \$2,000,000,000 at current prices. Repayment of advances by occupying powers would be an addition to these estimates.

#### *Exports*

The 1936 exports from the bi-zonal area were approximately 2,600,000,000 Reichsmarks, which is estimated to represent about \$1,750,000,000 at current prices.

Firstly, these estimates therefore indicate that, in addition to trade requirements for the rest of Germany, the bi-zonal economy will need to export to other countries at least 15 per cent more in volume than in 1936. Since trade between the bi-zonal area and the rest of Germany is subject to greater uncertainty than the former internal trade, the result may be to increase still further the need for trade with other countries.

Secondly, before the war the broad fields of metals, machinery and chemicals accounted for two-thirds of the total exports. Production of textiles, ceramics, and consumer goods can be raised, but the extent to which additional sales above pre-war levels can be sold on export

markets is difficult to predict. Exports from unrestricted industries would need be increased approximately 90 per cent if higher export requirements were provided entirely from unrestricted industries, which is obviously impracticable. Therefore the level of exports from restricted industries will need to be greater than before the war.

#### INCREASED LEVELS IN RESTRICTED INDUSTRIES

The following determinations have been reached with respect to industries restricted under the original Level-of-Industry Plan.

(Note: All figures stated in Reichsmarks refer to 1936 prices.)

##### *Steel*

In the March, 1946, Level-of-Industry Plan steel capacity for all Germany was limited to 7,500,000 tons, with actual production in any single year not to exceed 5,500,000 tons. Careful calculations show this level would be clearly insufficient even to support the level of industry contemplated in the original plan, and it is far too low to provide for the needs of the economy under the revised plan. It has been determined that in order to support the revised level of industry in the bi-zonal area and to permit that area to become self-supporting, the limit of annual steel production in the bi-zonal area shall be fixed at 10,700,000 ingot tons per annum, and sufficient capacity to produce that tonnage shall be retained.

##### *Mechanical Engineering Industries*

Firstly, the machinery industry—Sufficient capacity will be retained to produce 500,000,000 Reichsmarks, which is about 80 per cent of pre-war production. This leaves 3 per cent of the present capacity to be removed as reparations as against 60 per cent under the previous plan.

Secondly, the light machinery industry—Capacity in the bi-zonal area is estimated as about 1,195,000,000 reichsmarks. Capacity will be retained to produce 916,000,000 reichsmarks, which is 119 per cent of pre-war production. This leaves 35 per cent of the present estimated capacity available for reparations as compared with 33 per cent under the old plan.

(Note: Grouping heavy and light machinery, the revised level is 105 per cent of pre-war production.)

Fourthly, fine mechanics and optics—In the field of precision optics no plants will be made available for reparations. The capacity is to be retained to provide for internal needs and to attain exports of the same products equal to those of the bi-zonal area in 1936. In the case of photo-technics, no plants are to be made available for reparations, and the retained capacity will be used to attain 150 per cent of

pre-war exports in this field from the bi-zonal area as well as to provide for internal requirements.

In the watch-making industry, one plant, which had been converted to war use, will be made available for reparations.

Capacity in excess of pre-war will be retained in the field of precision mechanics. However, all plants which have been built for or substantially modified for war use will be made available for reparations.

Fifthly, machine tools—The March, 1946, Level of Industry Plan permits production of 74,000,000 reichsmarks in all of Germany, or 11.4 per cent of the 1938 output. The bi-zonal area before the war produced about 43 per cent of Germany's machine tools. The present capacity is estimated at 259,000,000 reichsmarks. It has been determined that capacity sufficient to produce 170,000,000 reichsmarks must be retained in order to support the revised level of industry. This will leave about 35 per cent of the present capacity for reparations.

#### *Agriculture and Road Tractors*

The estimated bi-zonal capacity for agriculture and road tractors is 16,500. This is inadequate to meet the bi-zonal requirements, which are estimated to be 19,500. Consequently there will be no reparations from this industry.

#### *Transportation Industries*

The Automotive Industry—Capacity will be retained for the production of 160,000 passenger cars and 61,500 commercial vehicles. This compares with 42,000 passenger cars and 38,000 commercial vehicles allotted to the bi-zonal area under the old plan.

#### *Electrical Engineering*

The present capacity of the electrical industry in the bi-zonal area is required with the exception of three wartime plants. Capacity is estimated to be about one-half greater than prewar. This increase is necessary because prewar requirements of the bi-zonal area were in large part met from the capacities of Berlin, which have been almost totally dismantled. Under the old plan about one-quarter of the present bi-zonal capacity would have been removed.

#### *Chemicals*

Firstly, approximately the 1936 capacity will be retained in the chemical industry, which is about 42 per cent more than that provided in the old plan. However, a large number of explosive and other chemical plants were developed for war purposes.

Between 40 and 50 per cent of the total chemical capacity, including war explosives, will therefore be removed as reparations or destroyed. More than three-quarters of such removals represent war explosive

plants that have already been offered for reparations or declared for destruction.

Secondly, for the plastics industry a capacity somewhat larger than prewar will be retained. Approximately one-quarter of the existing capacity in this industry will be made available for reparations.

Thirdly, capacity for production of 34,000 tons of dyestuffs will be retained, which is somewhat below prewar. One plant will be available for reparations from this industry, with a capacity of 2,500 tons of sulphur black dyes.

Fourth, one pharmaceutical plant for the production of atabrine will be available for reparations. This will leave the bi-zonal area with a capacity equal to about 87 per cent of prewar production.

Fifth, in miscellaneous chemical groups a capacity greater than the prewar level of production will be retained. About 15 per cent of the capacity will be available for reparations.

Sixth, in the basic, organic, and inorganic chemical industries sufficient capacity will be retained to permit output at about prewar levels. Not more than 17 per cent of the present capacity will be removed as reparations.

#### *Cement*

All the cement capacity in the bi-zonal area is required and will be retained.

#### *Electric Power*

Except for certain power stations attached to industrial plants scheduled for reparations under this plan, and power plants already allocated for reparations, no further removals will take place. In order to sustain the levels of production required by the bi-zonal economy, present power plants in the bi-zonal area will have to be substantially repaired and replaced to meet power requirements.

#### *Non-ferrous Metals*

Bi-zonal copper requirements are 93 per cent of the estimated current refining capacity. Fabricating capacity for 215,000 tons of copper in the bi-zonal area will be retained, as compared with 140,000 tons for all of Germany under the old plan. This will make available for reparations one smelter plant and an appreciable quantity of fabrication facilities, including special pieces of equipment that are surplus to individual plants.

#### PROHIBITED INDUSTRIES

Production of aluminum, beryllium, vanadium, and magnesium is prohibited under the previous Level-of-Industry Plan.

No plants in these industries will be made available for reparations

purposes pending further review. No change is proposed in arrangements made under the previous plan in regard to ball bearings, synthetic ammoniac, synthetic rubber, and synthetic gasoline and oil.

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### *About the Author*

OF AUSTRIAN origin, trained from early youth as a writer on economics and politics, Gustav Stolper became in the 'twenties owner, publisher, and editor of the *German Economist* in Berlin, a weekly journal. Till the advent of Hitler, Stolper and his paper were in the forefront of the fight against Hitlerism and reaction. Aside from the political fight — also carried on as a leader of the Democratic Party and member of the Reichstag for Hamburg — Stolper's strength lay in his thorough knowledge and independent judgment of the European economic set-up.

In 1933 Gustav Stolper came to America with his family, and immediately set his full energy to the job of becoming an expert in his field and as much conversant with civic affairs here as he had been in the old countries.

In February 1947 came the acknowledgement of a complete fusion of the two halves of Stolper's professional background, when Herbert Hoover chose him as his economic expert on his Presidential Mission to Germany. Their findings were laid down in Hoover's Third Report to the President, issued in March 1947. This book is the outcome of intense study then started and carried further during two months in Switzerland, and was completed before the author's death in December, 1947.

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