

War Reparations and Germany's 1952 Debt Reduction Plan

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The largest debt problems in terms of GDP faced in financial history have belonged either to the United States or to European Governments. Large debt problems in developing and emerging nations have usually stemmed out of a drop in GDP size due to a fall in export earnings and a rise in interest rates. The reason is that creditors stop lending at a certain point and start restructuring existing debt which leads to debt growth but it is not really new lending. In major nations, lending goes on as the strategic reason for borrowing has normally been justified: a war. As a result, the leading debt reduction and innovative management schemes are related to these.

Contrary to the impression generated by extensive works on the Latin American and African debt, it is the under researched European and US historical debt that must be looked into in order to understand some historical solution patterns to debt problems. Current European very high debt levels (over 90% of GDP) are due partially to accumulated current account deficits of over 3% of GDP for over a decade plus the cost of bank rescues in 2009-2010 plus some countercyclical policy costs. Greece has additional debt due to major infrastructure works. It entered the Euro with a high debt level (around 100% of GDP) but the total GDP amount shrunk 33.3% from 55,318 million euros to 36,866 million euros in constant terms between 2007 and 2013 as a result of austerity policies. [\[1\]](#) If GDP had remained stagnant, the index would be 131% and not 174.9% and rising.

Historically the debt that arose from the Confederate States of the United States was not recognised by the US Federal Government and was subject to complicated negotiations with British private bondholders until the late 1920's when it was finally agreed that it would not be repaid. (Corporation of Foreign Bondholders, First Annual Report of the Council, London, February, 1904 and Fifty Seventh Annual of the Council, London, 1930) What was agreed finally in the League of Nations was that State debts have always to be guaranteed by the National Governments in order for creditors to be able to collect their debts.

The debt discussion revived after WWI, as the European war was financed locally in each country and internationally by the United States from 1915 onwards. This implied two things: first, the UK borrowed from the United States and onlent to third parties; and secondly the warring countries additionally borrowed directly from the US. At the end of the war this had to be solved somehow in order for those countries to recover growth. This is dealt with in H. Fisk's *The Inter Ally Debts. An Analysis of War and Post War Public Debts*.

New York, Banker's Trust, 1924. Germany was not able to float bonds in New York after the War was declared so they only borrowed in Marks and dealt with through hyperinflation that did away with most of its value in 1922-1923.

Another aspect of the German debt was the introduction of reparation payments that although just from an ethical point of view, were extremely large for the economic capacity of the country as Keynes pointed out in his *Economic Consequences of the Peace*. According to Professor Albrecht Ritschl [\[2\]](#) from the LSE Germany managed to keep afloat borrowing money from the US during the 1920's. The two largest loans are the Dawes Plan and the Young Plan but there were other loans adding up to 840.7 million dollars in 1939. The Young Plan contained massive debt reduction. Reparations payments were never met in full in the 1920's and were suspended in 1932. They were reinitiated in 1990 without any readjustment in value after the reunification. The last quota was paid in 2010. [\[3\]](#)

In October 1929, U.S. President Hoover, under pressure from US academia, announced the creation of a Hoover Year that was meant to restructure debts payments due from July 1, 1931 to June 30, 1932, into ten yearly quotas. The mechanism would be in place as long as it was needed. The object was to relieve the UK from its payments to the US and to transfer this benefit on to the other allies that in turn would transfer them to German reparations. This relief was later eschewed by Chancellor Hitler who, after winning the elections, declared a debt cease payment in June 1933.

After WWII, in May 1951 a tripartite commission was formed by the US, UK and France in order to discuss post war and pre war debts. All creditors met in London in July 1951 to see what to do with the German debts and the solution proposed by Germany and widely accepted by the US and UK was that as Germany was divided into two, the debt would have to be divided equally and only 50% of the total public debt would be negotiated. Reparations would not be restored until after reunification. The other half would be left for negotiations also after the reunification, someday.

The Tripartite Commission announced that they were prepared to make important concessions in terms of the amounts and priorities of their claims some referred to post war assistance (1945-1951), making it clear that post war debts were conditioned by satisfactory and equitable agreement on pre-war debt. The amounts owed in 1939 were: 840.7 million dollars, 51.5 million pounds and 2,775.2 million French Francs, to name the debts of the leading three creditors. In 1939 constant US dollars the equivalent would be 206 billion dollars.

This plus the debt to the other 67 countries was reduced first by 50% and then the remaining 50% was reduced by half and made payable over a 25 year period (1953 to 1979). More interestingly, when the German unification finally came about, The German Federal Government demanded that the winning countries (of WWII) do not place a debt burden on the defeated countries, I.E. on East Germany. If they had respected the 1953 London agreement it would have meant recognising the other 50% of the debt and doing something with it. Instead, Germany was given a massive debt reduction in exchange for restoring reparations payments without any adjustment in value.

The German people should be grateful and remember the massive debt reductions and the concessional terms it received in time of need and despair after World War II. No one at the time either in the US, UK nor France, to name the three largest creditors, said "the taxpayers were unwilling to bail out those people." History serves a purpose and we should

all learn from it.

Source : [Alainet](#)

Notes

[1] <http://www.tradingeconomics.com/gre...>

[2] <http://www.lse.ac.uk/researchAndExp...>

[3] <http://www.spiegel.de/international...>

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