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TIMOTHY W. GUINNANE

Financial 'Vergangenheitsbewältigung': The 1953 London Debt Agreement[1]

ABSTRACT: When the Federal Republic of Germany came into being in 1949, German citizens and earlier German governments were in default on some 30 billion Marks. The 1953 London Debt Agreement cut those debts by slightly more than half and extended the repayment periods. The Agreement also allowed Germany to postpone some payments until reunification. The London deal reflects a subtle and responsible understanding of the problems associated with the reparations and debt crises of the 1920s and 1930s, as well as fears about the moral hazard problems that would arise with making any part of the Agreement contingent on events Germany could influence. The generous terms offered to Germany reflected its central role in the European economy as well as U.S. foreign policy goals in the emerging Cold War.

"Über das Schuldenabkommen ist so viel Oberflächliches und Unfachmännisches geschrieben und gesagt worden, daß es, glaube ich, notwendig ist, sich einmal im Ernst über einige Punkte, den Inhalt, die Form sowie die Bedeutung des Schuldenabkommens für die Gesamtwirtschaft auszuprechen."[2]

Two days after the former German Democratic Republic ('East Germany') became part of the Federal Republic of Germany in October of 1990, the German Debt Administration announced that it would issue a new set of bonds.[3] An observer might have thought that the new bonds were to pay for investments to upgrade the former East Germany's crumbling infrastructure or for some other purpose related to the

1 For suggestions and comments I thank Christophe Chamley, Michael Ebi, Jeremy Edwards, William English, Hanna Floto-Degener, Richard Grossman, Harold James, Philipp Keßler, Christopher Meissner, Steven Nafziger, Jonas Scherner, Steven Schuker, Jochen Streb, John A. Thompson, Richard Tilly, and the late Henry A. Turner. Piet Clement of the Bank for International Settlements helped locate material. An earlier version of this paper appeared as Yale Economic Growth Center Discussion Paper No. 880, January 2004. An extract appears as a chapter in Timothy W. Guinnane, German Debt in the Twentieth Century, in: William N. Goetzmann/K. Geert Rouwenhorst (Eds.), The Origins of Value. The Financial Innovations that Created Modern Capital Markets. Oxford 2005, pp. 327–324. The late Christoph Buchheim provided especially useful comments.

2 Hermann Josef Abs, Das Londoner Schuldenabkommen, in: id., Zeitfragen der Geld- und Wirtschaftspolitik. Frankfurt am Main 1959, pp. 11–42, esp. p. 11 (*"So much that is superficial and inexpert has been written and said about the debt agreement that I believe it is necessary for once to speak out on several points concerning its substance, form, and significance for the economy."*).

3 Hans-Georg Glasemann, Deutschlands Auslandsanleihen 1924–1945. Rückzahlungen nach der Wiedervereinigung unter dem Londoner Schuldenabkommen von 1953. Wiesbaden 1993, p. 53.

integration of the two economies. But these new bonds were to repay obligations Germany had incurred as long ago as the 1920s. This fact should puzzle: The Nazi regime had effectively defaulted on that debt. And in any case, why should Germany, in 1990, start repaying debts incurred so long ago? The simple answer is that these repayments were required under the 1953 London Debt Agreement, which reduced the outstanding debt by more than half, and which marked the end of Germany's isolation from international capital markets.

A more complete explanation starts with the Versailles Treaty and the terms that the Treaty imposed on Germany, most notably the reparations. Along the way it became clear that although the Germans were supposed to pay, what they actually did was borrow more and more from other countries. In June of 1931, U.S. President Hoover called a moratorium on international debt payments, including Germany's reparations obligations. Subsequently, the 1932 Lausanne Conference resulted in the permanent suspension of war-reparations payments. After taking power in 1933, the Nazi regime extended earlier measures to block repayment of the outstanding debt. The matter remained moot during World War II, although creditors had not forgotten what Germany owed. After the Second World War, the German government successfully argued that it should not have to assume the obligation for the entire debt since it only represented what was then West Germany. Germany's creditors also agreed to reduce the outstanding debt to a figure Germany could afford. Thus what became known as the London Debt Agreement (hereafter, LDA) of 1953 stipulated that some payments would be postponed until German reunification. Those notices about new German bonds were announcing the financial end to Europe's second Thirty Years War.[4]

The sovereign debt crisis that has gripped Europe since 2009 has led many to comment on the LDA. In one of the first scholarly contributions on the London Agreement, Buchheim noted the paucity of interest in the subject.[5] The situation has changed since then. In addition to Buchheim's later writings, several studies have considered the LDA either in isolation or as part of a larger question. Gall's biography of Hermann J. Abs, the leading German negotiator in London, includes a detailed chapter on Abs's role in both the London Agreement and the agreement with Israel and the Jewish Claims Conference (discussed below).[6] Scholtyseck offers a more recent short discussion.[7] Buxbaum stresses the London Debt Agreement's role in frustrating

4 The Federal Republic of Germany ('West Germany') took responsibility for the debt and is the main actor in this account. I will use the terms Germany, Federal Republic, and West Germany interchangeably.

5 Christoph Buchheim, Das Londoner Schuldenabkommen, in: Ludolf Herbst (Ed.), Westdeutschland 1945–1955. Unterwerfung, Kontrolle, Integration. München 1986, pp. 219–229, esp. p. 222.

6 Lothar Gall, Der Bankier Hermann Josef Abs. Eine Biographie. München 2004.

7 Joachim Scholtyseck, Das Londoner Schuldenabkommen 1953. Das Tor zur Welt öffnet sich wieder, in: Dieter Lindenlaub/Carsten Burhop/Joachim Scholtyseck (Eds.), Schlüsselereignisse der deutschen Bankengeschichte. Stuttgart 2013, pp. 334–348.

later attempts at inter-state reparations and compensation for non-German victims of the Nazis.[8]

There are two book-length studies of the LDA. The volume credited to Abs contains the kind of insights only a participant can provide. But the reader must consider it with more than the usual degree of caution for a memoire. Abs was a complex figure who was never entirely forgiven for his conduct under the Nazi regime. The London Agreement offered him a chance to solidify his legacy by claiming an ability to negotiate through obstacles, and thus to claim credit for the agreement's success.[9] A different issue arises with Rombeck-Jaschinski.[10] This volume is the only book-length study of the London Agreement by a professional historian. Although she was denied access to some important archives, it covers main official archives for the Germany, the U.K., and the United States. She treats the regulation of Germany's outstanding debt as an essentially diplomatic event, and offers richly detailed discussions of the negotiations. Unfortunately, Rombeck-Jaschinski downplays the agreement's financial provisions, and in so doing may distort what the agreement accomplished.[11]

The present paper focuses on the LDA as a financial agreement that marked an important step along the road to the new Federal Republic's full sovereignty and reintegration into world financial and trading networks. My primary goal is an accurate account of the agreement's financial provisions. The London Agreement's financial implications are closely tied to the initial payments to the State of Israel and the Jewish Claims Conference, although the relevant agreements were separate. To focus on the debt issue I set aside two related matters that figured in the London discussions and would be part of a longer treatment. The first is the question of World War II reparations; what Buxbaum calls the LDA's 'notorious' Article 5 'defers' consideration of

8 Richard M. Buxbaum, The London Debt Agreement of 1953 and its Consequences, in: Hans-Eric Rasmussen-Bonne/Richard Freer/Wolfgang Lüke/Wolfgang Weitnauer (Eds.), Balancing of Interests, Liber Amicorum. Peter Hay zum 70. Geburtstag. Frankfurt am Main 2005, pp. 55–72; Henry C. Wallich, Mainsprings of the German Revival. New Haven 1955 also has a brief overview; Werner Abelshauser, Deutsche Wirtschaftsgeschichte seit 1945. Bonn 2004 discusses the LDA as part of the early economic history of the Federal Republic.

9 Hermann Josef Abs, Entscheidungen 1949–1953. Die Entstehung des Londoner Schuldenabkommens. Mainz 1991 was ghost-written. On Abs and his conduct under the Nazis, Harold James, The Deutsche Bank and the Nazi Economic War Against the Jews. New York 2001, esp. pp. 99–104, 215–217; Hans-Peter Schwarz (Ed.), Die Wiederherstellung des deutschen Kredits. Das Londoner Schuldenabkommen. Stuttgart 1982 includes the transcript of long discussions with Abs on the LDA. This volume also reprints the text of Abs' influential speech to the Hamburg 'Übersee-Club' in September of 1949, in which he argued for the importance of a repayment plan for Germany's outstanding debt.

10 Ursula Rombeck-Jaschinski, Das Londoner Schuldenabkommen. Die Regelung der deutschen Auslandsschulden nach dem Zweiten Weltkrieg. München 2005.

11 She was denied access to some material held by the Deutsche Bank's archive, and was not permitted to consult Abs' personal archive. In his review, Alfred Mierzejewski (https://networks.h-net.org/search/site/rombeck) took issue with her entire approach, arguing that *"Economic history without economics presents an incomplete picture."* Buchheim (http://www.hsozkult.de/publicationreview/id/rezbuecher-5228) took a more positive view. The Agreement itself is readily available, since it is a public document. See Agreement on German External Debts (Command Paper 8781). London 1953 (hereafter 'Agreement') for the British version.

compensation for claims arising out of German actions in occupied countries.[12] The second is the handling of German property held abroad. During the war, belligerents had seized property belonging to enemy countries and their citizens, and many Germans thought it only fair that this property figure in discussions of debt repayment. The Allies viewed the seized assets as reparations, as declared in the Act of Paris (1946), and refused to reconsider.[13]

I. Reparations and Debt

The London Debt Agreement did not directly concern the reparations Germany had been required to pay after World War I, but to understand both the debt the LDA did cover and the concerns that motivated the deal crafted in 1953, we must briefly summarize the reparations' history. Throughout World War I, all belligerent governments financed massively increased spending out of increased taxes, inflation, and debt. They ended the war with tremendous debts to their coalition partners, to their citizens, and in the case of the Entente, to the United States. All governments had assured their citizens that after the war, the other side would pay the war's financial costs. Thus Article 231 of the Treaty of Versailles (1919) reflected not just the usual practice of forcing the vanquished to pay, but an attempt by the Western Allies to repair their public finance at Germany's expense.[14] Three features of the reparations demands are important to the later LDA. First, the 1919 Treaty did not name a specific sum for the reparations bill. Second, when the Allied experts responsible for naming a sum initially presented their results in 1921, the sum named was a shock– 132 billion gold Marks.[15] The third feature directly informed the LDA: political leaders on both sides viewed that 132 billion Marks figure as fictional, and expected Germany to pay far less.

Germany would pay reparations by servicing two sets of bonds, the so-called 'A' and 'B' bonds, that together totaled 50 billion Marks. The Reparations Commission could issue 'C' bonds for portions of the remaining 82 billion Marks, but the Germans would service these bonds only if the Commission concluded that the German economy was able to bear this further burden. The 'C' bonds had some political signifi-

12 Buxbaum, London Debt Agreement (cf. note 8), p. 69.

13 This theme played a large role in German press coverage; 'Schulden und Vermögen sind untrennbar', in: Die Zeit, 2 February 1952, stresses that taking this property into account would make debt repayment easier for Germany; 'Aus verblichenen Reichen', in: Frankfurter Allgemeine Zeitung, 5 March 1952, pp. 7–9 called seizure of German assets a violation of international law; 'German Debt Discussions', in: The Economist, 3 February 1951, pp. 277–278 noted that the U.S. alone had seized, and kept, some $ 350 million in German property, while other countries such as Brazil had returned what it had originally seized.

14 See Eugene Nelson White, Making the French Pay: The Costs and Consequences of Napoleonic Reparations, in: European Review of Economic History 5 (2001), pp. 337–365 for reparations demands arising out of earlier wars.

15 German net national product in 1913 was about 53.7 billion Marks (Carsten Burhop/Guntram B. Wolff, A Compromise Estimate of German Net National Product, 1851–1913, and its Implications for Growth and Business Cycles, in: Journal of Economic History 65 (2005), pp. 613–657, Appendix, Table 2).

cance, as Schuker notes, but no serious observer ever expected them to be issued or serviced. Belgium's premier noted that such bonds could be put away, *"without bothering to lock up, for no thief would be tempted to steal them."* The Commission set service on the 'A' and 'B' bonds at 2 billion gold Marks per year plus 26 percent of the value of Germany's exports, thus scaling the reparations' payments to Germany's ability to pay. In the end, Germany paid about 23 billion Marks in reparations, a little more than half of what Keynes thought it could pay.[16]

Some historians and political leaders at the time thought that political moral hazard was one important element behind the crisis and hyperinflation of 1922–23. Arguing that Germany had not been forthcoming with reparations, the French and Belgians, as was their right under the Treaty, occupied the Ruhr, an important mining and industrial region. The idea was to force the German government's hand in the long term, and to extract resources in the short term by appropriating coal directly at the pit-head. In response, the German government initiated a policy of passive resistance, encouraging workers to stay home, and supporting them with grants in lieu of their regular wages. The resulting strain on public finances (and the perception that the German government could not or would not reform its finances) led to hyperinflation.[17]

Historians have interpreted these events along two lines. One stresses the impossible position of the German government, trying to secure democratic legitimacy while facing incompatible fiscal demands. The other sees in the German reaction to the Ruhr occupation an effort to show the Allies that Germany could not be forced to pay repa-

16 Stephen A. Schuker, American 'Reparations' to Germany, 1919–1933. Implications for the Third-World Debt Crisis. Princeton, NJ 1988, p. 17 quotes the Belgian premier. The reparations are themselves the subject of a number of large academic literatures we cannot discuss here. Just to indicate the scope of argument, some have debated the moral or political justifications for reparations in general (perhaps the most important debate is the 'Fischer controversy', concerning Germany's war aims. See Fritz Fischer, Germany's War Aims in the First World War. New York, NY 1967; others (most famously, John Maynard Keynes) questioned whether Germany could afford the sums proposed at the time and whether there was any legal or moral basis for some of the calculations that went into the final bill (see John Maynard Keynes, The Economic Consequences of the Peace. New York 1971 [reprint of 1920 edition]; 'Cancellation' [1921] and 'Cancellation' [1928], in: id., Essays in Persuasion. New York 1963; id., A Revision of the Treaty (The Collected Writings of John Maynard Keynes III). London 1971 [first published 1922]; and still others have focused on the narrower question of how Germany could transfer real resources to the payees without running huge trade surpluses that would distort the terms of trade (the so-called 'transfer problem'; see, for example, id., The German Transfer Problem, in: Economic Journal 39 (1929), pp. 1–7). Throughout this paper I use the term 'Mark' to denote the German currency of the day. At the pre-World War I parities, $ 1 gold = 4.2 gold Marks. £1 equaled 20 Marks. After stabilization in 1924, the new Reichsmark once again traded at $ 1 = 4.2 RM. The Deutsche Mark created by the 1948 currency reform traded at the old parity of $ 1=4.2 DM. Keynes, Consequences (see above), p. 200, concluded that the most Germany could possibly pay was $ 10 billion, or about 42 billion Marks. Etienne Mantoux, The Carthiginian Peace or the Economic Consequences of Mr. Keynes. Pittsburgh 1952 is a sharp criticism of Keyne's writings on the Treaty of Versailles. Not all of Mantoux's discussion is fair, but he demonstrates convincingly that Keynes under-estimated the German economy's ability to pay reparations. Schucker, Reparations (see above), Table 12 estimates that Germany actually paid 22.89 billion Marks through 1932.

17 Costantino Bresciani-Turroni, The Economics of Inflation: A Study of Currency Depreciation in Post-War Germany 1914–1923. London 1937 contains both a clear narrative of the relevant events in the 1920s and an analysis that, while not fully shared by modern writers, remains an excellent starting point.

rations against her will. Some historians, like Schukert, argue that Chancellor Wilhelm Cuno and Foreign Minister Walther Rathenau saw the situation in 1922 as offering Germany a way out of the Treaty. Whether the German governments actually tried to demonstrate an inability to pay is irrelevant to the role these crises played in creating the views of Germany held by creditors and other governments after World War II.[18]

What ensued instead during the period from 1924 through 1933 was a system whereby international lenders, mostly American, lent money to public and private entities in Germany. The Weimar (that is, federal) government used part of those loans to pay reparations to the European Allies. The European Allies receiving the reparations payments used them, in large part, to repay their debts to the United States. External loans allowed German governments to function in the face of rising expenses and a weak tax base. The Great Depression ruined the international financial system that made these flows possible, and the Germans defaulted. At that time they owed American lenders more than they had paid on the reparations bill, which led Schuker to title his study 'American Reparations to Germany'.[19]

II. The Road to Default

By 1932 Germany owed more than 20 billion Marks to external creditors.[20] The U.S. (its citizens and financial institutions) accounted for about 40 percent of this total, with the Netherlands, Great Britain, and Switzerland, owed another 40 percent.[21] Default on these obligations was not as simple as a declaration that Germany would not honor the debts. The process began in 1931, when Germany enacted exchange controls.[22] The exchange controls covered debt service ('transfer stops') and made it easier for Germany to service external debt without putting pressure on the Mark. The German

18 Stephen A. Schuker, Finance and Foreign Policy in the Era of the German Inflation. British, French, and German Strategies for Economic Reconstruction after the First World War, in: Otto Büsch/Gerald D. Feldman (Eds.), Historische Prozesse der deutschen Inflation 1914 bis 1924. Berlin 1978, pp. 343–371, esp. pp. 355–358; see also id., 'Reparations' (cf. note 16), p. 22; Gerald D. Feldman, The Great Disorder: Politics, Economics, and Society in the German Inflation, 1914–1924. New York 1993, Chapter 8 conveys the nuances of the mixed motives on both sides. Sally Marks, Smoke and Mirrors: In Smoke-Filled Rooms and the Galerie de Glaces, in: Manfred F. Boemeke/Gerald D. Feldman/Elisabeth Glaser (Eds.), The Treaty of Versailles. A Reassessment after 75 Years. New York 1998, pp. 337–370, esp. p. 364 offers an appealing summary: *"At the peace conference and thereafter, German leaders pointed out that if Germany worked hard and cleared this first debt* [the A and B Bonds –T.G.], *its reward was a second heavy burden* […]. *Germans did not point out, however, that the converse was true as well: if Germany failed to pay, its debt would be sharply reduced, as it effectively was."*

19 Schuker, 'Reparations' (cf. note 16), p. 118 concludes that the net transfer to Germany (external borrowing minus reparations payments minus debt service) implicit in unpaid debt was at least 17.75 billion Reichsmarks for the period 1919–1931.

20 Schuker, 'Reparations' (cf. note 16), Chapter 3 presents a judicious history of the default process.

21 Adam Klug, The German Buybacks, 1932–1939: A Cure for Overhang? (Princeton Studies in International Finance 75). Princeton, NJ 1993, Table 2.

22 Following a banking panic and currency crisis; see Isabel Schnabel, The German Twin Crisis of 1931, in: Journal of Economic History 64 (2004), pp. 822–871.

government paid foreign creditors in Marks. Creditors could not convert all of their Marks to another currency because of the exchange controls. The foreign creditors' only option was to use the Marks to buy German goods for export, and obtain the desired currency from these sales.

As the Great Depression worsened, many countries devalued their currency or went off the gold standard entirely. Germany could not, both because of the agreement that placed the 'Reichsbank' under international supervision, and because of fears of renewed hyperinflation. Devaluations of the dollar, sterling, and (later) French franc increased the Mark's value with respect to the currencies of these major trading partners, making German goods expensive in foreign markets. By forcing foreign creditors to take their debt payments in kind, the transfer stops partially offset the disadvantage of the pricey German Mark.

On July 1, 1933, the 'Reichsbank' announced that henceforth only 50 percent of debt service for bonds would be paid in foreign currency as legally required; the rest would be paid in special inconvertible scrip. Creditors could sell this scrip to the 'Golddiskontobank' for 50 percent of its nominal value in convertible Marks or hold it against promises of full redemption in the future.[23] In 1934, the 'Reichsbank' created another option, the so-called funding-bond scheme. Creditors could agree to exchange the payments owed to them at that date for bonds that paid a 3 percent rate of interest. As the funding bonds did not affect the principal of the underlying obligations, and the promise was to pay off these bonds eventually (the date given was January 1, 1945), this scheme was not technically a default either. In 1934, Germany defaulted entirely on the Dawes and Young loans (see below), but after threats from the United Kingdom, restarted service on the UK tranches of the loans.[24] The Swiss agreed to trade concessions in return for preferential handling of money owed them. One challenge for post-war negotiators was cutting through the fog created by the Reich's complicated efforts to reduce its debt payments.

Negotiators for the 1953 agreement had different interpretations of how the reparations' policy affected Germany in the 1920s and 1930s. They also had different interests, differences that reflected, in part, how the Reich's handling of its debts had affected individual governments and their citizens. But none could ignore the fact that Germany's debts in the early 1950s included obligations that dated back to the 1920s, and that in deciding how to deal with the situation in the early 1950s, they might, if not careful, set themselves up for a repeat of that painful history.[25]

23 The scrip was then made available to German exporters at face value, to subsidize exports and thus partially offset the Mark's over-valuation. For the rest of this story, which is not central to the issue of debts per se, see Heinrich Irmler, Bankenkrise und Vollbeschäftigungspolitik (1931–1936), in: Deutsche Bundesbank (Ed.), Währung und Wirtschaft in Deutschland 1876–1975. Frankfurt am Main 1976 and Michael Ebi, Die Folgen der Überwertung der Reichsmark für die industriellen Exporte und die Staatliche Exportpolitik. Mannheim 2003 [unpublished].

24 Harold James, The German Slump. Politics and Economics 1924–1936. Oxford 1986, p. 407.

25 'Aus verblichenen Reichen', in: Der Spiegel, 5 March 1952, p. 9 put the situation as follows: *"In London aber haben die Delegierten von 30 Ländern in den nächsten Wochen die Chance, grobe Fehlen einer Reparationspolitik nach dem Weltkrieg I zu vermeiden, die durch Überbelastung der deutschen Wirtschaft erheblich zu*

III. The Debts Covered by the London Agreement

The LDA covered four broad classes of loans, including several large loans to stabilize the German economy during the 1920s and early 1930s, commercial loans, loans issued by German cities and states in the 1920s, and debts that arose out of the occupying powers' post-war relief and reconstruction efforts. Table 1 provides an overview of the debt categories, along with estimates of their values before and after the Agreement.

(1) The first were not strictly speaking reparations obligations, but loans floated as part of efforts to stabilize the German economy and ensure smooth payment of the reparations. The first loan was part of the 1924 Dawes Plan. This loan raised about 800 million Marks. The Dawes plan also rescheduled reparations payments to reduce the immediate burden. The plan placed the 'Reichsbank' under international supervision to strengthen its independence from the government, a move intended to reassure there would not be a second period of hyperinflation.[26] At first the Dawes Plan worked even better than had been hoped. This success was the result, in part, of a flood of international lending, primarily from the U.S., following on the apparent solution of the reparations problem. By 1928, however, there was renewed worry about German fiscal irresponsibility. These concerns led to another conference in 1929. The resulting Young plan involved another loan (this time of 1.2 billion Marks) and a short-term reduction in reparations payments. For the first time, the Young Plan fixed a definite, unconditional sum Germany would have to pay.[27] This Plan remained in effect only a brief time, as the world depression overtook events.

(2) The LDA covered two types of loans made to German businesses. The first were ordinary commercial loans. After stabilization of the Mark, Germany was an attractive place for such commercial lending, especially because the war left German firms hungry for raw materials and new equipment. With the Dawes plan, Germany's economic situation seemed stabilized and overseas investors looked there for returns not available at home. U.S. and other investors started lending to German businesses during the 1920s, just as they lent to businesses in other countries. The LDA also recognized a separate agreement concerning a second category of loans to business. During the 1931 banking crisis, some foreign creditors, mostly banks, agreed not to try to repatriate their money. This helped stave-off default in Germany by extending loans past their original due date. The first

der Weltwirtschaftskrise von 1931 beitrugen." (*"The London delegates have the opportunity to avoid the great mistake of the World War I reparations policy, which, by over-burdening the German economy, contributed markedly to the world economic crisis of 1931."*).

26 The Dawes agreement also separated payment from transfer; after its enactment, the German government had to make payments in Marks to reparations officials, who were then responsible for its conversion in the currencies desired.

27 This agreement also established the Bank for International Settlements in Basel, Switzerland, to act as agent to receive and disburse the payments. A third large loan, the Krueger or 'match' loan, was made to the Reich in 1930 by a trust controlled by the Swedish match trust run by Ivar Krueger. The LDA treated this loan much the same way as the Young loan.

such 'Standstill' agreement was signed on September 19, 1931, and was intended to run for six months only. The agreement froze existing credits (with continued interest payments) in the amount of some 6 billion Marks.[28] These agreements were renewed repeatedly through the 1930s, but with smaller and smaller credit lines, as the depreciation of both sterling and the dollar reduced the Mark value of the loans, and as some lenders were able to get part of their money back.

(3) The LDA covered a third class of loans consisting of obligations of German cities, 'Länder', and other sub-federal governmental units. Throughout the 1920s, each German state had considerable fiscal autonomy, including the right to float loans in Germany and abroad. Something similar was true for Germany's cities. The federal government had, at first, no direct control over borrowing by state and city governments. By the late 1920s state and local borrowing had become enormous. The size of the total government debt was a cause for concern to the 'Reichsbank' as well as the reparations authorities because service for this debt potentially placed strains on Germany's transfer capacity.

(4) The final class of debts covered by the London Agreement arose out of assistance to Germany after World War II. Britain, France, and the United States all provided assistance, but the bulk of this debt was to the U.S. government. There were two main programs. The U.S. 'Government and Relief in Occupied Areas' (GARIOA) program had begun shortly after the war to provide for immediate civilian needs, including food, fuel, and medical supplies. GARIOA operated in all three of Germany's western occupation zones, as did the European Recovery Program (ERP or Marshall Plan) of 1948–1951. The ERP aimed to foster long-term recovery through investment in productive facilities. The Marshall Plan operated in nearly all of Western Europe and Turkey, but the terms originally applied to Germany included a higher ratio of loans to grants than elsewhere.

Table 1: Germany's Outstanding Debts before and after the London Debt Agreement

		Before the LDA	Outcome of the LDA	Percentage reduction
Lending by governments prior to 1945				
	Dawes Loan		420	
	Young Loan		1209	
	Other federal obligations		1950	
	Other federal obligations		315	
Lending by private entities prior to 1945			2158	
Total debt from before 1945		13500	6052	55.2

28 Neil Forbes, London Banks, the German Standstill Agreements, and 'Economic appeasement', in: Economic History Review 2nd Series XL (1987), pp. 571–587, esp. p. 575.

		Before the LDA	Outcome of the LDA	Percentage reduction
Debt arising from post-1945 assistance, by creditor country				
	UK	2368	17642	25.5
	France	66	50	24.2
	USA	13440	5042	62.5
Total post-war debt		15874	6856	56.8

All figures in millions of 1953 Marks.
Source: Post-LDA figures from Deutsche Bundesbank, Deutsches Geld- und Bankwesen in Zahlen 1876–1975. Frankfurt am Main 1976, Table J II 1.05d. The sources available for the pre-war debt do not separate principal and interest in consistent ways, nor do they provide detail on the interest arrears for the several loans. The 'pre-LDA' figure of 13.5 billion Marks listed in the table comes from Abs (in Schwarz, Wiederherstellung (cf. note 9), p. 32) and is quoted by others. This figure includes, according to Abs, interest arrears. He also states that the LDA reduced the final sum for pre-war debt to 7.3 billion Marks; presumably the difference between his 7.3 billion Marks and the 6 billion listed above reflects Abs' estimate of the 'Schattenquoten', but he does not say. The original post-war figures reported here are Dernburg's dollar numbers multiplied by 4.2. The text contains several important qualifications.

IV. Discussions and Negotiations

In 1949, the United States, the United Kingdom, and France brought their three western occupation zones together into the Federal Republic of Germany (or 'West Germany'). West Germany did not yet have full sovereignty, however, and one of the obstacles to its full independence was the outstanding issue of the defaults of the 1930s. In considering the LDA, we must bear in mind that while German representatives helped negotiate terms, and the German 'Bundestag' ratified the result, West Germany did so as a less than fully-sovereign entity.

As the legal successor state to the defunct German 'Reich', West Germany recognized its responsibility for the state debt. The Allies also wanted the Federal Republic to accept responsibility for ensuring the payment of private debts, which strictly speaking was not its responsibility as the 'Reich's' successor state. In a response to the Allied High Commissioner dated March 6th, 1951, Chancellor Adenauer accepted responsibility for the debt and signaled Germany's intention to repay, but reiterated two points that were important bases for the conference. First, the repayment plan must have *"the objective of normalizing the economic and financial relations of the Federal Republic with other countries."* Second, *"it will take into account the general economic* *position of the Federal Republic, notably the increase of its burdens and the reduction of its economic wealth."*[29]

Adenauer accepted Germany's responsibility to deal with most, but not all of Germany's external debt. First, Germany would repay all public debt issued in Germany between the two World Wars, including the obligations of the central government, the several states, and municipalities. Second, the Federal Republic recognized debts owed by German 'private' debtors, so long as they lived in the Federal Republic. With respect to these debts, the German government accepted not the obligation to repay, but to establish mechanisms to ensure repayment. These debts had to be included in the overall plan because private debt payments would affect Germany's overall transfer abilities. Third, Germany accepted responsibility for debt incurred by the Austrian government during the period of 'Anschluss' (1938–1945). Finally, the Federal Republic acknowledged its responsibility for repayment of advances under GARIOA, the Marshall Plan and other post-war recovery schemes.

All parties to the discussions recognized that there were issues of equity and economics that would require compromise. Would the Germany of 1951 accept responsibility for debts issued by entities that no longer existed? Prussia, for example, had been the largest of the German states, but was dissolved at Allied insistence in 1947. Would the people of the Federal Republic repay all German debts, or would some be assigned, in theory at least, to the people of the fourth occupation zone, the German Democratic Republic? To the extent some debt was reserved for later, what would be the basis for the division: territory, former GDP, etc.? Most of the debt in question had not been serviced at all for many years. How much of the unpaid interest would be added on to the outstanding principal? Interest rates had been lower through the 1930s than in the 1920s; what rate would be used to compute interest arrears? The debt had been issued in several different currencies, some of which had depreciated badly in the intervening years. How would the obligations be valued; that is, how many Marks would be paid to service each US dollar of debt, each French franc of debt, etc.?

While we are less interested in the negotiations than in the deal itself, some of the LDA's logic is only understandable in light of the way the negotiations actually took place. The only extensive, first-hand account of the process that led to the London Debt Agreement is due to Abs.[30] His account stresses that the negotiations were complicated and often rancorous, and often the disputes were not between Germany and her creditors, but among different creditors. These conflicts were implicit in the basic premise of the discussions, which was that Germany would not be asked to repay any more than she could afford. This premise, once accepted, in effect created a fixed pool of possible repayment. Every Mark paid to a Dawes loan creditor would not be available to a Young loan creditor. Every Mark paid to the U.S. government in fulfillment of Marshall Plan agreements would not be available to private creditors.

29 The letter is reprinted as part of the Agreement Appendix A.
30 Cited as Abs, Entscheidungen (cf. note 9).

The discussions and negotiations proceeded in four stages. The Allies began by setting up a 'Tri-Partite Commission on German External Debt'. This Commission played a leading role, as government representative and moderator, in the negotiations. The Commission then worked with the German government to establish both which debts would be covered and how much they totaled, and to establish ways to determine Germany's ability to make payments. These first talks were completed in Bonn, June, 1951. In the second stage, the four governments were joined by representatives of private creditors from the United States, France, and the United Kingdom, as well as several central banks. These discussions, which were completed in London in July 1951, also included representatives of German private debtors.

In the third step, the actual debts and repayment schedules were negotiated. Here the parties split the government creditors from the private creditors. Most of the debt due to governments arose out of post-war assistance to Germany, and thus was more recent and represented less difficult issues. Most pre-war debt, on the other hand, was owed to private creditors by both public and private debtors in Germany.

The main conference for the negotiation of the debts owed to private parties, which took place in London in February, 1952, involved representatives of hundreds of private entities from some 30 countries, including the three western powers moderating the conference. The German government played a dual role in these discussions. The government was both a party itself (because it would repay debts that arose out of earlier public issues) and the entity that was to protect the interests of German private debtors and require them to honor any commitments that arose out of the conference.[31]

The fourth step created a parallel agreement covering inter-governmental debt, and produced the detailed technical reports and agreements that would amount to the actual London Agreement. The final agreement was signed on the 27th of February, 1953, in London. The Agreement did not come into force without difficulty. The German 'Bundestag' at first rejected the treaty that reflected the LDA with France, taking offense at the apparent implication that repayment of France's post-war aid amounted to an agreement that France's occupation policy for its zone had been constructive, when many Germans saw it as otherwise. Under American pressure, several Bundestag delegates remembered that they had intended to vote the other way, and the Agreement passed on a second vote.[32]

31 Most U.S. creditors were represented by the Foreign Bondholders Protective Council, a private entity created by President Roosevelt in 1933. See Michael R. Adamson, The Failure of the Foreign Bondholdes Protective Council Experiment, 1934–1940, in: Business History Review 76 (2002), pp. 479–514. for a history of the FBPC. Signatories to the Agreement included representatives of Belgium, Canada, Ceylon (now Sri Lanka), Denmark, France, Greece, Iran, Ireland, Liechtenstein, Luxembourg, Norway, Pakistan, Spain, Sweden, Switzerland, South Africa, the United Kingdom, the U.S., Yugoslavia, and the Federal Republic of Germany. Italy signed the agreement later.

32 Christoph Buchheim, 'Rückkehr in die Weltwirtschaft: Das Londoner Schuldenabkommen von 1953', in: Frankfurter Allgemeine Zeitung, 20 September 2003 notes that this view of the French was less fair than it was widespread. The U.S. pressure included a threat to withdraw its forgiveness of the post-war debt.

V. The Agreement

Agreements on the post-war debt were an inter-governmental matter. The United States, early on, proposed that the three western occupying powers simply forgive all debt that arose out of assistance after World War II. This was not acceptable to the British, who were in much reduced financial circumstances. *"Until very recently, the British had insisted on repayment of the German debt with no more than a token reduction and spoke in terms of 10 %."* In the end, the United States reduced its claim of $ 3.2 billion to $ 1.2 billion, while the UK and France each reduced their demands by 25 percent. The three Allies made this offer explicitly contingent on a satisfactory settlement of the pre-war debt. Abs interpreted the U.S. offer as a threat to encourage Germany to settle the pre-war debt;[33] it was just as much a threat to the pre-war creditors, because if they proved recalcitrant, the U.S. could demand full repayment and shift some of Germany's ability to pay to favor the U.S. taxpayer.[34] Given the understanding that Germany's ability to pay was the binding constraint, the U.S. offer freed up $ 2 billion for other creditors. As Buxbaum put it, *"The more generous the three Allies might be in reducing their occupation-cost claims, the more the private-sector creditors could squeeze the Federal Republic."*[35] The U.S. decision doubtless reflects political calculations, as detailed below, but as a practical matter the reduction treated Germany on a par with other recipients of Marshall plan aid. About 15 percent of Marshall Plan aid to the United Kingdom and France was in the form of loans, which was about the same percentage of the German's aid once the London Debt Agreement had converted some German loans to grants.[36] The Agreement reduced Germany's post-war debts from 16 to 7 billion Marks.

An amusing recounting of the ratification maneuvers in the Bundestag can be found in Abs' comments printed in Schwarz, Wiederherstellung (cf. note 9), pp. 35–36.

33 Abs in Schwarz, Wiederherstellung (cf. note 9), p. 22

34 Current Economic Developments, Issue No. 336, 17 December 1951, published in: Foreign Relations of the United States, p. 7. According to that document, settlement of the pre-war debt was an explicit condition, while *"…it is understood by the German negotiators that the settlement is also based on the understanding that there is a satisfactory German defense contribution."*; 'Jeden Tag ein paar Millionen', in: Der Spiegel, 13 August 1952, pp. 6–7 refers to the Allied condition on the debt reduction as a 'Handikap'. In recounting a conversation between Adenauer and McCloy, Abs stressed the implicit threat to Germany's other creditors (Abs in Schwarz, Wiederherstellung, p. 65). The U.S. agreed to allow Germany to pay this debt in 35 annual installments, and charged 2.5 percent interest on the unpaid balance. The UK and France required payment in 20 annual installments and charged no interest. Thus the reductions stated in the text are not strictly comparable. See also Abs, Entscheidungen (cf. note 9), pp. 102–103. Germany at first resisted honoring the part of the post-war debt that represented the costs of civilian relief operations to the occupying powers, citing the Hague Convention's provision that occupiers are responsible for the welfare of the occupied population. See 'German Debt Discussions', in: The Economist, 3 February 1951, pp. 277–278. Christoph Buchheim, Die Wiedereingliederung Westdeutschlands in die Weltwirtschaft 1945–1958. Munich 1990, Table I reports that total GARIOA assistance in the period 1945–1952 totaled $ 1.795 billion, while Marshall Plan assistance totaled $ 1.395 billion.

35 Buxbaum, London Debt Agreement (cf. note 8), p. 60.

36 Buchheim, Wiedereingliederumg (cf. note 34), p. 70; Gerd Hardach, Der Marshall-Plan: Auslandshilfe und Wiederaufbau in Westdeutschland 1948–1952. Munich 1994 is an account of the Marshall Plan in Germany.

Estimates of the total pre-war debt ran to 13.5 billion Marks, including unpaid interest, and the Agreement reduced that sum to about 7.5 billion Marks. The reductions for pre-war debt took a completely different form. For the post-war debt, the Agreement simply wrote-down the principal. There was, on the other hand, no simple reduction in the principal outstanding for pre-war obligations. The reduction in the pre-war debt reflects four types of adjustments. First, the agreement reduced interest rates below the original debt terms for both interest arrears and future payment. Second, the London negotiators agreed to compute interest arrears without compounding, which would be normal commercial practice. For a loan that has not been serviced in more than twenty years, interest arrears can exceed the original principal. These two adjustments on interest payments achieved considerable reductions in what German debtors owed. Third, by ignoring some of the debt's original contractual terms, the negotiators took advantage of wartime inflation to reduce the number of Marks required to repay each unit of most other currencies. Since little of the relevant debt had been issued in Marks, this decision again reduced the debt, in Marks, by a great deal. Finally, the Agreement allowed Germany to delay repaying some of the interest arrears until unification.

VI. Gold Clauses

Agreement on pre-war debt proved more difficult. The most contentious issue arose out of the interplay of two facts, one economic and one legal. Germany's pre-war loans had been issued in several currencies. The economic issue arose out of the diverse inflationary experiences of the major currencies between the time the German debt was issued and 1953. Sterling depreciated 43.7 percent against the U.S. dollar between 1930 and 1952. The French franc and Italian lira had each suffered more heavily, losing 92.7 and 96.9 percent of their dollar value, respectively. Only the Swiss franc had appreciated, gaining 16.3 percent against the dollar.[37] Allowing Germany to repay French or Italian investors in their depreciated currencies would have written-down those debts almost completely. But the legal fact intervened and made the issue more complex. Gold clauses were a common feature of international loans in the nineteenth and early twentieth centuries, inserted into debt contracts as hedges against inflation and currency depreciation. A dollar-denominated loan made in 1910 with a gold clause, for example, would require that the borrower repay dollars with a gold value equivalent to a dollar in 1910. The U.S. dollar tranche of the Dawes loan had gold clauses, as did all tranches of the Young loan. The gold clauses caused problems in London because the U.S. Congress had nullified all gold clauses in (U.S.) domestic debt with a Joint Resolution on June 5, 1933.[38] At the time of the LDA there was no jurisprudence in the

37 Currency values from Lawrence H. Officer, Exchange Rates Between the United States Dollar and Forty-one Currencies (http://www.measuringworth.com/exchangeglobal; access 18 October 2015).

38 In 1933, the U.S. devalued the dollar from $ 20.67 per ounce of gold to $ 35 per ounce.

U.S. that would allow the parties to state confidently whether courts would uphold claims based on gold clauses in foreign loans,[39] but representatives of U.S. Dawes and Young bondholders in London conceded at the outset that they could not insist on payment pegged to gold.[40]

The U.S. abrogation of gold clauses posed a problem because it implied the unequal treatment of creditors of different nationality. Ignoring the gold clauses in the Dawes Loan disadvantaged U.S. creditors, but created a rough equality in the sense that it forced all creditors to accept the consequences of currency revaluation. The Young loan posed a bigger challenge. Recognizing the nullity of the (legally meaningless) gold clause in the U.S. tranches while respecting them in others would force U.S. investors to accept a write-down while leaving others whole. Ignoring the gold clause in all Young tranches would be unequal in a different way: some creditors (such as the French and Italian) would be left with nearly-worthless pieces of paper after buying a bond that explicitly protected them against the depreciation of their currency. One could argue that the U.S. Congress, not any German entity, had reduced the value of U.S. bonds, and that it was not the fault of French creditors (for example) that their Young Loan gold clauses were still in principle valid while the U.S. clauses were not.[41]

The creditors' objections reflected the entire deal's premise: every Mark claimed by an owner of a French franc Young bond was a Mark not available to pay a U.S. dollar Young bond holder. At one point the representatives of U.S. private creditors walked out on the negotiations, threatening to derail the entire deal. The conflict came to a head when it looked like representatives of British and French creditors had worked out a deal with Abs to scale down the pre-war loans to make them more affordable to Germany, but to honor the gold clauses in the non-U.S. dollar tranches. The U.S. representatives returned and the conference proceeded after an agreement that compensated U.S. bondholders as noted below.[42]

The agreement compromised on the gold-clause issue in two dimensions. The LDA reduced the interest rate payable on pre-war bonds, but gave the U.S. tranches

39 H. J. Dernburg, Some Basic Aspects of the German Debt Settlement, in: Journal of Finance 8 (1953), pp. 298–318, esp. p. 303.

40 The three-power meeting in November 1951 had taken a clear stance against the gold clauses (Abs, Entscheidungen (cf. note 9), p. 167).

41 Glasemann, Auslandsanleihen (cf. note 3), pp. 11–14 reports the distribution of loans by country and currency of issue. The Dawes loan was issued in sterling in both the UK and several Continental countries, including France, Belgium, and the Netherlands. The Swiss issue was divided into franc- and sterling-denominated bonds. At issue, 52 percent of the bonds (by value) were denominated in U.S. dollars, and another 41 percent in sterling, although only about 25 percent of the total issue was emitted in the UK. The Young loan was issued in U.S. dollars, sterling, France and Swiss francs, and the currencies of Belgium, the Netherlands, Italy, and Sweden. About 4 percent of this issue was denominated in Reichsmark. About 39 percent of the Young loan was emitted in U.S. dollars. A French Dawes creditor (for example) was protected against the depreciation of the French franc by the fact that bonds sold in France were denominated in sterling, not francs.

42 See 'U.S. Bond Group Quits Parleys on German Dawes, Young Loans', in: New York Times, 24 June 1952, p. 43; 'U.S. Holders of Reich Bonds to Return to London Conference', in: Wall Street Journal, 22 July 1952, p. 11.

a slightly higher interest rate to compensate those investors for the implications of the gold-clause abrogation. More importantly, the Agreement substituted for the gold clauses, in all tranches, a 'dollar clause'. A bond denominated in French francs was valued at the number of dollars equal to the bond's franc value at issue.[43] The 'dollar clause' represents a compromise. For bonds issued in U.S. dollars, the dollar clause simply recognized the 1933 Congressional decision. On the other hand, by using the dollar as the valuation standard, the Agreement guaranteed that creditors in countries with badly depreciated currencies would not bear a disproportionate burden from dropping the gold clause in their tranches. One can, however, understand the position of bondholders from countries where gold clauses were still legal.[44]

The dollar's depreciation against gold meant that this apparently technocratic decision achieved a large reduction in German's debt. If the gold clauses had been in effect, each dollar owed would have cost 7.1 Marks. Instead, they cost 4.2 Marks. Abs claims the gold-clause abrogation itself reduced the pre-war debt from 13.5 to 9.6 billion Marks, or a little less than half the write-down of pre-war reported in Table 1.[45] One could argue that the implicit write-down for U.S. bondholders was fictional, because the figures stated at the outset of the negotiations included claims that all knew were not serious. Once Congress abrogated the gold clauses, Germany's debt to such bondholders was reduced in Mark terms, even if the implications were not accepted at the outset. But for the other currencies savings was considerable. The Agreement did not reduce the principal on the pre-war debt. The U.S. Congress did.

VII. Interest Arrears

Most of the pre-war debt had not been serviced since the early 1930s, so considerable back interest was due. The Agreement required payment of interest arrears but reduced the amounts owed in two distinct ways. First, the LDA reduced the interest rate to be used for computing interest in arrears, and also reduced the rate that would be owed after 1953. The Dawes Loan, for example, carried a 7 percent coupon rate at its issue in 1924. The agreement reduced the rate for interest arrears to 5 percent. Going forward, the Agreement set the Dawes loan interest rate to 5.5 percent for the

43 For bonds denominated in Swiss francs, the agreement stipulates a 'franc clause' similar to the dollar clause for the other currencies. The Agreement (Article 12) applies this treatment of the gold clauses to nearly all debt.

44 This treatment of the gold clauses only applied to the Reich's obligations. Other Reichsmark-denominated loans were valued in the same way only if they had a 'specifically foreign character'. Loans were deemed to have this character if they were issued under foreign law or were payable in a foreign location. If not, they were written down, with 10 Reichsmarks paid off with 1 D-Mark. Glasemann, Auslandsanleihen (cf. note 3), p. 29 and Agreement Annnex VII. The Conference report states that *"The representatives of the European bondholders have expressed their regret at the decision to department from the contractual right of the bondholders of this* [i. e. Young – T.G.] *international Loan to payment in their own currencies on a gold basis."* (Report on the Conference on German External Debts (Command Paper 8653). London 1952, IV–§ 30, p. 10).

45 Abs in Schwarz, Wiederherstellung (cf. note 9), p. 32.

U.S. tranche and 5 percent for the others. The Agreement made similar provisions for interest arrears and interest rates for the Young and other loans.

For the interest arrears, the Agreement made a second reduction: it stipulated the use of simple rather than compound interest computations. Consider the example of a $US 1000 Young Loan bond. The original coupon rate was 5.5 percent; if the arrears had been compounded at this rate for the period 1931–45 they would have totaled $ 1232 in 1945 (see below). Instead, the LDA set the interest rate for the period 1931–45 at 5 percent. Reckoning with simple interest at this rate yields a figure of $ 750. An ordinary commercial calculation on the outstanding debt would imply a total of $ 2232 for principal plus compound interest in arrears. Instead, the Agreement wrote this down to $ 1750, a reduction of about 22 percent. The total effect of interest-rate reduction, simple interest, and gold-clause abrogation meant that instead of owing 15, 850 Marks for this one bond, Germany owed 7,350 Marks.[46]

VIII. A Payment Schedule

The conference also arranged a repayment schedule that took account of Germany's situation. For the period 1953–1958, private creditors could receive interest or amortization, but not both. The U.S. government agreed that for the first five years, Germany could pay only the interest due on its post-war debt to the U.S. These provisions gave Germany some additional breathing room, and avoided interfering with the reparations Germany had agreed to pay to the State of Israel (see below). For the period 1953–58, Germany's total payments were capped at 567 million Marks. Starting in 1958, the LDA required Germany to make annual payments for all debts of 765 million Marks. Table 2 indicates that the LDA placed little stress on the German economy. Per-capita incomes more than doubled from 1953 to 1973, and Germany enjoyed healthy balance-of-payments surpluses and export earnings. Some loans had been entirely repaid by the 1960s, and most of the agreement was satisfied by the early 1970s. The last annual payment due under the original agreement was made, as planned, in 1983.[47]

The LDA had multiple aims, not least of which was to make it possible for German firms to borrow again. Abs recounted the difficulty of obtaining deliveries of even simple raw materials in the immediate post-war years, as even the short-term credits required for such transactions were unavailable.[48] The London Agreement had one immediate effect: private investment in Germany resumed. Table 2 also reports foreign investment in Germany, which reached some 15.4 billion Marks annually by 1973.[49]

46 According to ibid., p. 13 many Germans thought the LDA did compound the unpaid interest. Abs stresses that a normal bank loan would charge interest on unpaid interest.

47 Buchheim, Londoner Schuldenabkommen (cf. note 4), pp. 223–225; Hans-Georg Glasemann, Vierzig Jahre Londoner Schuldenabkommen, in: Die Bank 8/1993, pp. 491–496, esp. p. 494.

48 Abs in Schwarz, Wiederherstellung (cf. note 9), pp. 40–41.

49 Celebratory statements about the LDA's impact have a 'post hoc ego propter hoc' feel: yes, the German economy improved in the 1950s, but that does not necessarily reflect the LDA alone or even in part.

Table 2: Economic Indicators and Payments under the London Debt Agreement, 1949–1973

	GNP per capita	Balance of payments	Gross exports	Long-term foreign investment	Payments under the London Debt Agreement
1949		-262	4136	0	
1950	3061	-427	8362	30	
1951	3345	2301	14577	70	
1952	3618	2478	16909	90	
1953	3880	3873	18526	-38	
1954	4122	3669	22035	-12	2202
1955	4571	2235	25717	258	
1956	4846	4459	30861	545	
1957	5056	5901	35968	1008	3175
1958	5181	5998	36988	695	
1959	5496	4152	41184	1058	
1960	5924	4783	47946	2724	5204
1961	6163	3193	50978	2303	
1962	6336	-1580	52975	2847	
1963	6491	991	58309	4916	836
1964	6853	524	64920	2798	
1965	7156	-6223	71651	4627	
1966	7299	488	80628	5004	1654
1967	7266	10006	87045	2223	
1968	7770	11856	99551	2351	
1969	8331	7498	113557	1503	838
1970	8729	3183	125276	10102	
1971	8894	3081	136011	12485	
1972	9137	2474	149022	16714	500
1973	9559	11496	178396	15363	

GNP per capita in 1962 Marks; balance of payments in millions of current Marks. Negative values indicate deficits; gross exports in millions of current Marks; long-term foreign investment by private entities in millions of current Marks; payments under the London Debt Agreement in millions of current Marks; data reported in three-year intervals.
Source: Deutsche Bundesbank, Deutsches Geld- und Bankwesen in Zahlen 1876–1975. Frankfurt am Main 1976, tables A.1.02, J II 1.01, J II 1.02, J II 1.05c, J II 1.05d.

Philipp Keßler, a doctoral student working under the supervision of Professor Jochen Streb (Mannheim), is currently addressing the right question: in the absence of the LDA, would foreign investment have really been less? Some of the rising investment reflects the recovery of the German economy, which was underway before the London Agreement and probably would have continued even without the deal.

IX. Reparations to Israel

Concern about transfer potential shaped a second agreement undertaken by the Federal Republic at the same time. In March of 1951, the government of Israel had asked the U.S., the U.K, and France to require Germany to make $ 1.5 billion in reparations payments in recognition of what the Nazis had done to the Jewish people. The Allies replied that early post-war agreements forbad them to impose further reparations demands on Germany. The U.S. also expressed concern that if the Allies pressured Germany to compensate the Jews, then there would be problems with other countries and peoples who had suffered at Nazi hands. The U.S. did, however, make clear to the German government its support for a 'voluntary' agreement that would provide material support for the new State of Israel and for Jewish survivors of the Holocaust. In December of 1951, Adenauer agreed, in principle. One billion dollars would go directly to the State of Israel, and another $ 500 million would go to the Conference on Jewish Material Claims Against Germany (CJMCAG), which represented individual victims and survivors. He established a committee to discuss specific arrangements with the Israelis and the CJMCAG.

Abs' strategy in London had been to present Germany's ability to transfer payments as the binding constraint, effectively forcing the various creditors to compete against each other for a fixed pool of Marks. The commercial creditors in London seized on the possibility of large payments to Israel and the Jewish organizations as evidence of German dishonesty, a greater ability to pay, or both.[50] The approach Abs preferred might have left Germany with a smaller combined bill, but by implicitly treating the Israeli reparations as equivalent to the purely commercial and inter-governmental debts, it would have undermined the Adenauer's political and moral goals. The Israeli side made clear they viewed their claims as taking priority over those of any commercial creditor. Germany's discussions with Israel dealt entirely with the method of payment; the two sides eventually agreed on $ 823 million for the State of Israel and $ 500 for the CJMCAG.[51] Germany and Israel agreed that most of the payments would be in kind, to spare pressure on Germany's trade surpluses.

Abs's role in these events was characteristically complex, and his version of events is less than frank. In his own recollections Abs coyly notes his reservations about the simultaneous timing but separate locations of the two discussions.[52] Adenauer notes that the German delegation in London – that is, Abs — showed little sympathy for the priority of the Israeli claims.[53] In fact, on May 19, 1952, Abs made an unofficial offer to the Israeli delegation that was so meager as to be completely inconsistent with fulfillment of Adenauer's earlier promise. Abs' offer so appalled the Israelis that Nahum

50 Gall, Bankier (cf. note 6), pp. 176–177.

51 Günter Könke, Wiedergutmachung und Modernisierung. Der Beitrag des Luxemburger Abkommens von 1952 zur wirtschaftlichen Entwicklung Israels, in: Vierteljahrschrift für Sozial- und Wirtschaftsgeschichte 75 (1988), pp. 503–548, esp. p. 513.

52 Abs in Schwarz, Wiederherstellung (cf. note 9), pp. 23–26.

53 Adenauer, Konrad, Erinnerungen 1955–1955. Stuttgart 1966, p. 141.

Goldmann (President of the World Jewish Congress) wrote to Adenauer stating that the Chancellor's honor and the trust of the Israeli government was on the line. Adenauer claims that he had no foreknowledge of Abs' offer.[54]

X. Reunification

The Agreement contains provisions for German reunification. Two were especially important. Reunification would extend the Agreement's principles to private debtors in East Germany; that is, individuals and firms located there would be expected to make their own repayments. The specifics would be adjusted to take account of any loss of property in the east. In addition, the Agreement deferred payment of interest arrears on some pre-war loans until reunification. These so-called 'Schattenquoten' ('shadow shares') reduced the debt-service implied by the LDA, and finessed the political point that the Federal Republic did not control all German territory. The 'Schattenquoten' were formed out of interest arrears on the Dawes and Young loans, money borrowed by a much larger 'Reich', and applied in a different way to loans to Prussia, which no longer existed and whose former territory accounted for not much more than half of the Federal Republic as of 1953.[55] This provision also provided a safe way of conditioning German payments on her ability to repay. Reunification might have seemed remote or even impossible in 1953.[56] In any case, few predicted then that reunification would occur as it did, with a nearly bankrupt East Germany being taken over by the West. The Agreement contemplated a situation where reunification meant that Germany could afford to pay more, not less.[57]

A more natural procedure might have been to calculate the fraction of Germany's potential GDP that was lost because of the division of the country, and to delay repayment of that much of the debt until reunification. The German delegation to the London conference actually produced a set of calculations intended to show the reduction in Germany's ability to pay due to loss of territory and resources. These estimates imply a debt reduction of between 40 and 50 percent, approximately the outcome of the London conference.[58] There were reasons to doubt such calculations, and in any case

54 Ibid., p. 147.

55 Article 25 of the Agreement lays out the actions triggered by reunification. The Agreement describes these provisions in Annex I. For the Dawes and Young Loans, this was interest due 1945–1952; for Prussian loans, from 1937–1952.

56 In March of 1952, Stalin sent word that he was open to discussing a unified, neutral Germany. Historians have ever since debated whether this constituted a sincere offer or Stalin's effort to prevent West German re-armament and participation in NATO. See the articles collected in Jürgen Zarusky (Ed.), Die Stalin-Note vom 10. März 1952. Neue Quellen und Analysen. München 2002 for the debate.

57 This assumption of course turns out to be false. In the period 1991–2003, Hunt points out, Germany annually spent 4–5 percent of its GDP on the former East Germany. ('The economics of German reunification', in: Durlauf, Steven N. (Ed.), The New Palgrave Dictionary of Economics, Vol. II. Basingstoke 2008). Estimates of the total cost of the German reunification thus far run to trillions of Euros, and those costs are set to continue.

58 Dernburg, Aspects (cf. note 39), p. 300.

it implied a larger reduction for the Prussian loans than for the 'Reich' loans, because a larger part of Prussia was gone. For obvious reasons this approach was not acceptable to the creditors who held bonds issued by the now-defunct Prussia.[59] In any case, reckoning based on lost territory endangered the principle that the Federal Republic was the sole successor state for the Reich and its 'Länder' (including Prussia).[60]

Each bond covered by this aspect of the agreement was split into two parts by the Agreement. One part was exchanged for a regular bond issued by the Federal Republic and serviced as called for in the agreement. The other, representing the back interest payments, was exchanged for a rights certificate or warrant ('Bezugschein') that would, in case of reunification, entitle the owner to another bond for another set of payments. The original bondholders were not to obtain actual securities for the 'Schattenquoten'. Abs notes the reason: the conference did not want Germany issuing tradable securities that would be a 'thermometer' for the market's view of the chances of German reunification.[61]

The second part of Article 25 alluded to different types of debts, the most important being municipal obligations issued by cities that were located in the former East Germany. Again, it would have been perverse to force the citizens of West Germany to repay debts incurred by Dresden or Leipzig. Thus the agreement promised that when the Federal Republic's jurisdiction was extended to cover the former East Germany, the principles of the debt agreement would be similarly extended.

XI. Contigency

The reparations schemes of the 1920s had several undesirable features, setting aside the basic question of whether reparations were even justified. Certainly one was their contingency: because the effective reparations bill depended on German ability to pay, all parties had reason to misbehave and to suspect others of misbehavior. The 1953 Agreement's contingent aspects, on the other hand, caused no trouble at all. Why? One difference lies in the amounts at stake: the LDA's 'Schattenquoten' were small, while the 'C' bonds of the reparations schemes were larger than the 'A' and 'B' bonds combined. But another important difference here lies in the LDA's appreciation of moral hazard. To be sure, West Germany could influence the probability of future reunification. But from the creditors' viewpoint, all that matters is whether West Ger-

59 Abs, Entscheidungen (cf. note 9), pp. 179–180.

60 Abs, Londoner Schuldenabkommen (cf. note 2), p. 8 gives a concrete example of the problem. The Saarland was a French protectorate, and not part of the Federal Republic until 1957. If Germany wanted the Saar back, it had to insist on its status as the successor state to the Reich, which did include the Saar.

61 Abs, Entscheidungen (cf. note 9), p. 183; Glaseman, Jahre (cf. note 47) claims that these warrants were listed on the Frankfurt exchange until the mid-1970s, usually trading at about 8 percent of their nominal value. Thus Abs' fear came true even with the warrants. Glasemann, Auslandsanleihen (cf. note 3), pp. 53–54 estimates that the original 'Schattenquote' obligations were valued at about 1 billion Marks in 1953. Through purchases of the warrants by the Debt Administration, this figure was considerably reduced by 1990. The remaining obligations issued in 1990 had a face value of 240 million Marks.

many would seriously consider the additional debt under the London Agreement as a reason to refuse reunification, or to reduce its efforts to bring this about.

The Agreement was oddly vague about what constituted reunification, as Glasemann notes.[62] The LDA gave Germany the right to demand new consultations about implementing the reunification clauses, which presumably could have been used to reduce or escape the new payments altogether. Concerns about moral hazard led Abs and the German delegation eventually to advocate for provisions that would require definite, set actions on Germany's part, should reunification occur.[63] But the total cost of servicing the new bonds issued at reunification was small compared to other costs of reunification, and not worth raising problems with neighbors and allies at a time when the end of the Cold War was raising new complications that would require political support from some of the LDA's signatories.

Even after the Agreement was crafted, Dernburg noted that: *"…working out flexible arrangements presupposes the extremely difficult task of determining, and agreeing upon, practical and non-controversial criteria for measuring the debtor nation's ability to transfer. There is finally the politico-psychological consideration that flexible arrangements, while suited to avoid formal defaults, might encourage a German successor government less willing to meet international obligations to create conditions that would make transfers impossible."*[64] Today when we consider the economically powerful and fiscally responsible Federal Republic, it is hard to recall the bad feeling caused by Germany's treatment of foreign debt-holders in the 1930s. For this very reason, some have interpreted the debt obligations more broadly. 'Die Zeit' argued in 1952: *"Denn es ging bei dieser Konferenz nicht nur um die Neufixierung von Schuldenverpflichtungen, die von deutscher Seite in der Vergangenheit eingegangen wurden, sondern darüber hinaus und sogar in erster Linie um die Wiederherstellung des Vetrauens in den deutschen Schuldner auch für die Zukunft."*[65] Buchheim stresses that the debts in question were part of the new Federal Republic's 'moral burden', the same obligation to break with the past that led Adenauer to advocate reparations to the Jewish state.[66] Writing in 1953, Dernburg adopted a distinctly pessimistic tone that helps us to appreciate external views of Germany at the time. After raising the question of whether the LDA would in fact lead to full repayment at the agreed-upon terms, he notes how the: *"Young Plan of 1929, devised to achieve a 'final' settlement of German reparations, fell victim to world depression and German nationalism a few years after its inauguration. Hence, only time will tell whether the present debt settlement is of more than passing interest. Essentially, its fate will depend on the ability and willingness of the present and*

62 Hans-Georg Glasemann, Die Schattenquoten aus dem Londoner Schuldenabkommen, in: Die Bank 6/1990, pp. 347–353. esp. p. 352)

63 Abs, Entscheidungen (cf. note 9), pp. 181–182.

64 Dernburg, Aspects (cf. note 39), p. 313.

65 'Klausel zum Schulden-Kompromiß', in: Die Zeit, 14 August 1952 (*"Thus this conference dealt not just with the renogotiation of debt that Germany had incurred in the past, but with the restoration of trust in German debtors for the future."*).

66 Buchheim, Londoner Schuldenabkommen (cf. note 4), pp. 219–220; id., Rückkehr (cf. note 32).

future German governments to give the plan continued support and on such fundamental conditions as world peace or world war, world prosperity or world depression."[67] Both the 'fundamental conditions' and the several German governments indeed made it possible for Germany to fulfill the Agreement's terms.

XII. Broader Lessons?

Sovereign debt default is as old as sovereign debt; there is nothing special about the post-World War II German case in that respect.[68] Discussions of Germany's debt experience naturally raise more general questions. We conclude with some remarks on what lessons the LDA holds for other episodes. This discussion deals with narrow economic issues; there are important political (and even moral) matters that lie outside the scope of this paper.

The World Bank's Highly Indebted Poor Country (HIPC) initiative strives to reduce external debts owed by the poorest countries of the world. There are two arguments for this effort. First, 'debt overhang' reduces the incentive to save and invest. Until the debts are repaid, the benefits of savings may accrue to creditors, not the population of the debtor country. Second, debt forces poor countries to spend scarce resources on debt service rather than education, health care, and other goals. Activists have held up the London Agreement as an example of what should be done for countries in the developing world that have enormous debts and little capacity to repay.[69] In 1953, Germany's per-capita income amounted to about $ 4900 at 1990 prices. Some of the countries that agreed to the write-down were in much worse shape than Germany in 1953.[70] Many of the countries that fall under HIPC today have lower incomes per capita, in real terms, than did Germany in 1953. One can argue for a form of international economic justice that requires the wealthy to help the poor, but that idea played little role in the London Agreement.

A second perspective sometimes appears in the German press. Some recent German press accounts hint that the debt written-down in 1953 was the Versailles reparations, implying that forcing Germany to pay any of the outstanding sum reflected a

67 Dernburg, Aspects (cf note 39), p. 299.

68 Few Americans realize that many U.S. states defaulted on their bonds in the 19th century (English 1996). U.S. states are sovereign debtors.

69 For surveys of these debt issues, see Graham Bird/Alistair Milne, Debt Relief for Low Income Countries: Is it Effective and Efficient?, in: The World Economy 26 (2003), pp. 43–59. and Serkan Arsanlap/Peter Blair Henry, The World's Poorest Countries. Debt Relief of Aid? (Stanford Graduate School Research Paper Series 1809). Stanford, CA 2003. The German organization 'erlassjahr.de – Entwicklung braucht Entschuldung' not surprisingly often stresses the LDA as a model for debt relief today. See Jürgen Kaiser, One Made it Out of the Debt Trap. Lessons from the London Debt Agreement of 1953 for Current Debt Crisis. Bonn 2013.

70 All GDP figures are Maddison's 1990 Geary-Kanis dollars as updated by Jutta Bolt/Jan Luiten van Zanden, The First Update of the Maddison Project. Re-estimating Growth Before 1820 (Maddison Project Working Paper 4). Groningen 2013.

form of victor's justice.[71] This view verges on deliberate misrepresentation. None of the post-war debt had anything to do with reparations.[72] Much of the pre-war debt also bears no obvious connection to reparations: German states borrowed to bridge the gap between taxation and spending, German cities borrowed for civic improvements such as swimming pools, and German firms borrowed to invest. The Versailles reparations obligations themselves were cancelled; they were not part of the 1953 debt negotiations. The Dawes and Young loans aimed to help Germany finance its reparations burden, it is true. But the reparations obligation was cancelled before Germany had made reparations payments that equaled those two debts. As Schuker shows, in the 1920s Germany had borrowed (and did not repay) more than it ever paid in reparations.

So should the wealthy countries view the London Agreement as a model to apply to other debtor countries? Surely the London Agreement's relative generosity reflects not abstract notions of justice, which can be applied to any situation on the basis of some sort of 'precedent', but the concrete facts of the German case. First, increasing tension with the Soviet Union had led to a strong desire to rebuild a sound, democratic Germany. Harsh repayment terms would not serve that end. A second point was also something Keynes insisted upon as a reason to oppose reparations in the 1920s. Prior to World War I, the German economy was central to the European economy as a whole; a healthy Europe could not exist alongside a sick Germany. The same held true after World War II. The German economy was so important to the world economy, and to Europe in particular, that the country was in a strong position to demand concessions that would enable her to return quickly to her traditional role.[73] Developing-country debtors, unfortunately, rarely have such a favored political role, or play such an important part in the world economy.

The London Debt Agreement has also served as an argument in discussions of the Greek debt crisis, especially after the election of the Syriza government in January of 2015. Even after repeated debt-write downs and other assistance, Greece's external debt in 2015 amounted to 175 percent of its GDP. Efforts to service that debt and to meet the demands of its creditors had led Greece to increase taxes and to cut back government services, known as 'austerity' policies, which were in turn largely responsible for a contraction of Greek GDP from about $ US 300 billion in 2011 to $US 238 billion in 2015.[74] As the country most exposed to a possible Greek default, and as the lead-

71 For example, 'Deutschland hat keine Kriegsschulden mehr', in: Stern, 3 October 2010. While the article's title refers to war debt, the text implies the debt was from reparations. 'Deutschlands Reparationszahlungen laufen aus', in: Die Welt, 10 September 2010 is more overt in this misrepresentation.

72 The only connection would be an extreme version of the view that the Versailles Treaty led to Hitler which led to World War II and thus a defeated Germany's need for GARIOA etc.

73 In his memoir, U.S. Secretary of State Dean Acheson refers to his May 8, 1947 speech, in which he argued for *"the reconstruction of those two great workshops of Europe and Asia – Germany and Japan – upon which the ultimate recovery of those two continents so largely depends."* I am grateful to Philipp Keßler for pointing me to this remark, which appears in Dean Acheson, Present at the Creation: My Years in the State Department. New York 1969, p. 260.

74 http://www.tradingeconomics.com/greece/(accessed 1 September 2015).

ing state in the European Union, Germany took a prominent role in refusing Greek requests for debt forgiveness.[75] Not surprisingly, those taking Greece's side in the argument often brought up the LDA. The London Agreement offers an apparent irony: Greece was one of the signatories.

There are, however, three important differences between the German situation in 1953 and the Greek situation today.[76] Ignoring the differences impedes understanding of either situation. The London Agreement assumed and events demonstrated that Germany's economy could support its people without additional assistance. The LDA represented debt relief alone; the Germans were not asking for additional support from their former enemies or other creditors. For Greece, even full debt remission might not be the end. Greece's European partners fear, with reason, that Greece would require additional relief not too far in the future.

A second important difference turns on the government that sent Abs to London. The obligations outstanding in 1953 reflected decisions made under the Weimar and Nazi governments. Adenauer and other post-war German leaders were keen to demonstrate to all that the Federal Republic was a new regime that would play by different rules. This effort took many forms, of which the payments to Israel and the CMJCAG were just one. German leaders took pains to argue that Germany had to repay debts just to convince the world to trust it as a creditor, and thus allow it to participate in normal economic relationships. In his speech to the 'Bundestag' during the debate over the LDA, Adenauer raised precisely this point, saying: *"Ohne eine sichtbaren Beweis dafür, daß der deutsche Schuldner es mit der Erfüllung seiner alten Verpflichten ernst nimmt, kann das Vertrauen des Auslandes in die gesamte deutsche Wirtschaft nicht wieder erweckt werden."*[77] This concern with a commitment to honoring obligations shows up in many places. In his speech to the Hamburg 'Übersee-Club' in September of 1949, Abs alluded to the view that creditors had written-off the old German debts, an observation some took as a reason for not repaying. The basic fact is true; in the late 1940s, Dawes and Young Bonds were trading at less than 10 percent of their face value, indicating little faith the Germans would ever pay. Abs argued that Germany had to pay, even if its creditors had given up hope.[78] The complexities of the current

75 The right measure of exposure is a country stands to lose in bilateral loans as well as its stakes in the IMF, the ECB, and other institutions. As of January 2015, Bloomberg estimated German exposure at about 70 billion Euros. This is the largest absolute figure for Europe. Because the German GDP is so large, this 70 billion Euros amounts to about 2.5 percent of German GDP, less than some smaller countries such as Italy who have less at risk absolutely. See 'Who Hurts Most If Greece Defaults?', in: Bloomberg Brief: Economics, 7 January 2015.

76 The Greek government signed the 1953 Agreement on behalf of its citizens; the Greek state was not a creditor.

77 Deutscher Bundestag, 29 April 1953 (Drucksache 12749).(*"Without visible proof that the German creditor takes seriously the fulfillment of his old obligations, the rest of the world's trust in the German economy cannot be restored."*).

78 See the speech text in Schwarz, Wiederherstellung (cf. note 9), p. 83. Abs does not say, but might have been thinking of a strategy German authorities followed in the 1930s: they surreptitiously purchased heavily-discounted German debt on financial markets (Klug, German Buybacks (cf. note 21); Schuker, 'Reparations' (cf. note 16), p. 72); Der Spiegel ('Jeden Tag ein paar Millionen', in: Der Spiegel, 13 August

Greek situation take us beyond this paper's scope. But it is fair to say that one problem in discussions between Greece and its EU partners is the perception that even when the politicians change, the Greek government remains incapable of overcoming the economic and political problems that make it unable to commit to sustainable fiscal and economic policy.

A third important difference reflects the nature and position of the creditors. Large parts of the European public have been convinced, fairly or not, that debt forgiveness to Greece would constitute transfers from one set of taxpayers (German, or French or Estonian) to Greek taxpayers. To many Europeans, such transfers seem to be a violation of the agreements that underlie the Euro or even the European Union itself. Politicians have reason to fear the political repercussions of any attempt at compromise. Negotiators in London 1949–53 were in a different position; the European (and U.S.) public simply did not care as much about the outcome as European publics apparently care today. The German press worried about what Abs was up to, but operated on the assumption that any foreseeable deal would be better than continued isolation from international credit markets. The American public paid little attention to the German debt question, for understandable reasons. The U.S. direct, governmental contribution ($ 2 billion) was a small amount compared to U.S. military spending at the time. In 1953 the U.S. was still involved in the Korean War. Total U.S. military spending in that year amounted to about $ 50.4 billion.[79] The U.S. contribution to the write-down, if it helped secure German loyalty to the western alliance, was cheap at the price. For the U.K. and France, and even for countries that cared little about the emerging Cold War, cooperating with the U.S. on this effort would yield financial or other dividends from the U.S. in return.[80]

And to the extent the U.S. 'bought' the cooperation of other creditors with promises of assistance to those countries, the total cost of the LDA to the U.S. taxpayer was kept obscure; as noted above, the Germans were made to understand that in return for U.S. help on the debt, Germany was to build a credible defense establishment:

1952, pp. 6–7) noted: *"Nach Kriegesende 1945 war ein Bündel Dawes- oder Young-Anleihen nicht viel mehr wert als einen überhöhten Altpapierpreis."* (*"At the war's end in 1945, a wad of Dawes or Young bond certificates were worth not much more than overpriced wastepaper."*). In August 1952 the London exchange listed these £100 German bonds at about £75.

79 Historical Statistics of the United States, series Y-473. Der Spiegel made a similar comparison, predicting (incorrectly) a final pre-war debt settlement similar to the 11.3 billion Marks estimated as Germany's defense budget ('Aus verblichenen Reichen', in: Der Spiegel, 5 March 1952, pp. 7–9).

80 All accounts agree that the LDA was, to the U.S., a matter of Cold War policy. This observation extends to the East German press, which denounced both Abs and the Agreement in abusive terms. Abs (in Schwarz, Wiederherstellung (cf. note 9), p. 78) made a different claim on the basis of his first trip to the US in 1949: *"Ich bin überzeugt, daß die Amerikaner die Absicht hatten – und das, ohne auf die militarische Seite zu schauen –, den Wiederaufbau der zerstörten Wirtschaft zu fördern, unabhängig von der politischen Konstellation und sicher nicht in Wahrnehmung eigener Interessen, einfach beim Aufbau zu helfen."* (*"I am convinced that the Americans had the intention, even ignoring military considerations, of helping to rebuild the shattered Germany economy, independent of political considerations and without reference to their own interests, simply to help."*) Paraphrasing Gall, Bankier (cf. note 6), p. 177, however, Abs would not have been Abs if that statement can be taken at face value.

one that would, presumably, reduce the need for U.S. troops in Europe. The U.K. and France faced more serious fiscal challenges, but eventually concluded that the write-downs the U.S. demanded were worth the price.[81]

Perhaps the most important economic difference, however, turns on the implications of debt relief for other debtor countries. In 2015, Greece was the most heavily-indebted E.U. state, but several others, most notably Portugal and Spain, suffered under heavy burdens. Others, such as the Irish Republic, had just worked their way out of a serious debt crisis. Writing-down Greek debt without doing something similar for other debtors would be politically difficult. Germany was not the only heavily-indebted country in 1953, and it was not even the only indebted country that was turning into a U.S. ally; Japan went through its own process of cutting deals with creditors. But the Allies and creditors represented in the London Debt Agreement did not have to worry that concessions they offered in London would automatically apply to others.[82]

One can understand the instinct of those involved in sovereign-debt issues to point to the LDA and say that it imposes on Germany a moral obligation to be generous with other creditor nations. This view in some ways trivializes Germany's real post-World War II debt, which was moral rather than financial. No material assistance can make up for the lives the Nazis destroyed. But Germany's government and people have repeatedly demonstrated recognition of their country's moral debt, reflected in assistance for both the Nazi's victims and for victims of later conflicts that did not involve Germany. These policies, of course, also reflect a pragmatic recognition that Germany's foreign-policy goals are better-served by reparations and development assistance than by other measures. The London Debt Agreement was generous in the sense that Germany could have afforded to pay much more than it actually did. The generosity is best understood as enlightened self-interest. The London Debt Agree-

81 Some facets of the Agreement were probably too complex for many ordinary citizens to understand; who understands gold clauses? The only significant complaint in the U.S., once the pre-war debt issued had been settled, came from U.S. Senator Guy Gillette. He argued that the State Department was agreeing to a big write-down of post-war debt (owed to the U.S. government, that is, the taxpayer) to make more (German) resources available to repay private creditors (Abs, Entscheidungen (cf. note 9), pp. 120–121). Both the New York Times and the Wall Street Journal followed the negotiations but with less interest than the Financial Times or the London Times. Both U.S. newspapers treated the agreement as a business story, focusing on the implications for private creditors. The LDA never appeared on the New York Times' front page. The Economist was alone among these five publications in stressing the deal's implications for the European economy and broader issues. On the West German side, the Frankfurter Allgemeine Zeitung followed developments closely, and both Der Spiegel and Die Zeit weighed in from time to time. The East German press portrayed the negotiations as a deal among war criminals, claiming that most of the money would go to Wall Street. Abs came in for particular abuse as the *"Nazibankier"* or *"im Hitlerstaat Direktor der Deutschen Bank"*. See, for example, 'Wie die Wallstreet Westdeutschland ausplündert', in: Neues Deutschland, 24 November 1953, p. 3.

82 The U.S. government forgave some $ 1 billion in post-World War II assistance to Japan, and Japan also renegotiated its pre-war debt. Negotiators used the LDA's 'dollar clause' as a starting point in negotiations on pre-war debt ('German Compromise May Set Pattern for Japan's Debt Settlement', in: Wall Street Journal, 22 July 1952, p. 11). But Japan was, to the U.S., another Germany: a potential ally for whom debt forgiveness served important political goals.

ment represented a pragmatic understanding of Germany's potential role in Western Europe's economy and security system.

PROF. TIMOTHY W. GUINNANE PH. D.
Philip Golden Bartlett Professor of Economic History, Department of Economics,
Yale University, New Haven CT 06520, USA