THE FUTURE OF GERMANY

A paper prepared for a Committee of the Fabian International Bureau

by

ANNE WHYTE

with extracts from the texts of the main International Agreements affecting the final settlement for Germany

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Anne Whyte is the Secretary of the Fabian International Bureau. She worked as a civil servant during the war, spending three years in the Ministry of Labour and two years in the American Division of the Ministry of Information. From July 1945—July 1946, she worked as a Press Officer attached to the Political Division of the Control Commission in Berlin. In this capacity she toured the British Zone and visited the Soviet and American Zones of Germany.

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Preface

The Moscow Conference on Germany is due to start on March 10th. This is a vital problem on which everyone should endeavour to make up their minds. The Fabian International Bureau is circulating this memorandum in an attempt to present all the most urgent problems together with recommendations on policy within the scope of one short paper.

It is an attempt to see the problem of Germany in the perspective of the future. It is not a blue-print, which deals with all immediate international problems and administrative difficulties. It is probably true that all the conclusions reached cannot be achieved. But it is perhaps worth while standing back a moment from the day-to-day scene and trying to distinguish the wood from the trees. It is important, if some of the conclusions have to be sacrificed—for example the revision of the Polish-German frontier—that the consequences of such sacrifices should be clearly realised. If this paper seems unduly favourable to Germany, this is not through any tenderness for the Germans. It springs from a conclusion that Germany must be an active and stable partner in European recovery. Germany is still potentially a great power. Her 70,000,000 people have great reserves of strength, endurance and obedience. Repressive measures will turn those reserves into nationalist aggressive feelings. We must prevent this by all means in our power, if history is not to repeat itself in 1970.

This memorandum, like all publications of the Fabian Society, represents not the collective view of the Society but only the view of the individual who prepared it. The responsibility of the Fabian Society is limited to approving the publications which it issues as embodying facts and opinions worthy of consideration within the Labour Movement.
The Future of Germany

Introduction

The future of Germany is inseparable from the future of Europe. The rapid settlement of the German problem is important to her neighbours not only in setting up safeguards against aggression, but also in furthering the return to a normal economy in all the ravaged countries of Europe.

The purpose of Allied occupation should be to achieve both these aims. But occupation will inevitably come to an end. It is therefore important to ensure that when occupation ceases, aggression does not revive and again destroy the peace and prosperity of Europe.

There are broadly two ways of attempting to secure this. For wars are made by men and machines. We can deter the men, and we can destroy the machines.

We must, of course, destroy the actual war machines. But we must not destroy the industrial potential which in the past has made those machines. For to do so is to destroy her power to contribute to the peaceful reconstruction of war-torn Europe. Already, the lack of German markets and German products is being severely felt. For there is no other country that can take her place in the complex European economy. To prevent Germany fulfilling this function could be almost as disastrous to our main objective—a prosperous Europe—as another war. We must rather rely on international inspection of her industry, and on the threat of international reoccupation if any of her industries were diverted to warlike ends.

We must also deter a Germany, grown prosperous again, from new aggression. This can be done in three ways. We must build a security system of such strength that any aggression would bring a known risk, so great as to act as a deterrent. This we are on the way to achieving through the United Nations, the Anglo-Soviet treaty, now in process of revision, the coming Anglo-French Alliance, and the Soviet treaties with France, Poland and Czechoslovakia. Secondly, we must prevent aggression by refraining from creating avoidable grievances which any future Hitler could use as excuses for war. And thirdly we must try and eradicate the desire for war itself by the development of democratic institutions and the establishment of a prosperous economy.

ULTIMATE OBJECTIVE

Our first aim, then, must be negative—to prevent Germany once again becoming aggressive, and to eradicate all traces of the Nazis. Our second aim must be positive—to establish political democracy, and to encourage independence and responsibility among the Germans. Our third aim must be to make Germany economically stable and self-supporting (and to introduce State control of the basic industries). These second and third aims are the best—and only lasting—guarantee of the first.

Our policy must therefore be guided by a determination to promote these three aims as far as possible in the area under our control, and at the same time to do nothing to make the ultimate unification of Germany impossible.

The problem has two aspects: one internal, and under our control; the other international and subject to agreement with the United States, France and Soviet Russia.
Internal Aspect

FIRST AIM: PREVENTION OF AGGRESSION AND ERADICATION OF NAZIS

The ideal way to prevent aggression is to destroy all war machines and all economic war potential. The actual machines—the tanks and aircraft—can be destroyed. The German army and all its equipment must be, and in practice is being, disbanded and destroyed. But the war potential cannot be destroyed. Because there is no means of controlling production for war which would not also limit production for peace. The two are too easily interchangeable. During the occupation, it is possible rigorously to control steel production and end products. But after occupation, we must agree to leave behind international inspection teams. If these teams report any infringement of stipulated controls and limits, there must be international agreement to reoccupy Germany.

The German armed forces are at present non-existent. So long as occupation lasts, they must not be re-created.

The question whether Germany should be allowed any armed forces will arise only when occupation ends. To forbid the reforming of the German Armed Forces will undoubtedly create a sense of grievance since the peace treaty for Italy and the German satellites permits limited forces in those countries. But to allow the Wehrmacht to exist again will mean that some war production must be allowed with which to equip that force. The control of war production within set limits instead of its complete prohibition would be a much more difficult task. If we are determined to prevent German aggression, we should not allow Germany this loophole. We should therefore forbid the recreation of the Wehrmacht and enforce this through the inspection teams in the Ruhr which must prevent all war production. Without equipment, any disguised Wehrmacht which the Germans might recreate after occupation ends, would be impotent.

DENAZIFICATION

We must endeavour to complete the process of denazification immediately. The present scope of denazification under the existing comprehensive directive which includes all members of all Nazi professional organisations as well as members of genuine Nazi bodies such as the S S and the S A, is so wide that it includes practically all technically qualified people. For it was impossible in Germany to pursue any profession without joining the appropriate Nazi association. In these circumstances, it is impossible to build up stable industries and administrations, if many qualified people feel they are liable to removal at any moment.

The solution must be to set up special German commissions charged with the rapid completion of denazification of each industry and profession on the lines of the German commissions recently charged with completing the denazification of the coal industry. That commission has now reported that denazification is complete, though it reserves the right to review any cases if necessary.

The second essential in denazification is that we should not hold in internment camps any person against whom it is impossible to bring a charge on the basis of the Nuremberg verdict. Such people should be released immediately. The others should be given a public trial at the earliest possible moment. It is impossible to build up German faith in a judicial system based on law, and at the same time to practice Nazi methods of internment.
SECOND AIM: POLITICAL DEMOCRACY

Negative suppressive measures alone cannot in any case ensure that Germany becomes a peaceful nation. It is far more important to promote a democratic way of life, and to encourage the Germans to take a positive interest in politics through local government. In promoting political parties and encouraging free elections, we cannot exclusively support the Social Democratic Party, even though we may wish to see a Socialist Germany emerge from the occupation. To foist the SPD on an unwilling electorate would be the surest way to discredit that party, and to brand it as a foreign puppet. The Kreislections show that the British Zone is pretty evenly divided between the Christian Democratic Union and the Social Democrats, with the other parties far behind. We must leave the Germans to elect their own Landtage,² and to compose their cabinets on the basis of these results.

The essential thing is to challenge the German conviction, born of disillusion under the Weimar Republic, that parliamentary democracy cannot work in Germany. It is this conviction, together with economic collapse, which would lead to a return to totalitarian government. (It is as well to recognise that if elections were really free, and some form of Nazi party were allowed to compete, that party would probably get a large number of votes.) The Weimar disillusionment was in part due to the fact that no one party ever had complete power. This is a direct result of proportional representation. Unfortunately, when the electoral system was worked out in 1945, proportional representation was re-introduced in a modified form. This will almost certainly lead to an unstable distribution of seats in the Landtage. The decision not to adopt the British system was taken finally on the advice of German experts, who felt that Germans were not sufficiently mature politically to accept the unfair minority representation which the British system imposes. But the result will be that governing responsibility will not be firmly laid on any one party. This may lead to a repetition of Weimar impotence. It is presumably too late to change the system now, but the dangers of the present form must be recognised. (The modification introduced was expected to lead to the exclusion of some of the small splinter parties. That this has not happened is shown by the results of the Kreis elections when twelve parties gained seats.)

TRADE UNIONS

Parallel with the encouragement of political parties and local government must be the promotion of trade unions. The main point at issue today is whether the Germans should be allowed to form one vast comprehensive Union which covers all industries and trades, or whether the Unions should be built up individually in each industry. The British official view has been that the German unions should follow the British pattern of autonomous unions, with their own funds, which should federate in a sort of TUC. This view has been pressed on the Germans, with the backing of a special TUC delegation. But there is little doubt that the Germans themselves originally favoured the comprehensive union, on the lines of the Freie Deutsche Gewerkschaftsbund (Free German Trades Union) in the Russian Zone. This huge union has one central committee which dominates all trades and industries. The German workers in the Ruhr and elsewhere strongly favoured this type

¹ The Kreis councils are the rough equivalent of British Urban and Rural District Councils.
² The Landtage are the Provincial Councils of which there are three in the British Zone.
of union. They felt that it gave the workers increased unity and strength and would place them in a stronger position to resist any future attack such as Hitler's, on their power. The fact that the autonomous unions have virtually been forced on the Germans in the British Zone does not encourage them to believe that the British are genuinely democratic in wishing the Germans to form their own unions.

The British reasons for their actions can be defended. They argued that only through autonomous unions with their own funds, can the rank and file have any measure of democratic control over their union leaders. The comprehensive union would be liable to dictate policy and to impose on the workers themselves. This is undoubtedly sound theory. But it is open to question whether it is compatible with the professions of democracy to force on the German workers a kind of union they do not in the majority want. This is a matter which the Germans should be allowed to decide for themselves, so long as their actions do not threaten the purposes of our occupation. In any event, when the occupation ends, or even when detailed control is withdrawn from lower levels, the Germans will be able to form the type of unions they want. Any other policy undermines German faith in our protestations of democracy.

POLITICAL RESPONSIBILITY

It is essential that the Landtage, when elected, should be given a wide measure of responsibility. There is an inherent contradiction between occupation of a country and the promotion of free political democracy. We are trying to uproot militarism in Germany. We must, if we are to succeed, if we are to be consistent, limit our own "militarism" and dictatorship to a minimum. It is not possible to recommend immediate withdrawal of all control forces, because of the difficulty of international agreement. But we can and must reduce our control staff to a minimum. At present, 26,000 British control staff contrast with 6,000 American and an equally small Russian figure. All our staff should be withdrawn below the "Land" (Province) level. The remaining staff should be small in number, and expert in qualifications, and should have power to act only when German decisions cut across agreed policy. Only by this means can the Germans be expected to take a responsible interest in their own affairs. Only by keeping control to an absolute minimum can occupation be compatible with democracy, and only thus can we refute charges of hypocrisy.

The American authorities have gone ahead much more rapidly in handing over responsibility to the Germans. Their Landtage are already freely elected bodies. The reason for delay in the British Zone was that time was needed for re-education in democratic methods and ideas after twelve years of dictatorship. But the American quick methods have apparently been just as successful as the British slow methods. The danger of the British method has been seen in the tendency of officials to treat German politicians and administrators as children and beginners, as members of a backward race. This is most unfortunate and cannot increase the respect of the Germans for their British masters. The further danger lies in the German tendency to do and say what is expected of him. This tendency will continue until the occupation ceases, when the Germans will have to make up their own minds. It is much better that they should start to make up their own minds now.

FEDERALISATION VERSUS CENTRALISATION

We have reorganised the British Zone into three big Laender—Rhein-Westfalen, Schleswig-Holstein and Niedersachsen. The first is an amalgamation
of two Länder, the last of four. The Americans also have simplified the maze of small states in their zone into three Länder: Bavaria, Wurttemberg-Baden and Greater Hesse. These measures should result in much more efficient local government. The British and the Americans have given considerable powers to these Länder in an attempt to build up a genuine federal structure, with some powers to be withheld permanently from any future Central Government.

But it is unrealistic to expect a federal Germany to emerge, which leaves any important decisions affecting the whole country in the hands of any one Landtag. To do so is to put the clock back. There is surprisingly little separatist feeling in Germany. With the end of occupation a centralised Germany is almost certain to reappear. The longer the Zonal occupation lasts, the stronger the centripetal forces will become. It would be in our ultimate interests to create the equivalent of a centralised government now.

The nucleus already exists in the Zonal Advisory Council, and in the Bi-Zonal German Executive Committees at Minden, on which all the Länder are represented. The Zonal Advisory Council has been consulted increasingly in determining policy on matters concerning the Germans alone, such as land reform and the administrative structure of the Zone. They should immediately be given executive authority on these matters. Their executive authority should also be extended to cover the five fields for which Potsdam envisaged central administration eighteen months ago: transport, communications, finance, industry and foreign trade. Certain policy decisions, particularly in finance, industry and foreign trade, must still be excluded from their powers, until four-power agreement is reached on such matters as banking, the exchange value of the Mark, the level of industry, reparations and an export-import programme. The Central Administration for the Soviet Zone has had wide executive powers within these limits for over a year. The result has been a much wider degree of realistic planning and reconstruction in Eastern Germany. If and when a decision is reached by the four powers to unite the Zones economically, these Western and Eastern administrations could merge. Until such a decision is reached, each zone must pursue its own economic policy. It is senseless to have no economic policy because the ideal of economic unity has not yet been achieved. This brings us to our third aim.

THIRD AIM: ECONOMIC STABILITY

All efforts to make Germany a peaceful nation by demilitarisation, denazification and re-education will be doomed to failure if Germany is not rescued from economic collapse. The extensive goodwill with which the Germans regarded our occupation in the early days has now disappeared under the stress of hunger and economic chaos. The Germans are now in danger of losing all faith in British intentions, and in the working of democracy.

The immediate cause of the present economic dislocation is not the level of industry agreement reached in March 1946. This agreement, as a result of compromise between the higher British and American figures and the lower Russian and French figures has set quite unworkable limits to production in a wide range of industries. It also stipulated that all plant above those limits should be dismantled for delivery as reparations. That agreement should be revised and the production limits raised, but in no single industry has the permitted maximum output yet been achieved. The cause is more immediate —lack of coal and food, and lack of planning. Steel, the yardstick for the

1 See Appendix 2.  
2 See Appendix 4.
level of industry agreement, is a case in point. The permitted level is 5·8 million tons a year, with a further capacity up to 7·5 million tons to be excluded from reparations deliveries. The present output of steel is at the rate of only 2·7 million tons a year. The revision of the maximum permitted output to 11·0 million tons, while a long term necessity, is not the short term solution. The chief check on steel output is the lack of sufficient coal. Out of a monthly output of 3 3/4 million tons in November, 20 per cent. was exported to European countries. This export figure is maintained in an attempt to assist the immediate reconstruction of Europe and to pay for food imports in dollars. But few of the countries to which coal is exported against payment in dollars have any dollar reserves at present with which to pay for the coal. In practice, the coal has been exported on credit and our dollar pool for food payments to America has not been greatly increased. In order to maintain export quotas, less coal has been left in the mines for operational purposes and less coal has been allocated to industries making mining machinery and consumer goods. No coal has been allocated to the civilian population in the Ruhr, though the miners' families get a little. This policy has undoubtedly impaired the efficiency of the Ruhr mines, has limited the incentives to the miners to work harder, or new workers to enter the mines (labour shortage is now a most serious factor). The result is that coal production has remained constant at about 4·0 million tons a month since December 1945. It has meant that export quotas have had to be cut down. If all export of coal were stopped for a period of three to six months, the Ruhr output would rise and export could be resumed at a higher level. In other words, those countries deprived of coal for a period of six months would, after that period, receive coal at a much higher rate, and in the long run—over a period of a year—would probably get more coal than will be possible if 20 per cent. of the output is diverted to export all the time. If this had been done earlier, the French might now be getting the coal they so urgently need.

ECONOMIC PLANNING

The export of electrical power to neighbouring countries should also be stopped immediately for a short period. With all coal production and electrical power kept in Germany for a given period, it should be possible to publish a production plan with set targets for essential industries. Production in each industry should be organised on the lines of the North German Coal Control. No other industry, except the small oil industry, has been tackled with the energy and foresight given to coal. The result is that most Germans are convinced that there is no constructive economic plan, and the workers are apathetic and hopeless. The announcement that the British Government intends to nationalise basic industries is of paramount importance as a psychological measure. It is also an essential long-term measure in order to guarantee that the chief German industries do not revert to the control of a powerful cartel. But in terms of immediate production it means little when most important industries are "nationalised" already, in the sense that control is centralised in the hands of the Economic Division. The immediate necessity is to get the Germans to work on a plan which they can see will bring them in more food in exchange for exports, and more consumer goods. Far too little use is made of the newspapers and radio to publicise what little planning there is, and to encourage the Germans to work harder. The Soviet Zone papers present a marked contrast to this, with the result that the average worker in the West often knows more about production targets in Eastern Germany than in his own zone. Once any overall plan was agreed on, the execution of the plan, and the responsibility for its success should be left entirely in the hands of the Germans, through the Bi-Zonal Economic Advisory Board, and
the custodians for the various industries, who are about to be appointed. If any particular industry reached the production ceiling fixed in the level of industry agreement, output could be held at that level until the agreement is revised, if in the interests of four-power bargaining it seemed unwise to break the agreement until it is officially revised. (The Socialist Unity Party in the Soviet Zone have recently announced the Russian promise to double or treble the agreed levels for the Soviet Zone.) Apart from the internal German aspect of the economic problem, it is only by such efforts that we can cut down the cost of the occupation to the British tax-payer.

LEVEL OF INDUSTRY AGREEMENT

As a long term measure, it is essential to revise the level of industry agreement. If carried out, the agreement would create extensive unemployment and would force countless workers to change both their trade and their place of work. In wartime, it is possible to direct workers from one place to another in large numbers. In peacetime, this situation, coupled with extensive unemployment, would be fertile ground for industrial unrest and Hitler tactics. Apart from this grave danger, the level permitted does not adequately take into account the vast destruction in Europe, and the consequent demand for all manner of materials and finished goods. The scales were reached on the basis of per capita consumption in 1938 worked out at Geneva. Both the French and the Russians used this yardstick rigidly. The much higher British figures were based on examination of present need taken in conjunction with the pre-war per capita consumption. The revised plan should adopt the higher British figures in all cases, and should also remove certain commodities—notably cement—from the list of industries for which ceilings were fixed. The Russians would probably agree to this revision now, on the understanding that reparations should be taken from current production. They have in any case announced their intention, through the Socialist Unity Party, to raise the levels to twice or three times the agreed figure. On the British and American side, two of the conditions on which the plan was originally accepted have not been fulfilled: there is no economic unity, and the population is greater than 66 million.

International Aspect

These, then, must be our aims, and the driving force behind our policy in the area under our control: demilitarisation, and the swift completion of denazification, the encouragement of responsible political democracy, and the establishment of economic stability. These things we can and must pursue energetically in the West. But they will be meaningless in the long run unless Germany is economically and politically re-united. While therefore we must not mark time in the West, waiting for economic unity and central administrations—as we have tended to do in the past—we must lose no opportunity to promote unity in all fields. However long and tedious negotiations may be, it is imperative, if we are to keep our ultimate objective in view, that Germany should become once more one nation, and not four variants on four conflicting themes. Our ultimate objective is a peaceful democratic Germany. Our wider objective is a peaceful and prosperous Europe. The division of Germany into two separate parts is the surest way to increase German chauvinism. It is also a sure source of permanent conflict between East and West.
POLITICAL UNITY

There is no purpose of denying the conflict. It is most apparent, and most insoluble in the political field. The very meaning of democracy differs on the East and West banks of the Elbe. There is nothing we can do about this, except to continue in Berlin—the only part of Germany run as an integrated unit by a four-power control—to encourage our conception of responsible political democracy. We must maintain free uncensored newspapers, free municipal elections, non-political police, and independent trade unions. There is much evidence to show that the majority of Germans prefer the Western meaning of democracy. When, in the future, the time comes for complete withdrawal of all occupation forces, we can only hope that our interpretation of democracy survives in the East as well as in the West.

ECONOMIC UNITY

On the economic side, the conflict is not irresolvable. It is, in the long run, in the direct interests of all four powers to promote economic unity. No one part of Germany can be self-supporting. A first step is to reach a final settlement of the Ruhr, the Rhineland and the Saar. For the French have repeatedly stated that they cannot agree to any form of central administration until these issues have been settled.

Once these issues are settled, the French may agree to some central administrations, particularly transport and communications. Complete plans for these administrations have been agreed between the British, the Americans and the Russians for months. With French formal opposition out of the way, it will be possible to discover how far Russian opposition really goes in the other three fields—industry, finance and foreign trade. The machinery for Anglo-American-Soviet Zonal administrations exists in the Bi-Zonal Economic Board and the Soviet Central Administration in Berlin. It is probable that the Russians will be more ready to co-operate when the economic reconstruction of our zone has progressed further. Their need for steel and raw materials from the Ruhr is very great. At present, they know that there is little to spare, though exchange agreements have been reached, bartering potatoes, bread, grain and sugar for steel, iron-castings and pig-iron in one instance, and diesel fuel for machinery in another. Similar exchanges have taken place between all Zones. Our immediate policy must be to extend such agreements, and to stress that it is open to the French and the Russians at any time to adhere to the terms of the Anglo-American economic fusion agreement.¹

RUHR AND RHINELAND

However, the first step must be agreement on the future of the Ruhr and Rhineland. It will probably be impossible to satisfy French demands and follow a course which is just to Germany and gives Germany no grounds for a future irredentist grievance. There can be no doubt that both areas are German by traditional right. If we believe in the efficacy of re-education, and the nationalisation of the basic industries in the Ruhr, we must leave all these areas in German hands under German control. The Ruhr should be subject to a resident international inspection team, working in close collaboration with the German custodians of the various industries. This team should remain when occupation ends. If the team reported any German move to use these industries for military purposes, an international agreement to re-occupy Germany should come into force. The legitimate French and other

¹ See Appendix 5.
claims on Ruhr coal should be met by international economic agreements, when production in those areas reached pre-war levels. Any decision to hand over these areas to any form of complete international or French control would meet with the combined opposition of all German political parties. When the occupation ends, Germany would certainly seek to reimpose control of these areas which are essential to the stable economy of Germany. We should not present Germany with this legitimate grievance.

THE SAAR

The Saar question is rather different. There the French ask not only for the separation of the Saar from Germany but for its "economic and administrative integration" with France. Such "integration" can be little different from annexation, except that the people of the Saar would have none of the rights of French citizenship. It could hardly endure and would inevitably turn into annexation.

There is no ground on which we ought to support such a transfer of territory against the wishes of the inhabitants. Nor would it be of real benefit to the French people to incorporate such an alien element into their polity. All their legitimate needs for Saar coal can be safeguarded without annexation, open or disguised.

OTHER FRONTIERS

One of Hitler’s most potent spells over the Germans was the cry of Lebensraum. That idea was effective when the German ratio of population to the square mile was 136. The ratio is much higher now, as the result of the expulsion of Germans from Poland, Czechoslovakia and Hungary, and the simultaneous annexation by Poland of 40,000 square miles of Germany. We should do everything possible to get the provisional Polish-German frontier revised. It was fixed provisionally at Potsdam pending the final peace settlement. Now is the time to change it. It has no ethnic justification, it has involved the transfer of 8-0 million Germans, and will remain the prime grievance of the Germans when the occupation ends. It is also economically untenable, depriving Germany of some of her richest agricultural lands.

The minor frontier demands of Holland, Belgium, Luxembourg and Czechoslovakia involve less than 200,000 Germans, and a comparatively small area. Their settlement either way cannot radically affect the situation.

In considering the French claim to the Saar, and the Polish claim to the "Western Territories", we must decide whether we count the immediate satisfaction of France and Poland as more important to our ultimate objective than justice to Germany. If we are determined to encourage Germany’s peaceful development, and to remove all legitimate grievances, we must decide that justice to Germany is in the long run more important.

REPARATIONS

The most justified Allied claims on Germany are the claims to reparations. The total amount of the claims has never yet been fixed, though the percentage proportions of the whole were agreed at the Paris Reparations Conference in December 1945. These percentages should be adhered to. But the present methods of payment by dismantling plant should be scrapped. It is a most uneconomic concept involving great wastage. The principle of reparations

1 See Appendices 1 and 2.  
2 See Appendix 3.
from current production should take its place, together with a new guaranteed level of industry and standard of living for Germany herself, below which level current production should not be taken. At a time when most countries are suffering from labour shortage, it is imperative that German labour should be used to produce reparations. This method would also avoid unemployment in Germany, which, as has already been pointed out, would reach vast proportions if the Level of Industry agreement were carried out.

The Russians have consistently followed this policy in their Zone, in defiance of the Level of Industry agreement. The result is that unemployment is low, and consumer goods have been sent to Russia, where the demand is very great. The Germans themselves have also benefited to a certain extent, as a small percentage of most production has been left in the Zone for distribution there. However, the Russian unilateral actions provide no guarantee that sufficient production is left in Germany in accordance with the standard of living laid down at Potsdam. Their actions have also meant that surplus production in the East has not gone toward paying for imports for other zones. It is therefore imperative to revise the Level of Industry agreement, cancelling all provisions for the removal of plant as reparations. In its place, an agreement should be reached specifying the amount of production which should be delivered to the various claimants and the amount to be left in Germany. So long as the occupation lasts, it should be possible to ensure that the German workers maintain output for reparations as well as for home consumption.

Conclusions

Our aim must be the creation of a peaceful democratic Germany which will be an asset to the economic reconstruction of Europe and not a menace to her security. To achieve this, we must remove all legitimate grievances, and encourage political responsibility and economic stability.

1. We must destroy all existing war material. When occupation ends we must set up international inspection teams, empowered to prohibit war production in specified end products. There should be international agreement to reoccupy Germany, if any infringements are reported by the inspection teams.

2. We must prohibit the recreation of the Wehrmacht when occupation ends.

3. We must complete denazification rapidly by means of special German Commissions for individual industries and professions. We must give all prisoners a legal public trial, based on the Nuremberg verdict, and release those against whom we have no case.

4. We must hand over a great deal of responsibility to the Landtage to be elected in March, and reduce the Control Commission to a number of small expert teams empowered only to intervene on specified policy issues.

5. We must leave the Germans to decide on the final Administrative structure of Germany, through the Zonal Advisory Council.

6. We must stop the export of coal and electric power for a specific period, resuming export only when coal production has resumed an upward curve.

7. We must publish a full production plan for permitted industries, together with specific targets.

8. We must revise the Level of Industry agreement.
9 We cannot hope for immediate political unity with the Soviet Zone, but we must maintain political democracy in the West and in Berlin.

10 We must endeavour to promote economic unity and to establish the five central administrations envisaged in the Potsdam agreement.

11 We must endeavour to keep the Ruhr, the Rhineland and the Saar politically within Germany's frontiers, though instituting permanent economic inspection in the Ruhr.

12 We must oppose the present Polish-German frontier.

13 We must cease dismantling plant for delivery as reparations, and instead take reparations from current production.

APPENDIX 1

EXTRACTS FROM THE REPORT OF THE CRIMEA CONFERENCE (YALTA) 11th FEBRUARY, 1945

II—The Occupation and control of Germany

We have agreed on common policies and plans for enforcing the unconditional surrender terms which we shall impose together on Nazi Germany after German armed resistance has been finally crushed. These terms will not be made known until the final defeat of Germany has been accomplished. Under the agreed plan, the forces of the Three Powers will each occupy a separate zone of Germany. Coordinated administration and control has been provided for under the plan through a central Control Commission consisting of the Supreme Commanders of the Three Powers with headquarters in Berlin. It has been agreed that France should be invited by the Three Powers, if she should desire, to take over a zone of occupation, and to participate as a fourth member of the Control Commission. The limits of the French zone will be agreed by the four Governments concerned through their representatives on the European Advisory Commission.

It is our inflexible purpose to destroy German militarism and Nazism and to ensure that Germany will never again be able to disturb the peace of the world. We are determined to disarm and disband all German armed forces; break up for all time the German General Staff that has repeatedly contrived the resurgence of German militarism; remove or destroy all German military equipment; eliminate or control all German industry that could be used for military production; bring all war criminals to justice and swift punishment and exact reparations in kind for the destruction wrought by the Germans; wipe out the Nazi party, Nazi laws, organisations and institutions, remove all Nazi and militarist influences from public office and from the cultural and economic life of the German people; and take in harmony other measures in Germany as may be necessary to the future peace and safety of the world. It is not our purpose to destroy the people of Germany, but only when Nazism and militarism have been extirpated, will there be hope for a decent life for Germans, and a place for them in the comity of nations.

III—Reparation by Germany

We have considered the question of the damage caused by Germany to the Allied Nations in this war and recognised it as just that Germany be obliged to make compensation for this damage in kind to the greatest extent possible. A Commission for the Compensation of Damage will be established. The Commission will be instructed to consider the question of the extent and methods for compensating damage caused by Germany to the Allied countries. The Commission will work in Moscow.

IV—Poland

... The three Heads of Government consider that the eastern frontier of Poland should follow the Curzon line with digressions from it in some regions of five to eight kilometres in favour of Poland. They recognise that Poland must receive substantial accessions of territory in the North and West. They feel that the
opinion of the new Polish Provisional Government of National Unity should be sought in due course on the extent of these accessions and that the final delimitation of the western frontier of Poland should thereafter await the Peace Conference...

(Signed) WINSTON S. CHURCHILL.
FRANKLIN D. ROOSEVELT.
J. V. STALIN.

11th February, 1945.

APPENDIX 2

EXTRACTS FROM THE TRIPARTITE CONFERENCE OF BERLIN
(The Potsdam Agreement) 17th JULY—2nd AUGUST, 1945

III—Germany

...The Allied armies are in occupation of the whole of Germany and the German people have begun to atone for the terrible crimes committed under the leadership of those whom, in the hour of their success, they openly approved and blindly obeyed.

Agreement has been reached at this Conference on the political and economic principles of a co-ordinated Allied policy towards defeated Germany during the period of Allied control.

The purpose of this agreement is to carry out the Crimea declaration on Germany. German militarism and Nazism will be extirpated and the Allies will take in agreement together, now and in the future, the other measures necessary to assure that Germany never again will threaten her neighbours or the peace of the world.

It is not the intention of the Allies to destroy or enslave the German people. It is the intention of the Allies that the German people be given the opportunity to prepare for the eventual reconstruction of their life on a democratic and peaceful basis. If their own efforts are steadily directed to this end, it will be possible for them in due course to take their place among the free and peaceful peoples of the world.

The text of the agreement is as follows:

The Political and Economic Principles to Govern the Treatment of Germany in the Initial Control Period

A Political Principles

1. In accordance with the Agreement on Control Machinery in Germany, supreme authority in Germany is exercised on instructions from their respective Governments, by the Commander-in-Chief of the armed forces of the United States of America, the United Kingdom, the Union of Soviet Socialist Republics, and the French Republic, each in his own zone of occupation, and also jointly, in matters affecting Germany as a whole, in their capacity as members of the Control Council.

2. So far as is practicable, there shall be uniformity of treatment of the German population throughout Germany.

3. The purposes of the occupation of Germany by which the Control Council shall be guided are:

(i) The complete disarmament and demilitarisation of Germany and the elimination or control of all German industry that could be used for military production. To these ends:

(a) All German land, naval and air forces, the S S, S A, S D and Gestapo, with all their organisations, staffs and institutions, including the General Staff, the Officers’ Corps, Reserve Corps, military schools, war veterans’ organisations and all other military and quasi-military organisations, together with all clubs and associations which serve to keep alive the military tradition in Germany, shall be completely and finally abolished in such manner as permanently to prevent the revival or reorganisation of German militarism and Nazism.
(b) All arms, ammunition and implements of war and all specialised facilities for their production shall be held at the disposal of the Allies or destroyed. The maintenance and production of all aircraft and all arms, ammunition and implements of war shall be prevented.

(ii) To convince the German people that they have suffered a total military defeat and that they cannot escape responsibility for what they have brought upon themselves, since their own ruthless warfare and the fanatical Nazi resistance have destroyed German economy and made chaos and suffering inevitable.

(iii) To destroy the National Socialist Party and its affiliated and supervised organisations, to dissolve all Nazi institutions, to ensure that they are not revived in any form, and to prevent all Nazi and militarist activity or propaganda.

(iv) To prepare for the eventual reconstruction of German political life on a democratic basis and for eventual peaceful co-operation in international life by Germany.

4. All Nazi laws which provided the basis of the Hitler regime or established discrimination on grounds of race, creed, or political opinion shall be abolished. No such discriminations, whether legal, administrative or otherwise, shall be tolerated.

5. War Criminals and those who have participated in planning or carrying out Nazi enterprises involving or resulting in atrocities or war crimes shall be arrested and brought to judgment. Nazi leaders, influential Nazi supporters and high officials of Nazi organisations and institutions and any other persons dangerous to the occupation or its objectives shall be arrested and interned.

6. All members of the Nazi Party who have been more than nominal participants in its activities and all other persons hostile to Allied purposes shall be removed from public and semi-public office, and from positions of responsibility in important private undertakings. Such persons shall be replaced by persons who, by their political and moral qualities, are deemed capable of assisting in developing genuine democratic institutions in Germany.

7. German education shall be so controlled as completely to eliminate Nazi and militarist doctrines and to make possible the successful development of democratic ideas.

8. The judicial system will be reorganised in accordance with the principles of democracy, of justice under law, and of equal rights for all citizens without distinction of race, nationality or religion.

9. The administration of affairs in Germany should be directed towards the decentralisation of the political structure and the development of local responsibility. To this end:—

(i) Local self-government shall be restored throughout Germany on democratic principles, and in particular, through elective councils as rapidly as is consistent with military security and the purposes of military occupation.

(ii) All democratic political parties with rights of assembly and of public discussion shall be allowed and encouraged throughout Germany.

(iii) Representative and elective principles shall be introduced into regional, provincial and state (Land) administration as rapidly as may be justified by the successful application of these principles in local self-government.

(iv) For the time being no central German Government shall be established. Notwithstanding this, however, certain essential central German administrative departments, headed by State Secretaries, shall be established, particularly in the fields of finance, transport, communications, foreign trade and industry. Such departments will act under the direction of the Control Council.

10. Subject to the necessity for maintaining military security, freedom of speech, press and religion shall be permitted, and religious institutions shall be
respected. Subject likewise to the maintenance of military security, the formation of free trade unions shall be permitted.

B Economic Principles

11. In order to eliminate Germany's war potential, the production of arms, ammunition and implements of war as well as all types of aircraft and sea-going ships shall be prohibited and prevented. Production of metals, chemicals, machinery and other items that are directly necessary to a war economy shall be rigidly controlled and restricted to Germany's approved post-war peacetime needs to meet the objectives stated in paragraph 15. Productive capacity not needed for permitted production shall be removed in accordance with the Reparations Plan recommended by the Allied Commission on Reparations and approved by the Governments concerned or if not removed, shall be destroyed.

12. At the earliest practicable date, the German economy shall be decentralised for the purpose of eliminating the present excessive concentration of economic power as exemplified in particular by cartels, syndicates, trusts and other monopolistic arrangements.

13. In organising the German economy, primary emphasis shall be given to the development of agriculture and peaceful domestic industries.

14. During the period of occupation Germany shall be treated as a single economic unit. To this end common policies shall be established in regard to:

- mining and industrial production and allocation;
- agriculture, forestry and fishing;
- wages, prices and rationing;
- import and export programmes for Germany as a whole;
- currency and banking, central taxation and customs;
- reparation and removal of industrial war potential;
- transportation and communications.

In applying these policies account shall be taken, where appropriate, of varying local conditions.

15. Allied controls shall be imposed upon the German economy but only to the extent necessary:

- To carry out programmes of industrial disarmament and demilitarisation, of reparations, and of approved exports and imports.
- To assure the production and maintenance of goods and services required to meet the needs of the occupying forces and displaced persons in Germany and essential to maintain in Germany average living standards not exceeding the average of standards of living of European countries. (European countries means all European countries excluding the United Kingdom and the Union of Soviet Socialist Republics.)
- To ensure in the manner determined by the Control Council the equitable distribution of essential commodities between the several zones so as to produce a balanced economy throughout Germany and reduce the need for imports.
- To control German industry and all economic and financial international transactions, including exports and imports, with the aim of preventing Germany from developing a war potential and of achieving the other objectives named herein.
- To control all German public or private scientific bodies, research and experimental institutions, laboratories, etc., connected with economic activities.

16. In the imposition and maintenance of economic controls established by the Control Council, German administrative machinery shall be created and the German authorities shall be required to the fullest extent practicable to proclaim
and assume administration of such controls. Thus it should be brought home to the German people that the responsibility for the administration of such controls and any breakdown in these controls will rest with themselves. Any German controls which may run counter to the objectives of occupation will be prohibited.

17. Measures shall be promptly taken:
   (a) to effect essential repair of transport;
   (b) to enlarge coal production;
   (c) to maximise agricultural output; and
   (d) to effect emergency repair of housing and essential utilities.

18. Appropriate steps shall be taken by the Control Council to exercise control and the power of disposition over German-owned external assets not already under the control of United Nations which have taken part in the war against Germany.

19. Payment of reparations should leave enough resources to enable the German people to subsist without external assistance. In working out the economic balance of Germany the necessary means must be provided to pay for imports approved by the Control Council in Germany. The proceeds of exports from current production and stock shall be available in the first place for payment for such imports.

The above clause will not apply to the equipment and products referred to in paragraphs 4(a) and 4(b) of the Reparations Agreement.

IV—Reparations from Germany

In accordance with the Crimea decision that Germany be compelled to compensate to the greatest possible extent for the loss and suffering that she has caused to the United Nations and for which the German people cannot escape responsibility, the following agreement on reparations was reached:

1. Reparation claims of the U.S.S.R. shall be met by removals from the zone of Germany occupied by the U.S.S.R. and from appropriate German external assets.

2. The U.S.S.R. undertakes to settle the reparation claims of Poland from its own share of reparations.

3. The reparation claims of the United States, the United Kingdom and other countries entitled to reparations shall be met from the Western Zones and from appropriate German external assets.

4. In addition to the reparations to be taken by the U.S.S.R. from its own zone of occupation, the U.S.S.R. shall receive additionally from the Western Zones:
   (a) 15 per cent of such usable and complete industrial capital equipment, in the first place from the metallurgical, chemical and machine manufacturing industries, as is unnecessary for the German peace economy and should be removed from the Western Zones of Germany, in exchange for an equivalent value of food, coal, potash, zinc, timber, clay products, petroleum products, and such other commodities as may be agreed upon.
   (b) 10 per cent of such industrial capital equipment as is unnecessary for the German peace economy and should be removed from the Western Zones, to be transferred to the Soviet Government on reparations account without payment or exchange of any kind in return.

Removals of equipment as provided in (a) and (b) above shall be made simultaneously.

5. The amount of equipment to be removed from the Western Zones on account of reparations must be determined within six months from now at the latest.
6. Removals of industrial capital equipment shall begin as soon as possible and shall be completed within two years from the determination specified in paragraph 5. The delivery of products covered by 4(a) above shall begin as soon as possible and shall be made by the USSR in agreed instalments within five years of the date hereof. The determination of the amount and character of the industrial capital equipment unnecessary for the German peace economy and therefore available for reparations shall be made by the Control Council under policies fixed by the Allied Commission on Reparations, with the participation of France, subject to the final approval of the Zone Commander in the Zone from which the equipment is to be removed.

7. Prior to the fixing of the total amount of equipment subject to removal, advance deliveries shall be made in respect of such equipment as will be determined to be eligible for delivery in accordance with the procedure set forth in the last sentence of paragraph 6.

8. The Soviet Government renounces all claims in respect of reparations to shares of German enterprises which are located in the Western Zones of occupation in Germany as well as to German foreign assets in all countries except those specified in paragraph 9 below.

9. The Governments of the UK and USA renounce their claims in respect of reparations to shares of German enterprises which are located in the Eastern Zone of occupation in Germany, as well as to German foreign assets in Bulgaria, Finland, Hungary, Rumania and Eastern Austria.

10. The Soviet Government makes no claims to gold captured by the Allied troops in Germany.

V—Disposal of the German Navy and Merchant Marine

The Conference agreed in principle upon arrangements for the use and disposal of the surrendered German fleet and merchant ships. It was decided that the three Governments would appoint experts to work out together detailed plans to give effect to the agreed principles. A further joint statement will be published simultaneously by the three Governments in due course.

VI—City of Koenigsberg and the Adjacent Area

The Conference examined a proposal by the Soviet Government that pending the final determination of territorial questions at the peace settlement, the section of the western frontier of the Union of Soviet Socialist Republics which is adjacent to the Baltic Sea should pass from a point on the eastern shore of the Bay of Danzig to the east, north of Braunsberg-Goldap, to the meeting point of the frontiers of Lithuania, the Polish Republic and East Prussia.

The Conference has agreed in principle to the proposal of the Soviet Government concerning the ultimate transfer to the Soviet Union of the City of Koenigsberg and the area adjacent to it as described above, subject to expert examination of the actual frontier.

The President of the United States and the British Prime Minister have declared that they will support the proposal of the Conference at the forthcoming peace settlement.

VII—WAR CRIMINALS

The three Governments have taken note of the discussions which have been proceeding in recent weeks in London between British, United States, Soviet and French representatives with a view to reaching agreement on the methods of trial of those major war criminals whose crimes under the Moscow Declaration of October, 1943, have no particular geographic localisation. The three Governments reaffirm their intention to bring those criminals to swift and sure justice. They hope that the negotiations in London will result in speedy agreement being reached for this purpose, and they regard it as a matter of great importance that the trial of those major criminals should begin at the earliest possible date. The first list of defendants will be published before 1st September...
IX—Poland

... The Conference considered questions relating to the Polish Provisional Government and the western boundary of Poland.

On the Polish Provisional Government of National Unity they defined their attitude in the following statement:

(a) We have taken note with pleasure of the agreement reached among representative Poles from Poland and abroad which has made possible the formation, in accordance with the decisions reached at the Crimea Conference, of a Polish Provisional Government of National Unity recognised by the three Powers. The establishment by the British and United States Governments of diplomatic relations with the Polish Provisional Government has resulted in the withdrawal of their recognition from the former Polish Government in London, which no longer exists.

The British and United States Governments have taken measures to protect the interest of the Polish Provisional Government as the recognised Government of the Polish State in the property belonging to the Polish State located in their territories and under their control, whatever the form of this property may be. They have further taken measures to prevent alienation to third parties of such property. All proper facilities will be given to the Polish Provisional Government for the exercise of the ordinary legal remedies for the recovery of any property belonging to the Polish State which may have been wrongfully alienated.

The three Powers are anxious to assist the Polish Provisional Government in facilitating the return to Poland as soon as practicable of all Poles abroad who wish to go, including members of the Polish Armed Forces and the Merchant Marine. They expect that those Poles who return home shall be accorded personal and property rights on the same basis as all Polish citizens.

The three Powers note that the Polish Provisional Government in accordance with the decisions of the Crimea Conference has agreed to the holding of free and unfettered elections as soon as possible on the basis of universal suffrage and secret ballot in which all democratic and anti-Nazi parties shall have the right to take part and to put forward candidates, and that representatives of the Allied press shall enjoy full freedom to report to the world upon developments in Poland before and during the elections.

(b) The following agreement was reached on the western frontier of Poland:

In conformity with the agreement on Poland reached at the Crimea Conference the three Heads of Government have sought the opinion of the Polish Provisional Government of National Unity in regard to the accession of territory in the north and west which Poland should receive. The President of the National Council of Poland and members of the Polish Provisional Government of National Unity have been received at the Conference and have fully presented their views. The three Heads of Government reaffirm their opinion that the final delimitation of the western frontier of Poland should await the peace settlement.

The three Heads of Government agree that, pending the final determination of Poland's western frontier, the former German territories east of a line running from the Baltic Sea immediately west of Swinemünde, and thence along the Oder River to the confluence of the western Neisse River and along the western Neisse to the Czechoslovak frontier, including that portion of East Prussia not placed under the administration of the Union of Soviet Socialist Republics in accordance with the understanding reached at this Conference and including the area of the former free city of Danzig, shall be under the administration of the Polish State and for such purposes should not be considered as part of the Soviet Zone of occupation in Germany.

Approved —

J. V. STALIN.
HARRY S. TRUMAN.
C. R. ATTLEE.
APPENDIX 3

EXTRACT FROM THE RECOMMENDATIONS OF THE PARIS CONFERENCE ON REPARATIONS, DECEMBER, 1945

Part I—German Reparation

Article 1—SHARES IN REPARATION

A. German reparation shall be divided into the following categories:

Category A, which shall include all forms of German reparation except those included in Category B,

Category B, which shall include industrial and other capital equipment removed from Germany, and merchant ships and inland water transport.

B. Each Signatory Government shall be entitled to the percentage share of the total value of Category A and the percentage share of the total value of Category B set out for that Government in the Table of Shares set forth below:

<table>
<thead>
<tr>
<th>Country</th>
<th>Category A</th>
<th>Category B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>.05</td>
<td>.35</td>
</tr>
<tr>
<td>United States of America</td>
<td>28.00</td>
<td>11.80</td>
</tr>
<tr>
<td>Australia</td>
<td>.70</td>
<td>.95</td>
</tr>
<tr>
<td>Belgium</td>
<td>2.70</td>
<td>4.50</td>
</tr>
<tr>
<td>Canada</td>
<td>3.50</td>
<td>1.50</td>
</tr>
<tr>
<td>Denmark</td>
<td>.25</td>
<td>.35</td>
</tr>
<tr>
<td>Egypt</td>
<td>.05</td>
<td>.20</td>
</tr>
<tr>
<td>France</td>
<td>16.00</td>
<td>22.80</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>28.00</td>
<td>27.80</td>
</tr>
<tr>
<td>Greece</td>
<td>2.70</td>
<td>4.35</td>
</tr>
<tr>
<td>India</td>
<td>2.00</td>
<td>2.90</td>
</tr>
<tr>
<td>Luxembourg</td>
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<td>.40</td>
</tr>
<tr>
<td>Norway</td>
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<td>1.90</td>
</tr>
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<tr>
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<td>.70</td>
<td>.10</td>
</tr>
<tr>
<td>Yugoslavia</td>
<td>6.60</td>
<td>9.60</td>
</tr>
</tbody>
</table>

Total                     | 100.00     | 100.00     |

APPENDIX 4

THE PLAN FOR REPARATIONS AND THE LEVEL OF POST-WAR GERMAN ECONOMY IN ACCORDANCE WITH THE BERLIN PROTOCOL (Level of Industry Agreement), 27th MARCH, 1946

1. In accordance with the Berlin Protocol the Allied Control Council is directed to determine the amount and character of the industrial capital equipment unnecessary for the German peace economy and therefore available for reparations. The guiding principles regarding the plan for reparations and the level of Germany's post-war economy in accordance with the Berlin Protocol are:

   (a) Elimination of the German war potential and the industrial disarmament of Germany.

   (b) Payment of reparations to the countries which had suffered from German aggression.
(c) Development of agricultural and peaceful industries.
(d) Maintenance in Germany of average living standards not exceeding the average standard of living of European countries (excluding the United Kingdom and the Union of Soviet Socialist Republics).
(e) Retention in Germany, after payment of reparations, of sufficient resources to enable her to maintain herself without external assistance.

2. In accordance with these principles, the basic elements of the plan have been agreed. The assumptions of the plan are:

(a) That the population of post-war Germany will be 66.5 million.
(b) That Germany will be treated as a single economic unit.
(c) That exports from Germany will be acceptable in the international markets.

Prohibited Industries

3. In order to eliminate Germany’s war potential, the production of arms, ammunition and implements of war, as well as all types of aircraft and seagoing ships, is prohibited and will be prevented.

4. All industrial capital equipment for the production of the following items is to be eliminated:

(a) Synthetic gasoline and oil
(b) Synthetic rubber
(c) Synthetic ammonia
(d) Ball and taper roller bearings
(e) Heavy machine tools of certain types
(f) Heavy tractors
(g) Primary aluminium
(h) Magnesium
(i) Beryllium
(j) Vanadium produced from Thomas slags
(k) Radio-active materials
(l) Hydrogen peroxide above 50 per cent. strength
(m) Specific war chemicals and gases
(n) Radio transmitting equipment

Facilities for the production of synthetic gasoline and oil, synthetic ammonia, and synthetic rubber, and of ball and taper roller bearings, will be temporarily retained to meet domestic requirements until the necessary imports are available and can be paid for.

Restricted Industries

Metallurgical Industries

5. Steel

(a) The production capacity of the steel industry to be left in Germany should be 7.5 million ingot tons. This figure should be subject to review for further reduction should this appear necessary.

(b) The allowable production of steel in Germany should not exceed 5.8 million ingot tons in any future year without the specific approval of the Allied Control Council, but this figure will be subject to annual review by the Control Council.

(c) The steel plants to be left in Germany under the above programme should so far as practicable, be the older ones.
6. Non-Ferrous Metals

The annual consumption of non-ferrous metals, including exports of products containing these metals, is fixed at the following quantities:

- Copper .... 140,000 tons
- Zinc .... 135,000
- Lead .... 120,000
- Tin .... 8,000
- Nickel .... 1,750

Chemical Industries

7. (a) Basic Chemicals. In the basic chemical industries there will be retained 40 per cent. of the 1936 production capacity (measured by sales in 1936 values). This group includes the following basic chemicals: nitrogen, phosphate, calcium carbide, alkalis, sulphuric acid and chlorine. In addition, to obtain required quantities of fertiliser for agriculture, existing capacity for the production of nitrogen through the synthetic ammonia process will be retained until the necessary imports of nitrogen are available and can be paid for.

(b) Other Chemicals. Production capacity will be retained for the group of other chemical production in the amount of 70 per cent. of the 1936 production capacity (measured by sales in 1936 values). This group includes chemicals for building supplies, consumer goods items, plastics, industrial supplies and other miscellaneous chemical products.

(c) Dyestuffs, Pharmaceuticals and Synthetic fibres. In the pharmaceutical industry there will be retained capacity for the annual production of 80 per cent. of 1936 production (measured by sales in 1936 values). Capacity will be retained to produce annually 36,000 tons of dyestuffs and 185,000 tons of synthetic fibres.

Machine Manufacturing and Engineering

8. (a) Machine Tools. For the machine tool industry there will be retained 11.4 per cent. of 1938 capacity, with additional restrictions on the type and size of machine tools which may be produced.

(b) Heavy Engineering. In the heavy engineering industries there will be retained 31 per cent. of 1938 capacity. These industries produce metallurgical equipment; heavy mining machinery; material handling plant; heavy power equipment (boilers and turbines; prime movers; heavy compressors; turbo-blowers and pumps).

(c) Other Mechanical Engineering. In other mechanical engineering industries there will be retained 50 per cent. of 1938 capacity. This group produces constructional equipment; textile machinery; consumer goods equipment; engineering small tools; food processing equipment; woodworking machines; other machines and apparatus.

(d) Electro-engineering. In the electro-engineering industries there will be retained 50 per cent. of 1938 production capacity (based on sales in 1936 value). Capacity to produce heavy electrical equipment is to be reduced to 30 per cent. of 1938 production or RM 40,000,000 (1936 value). Heavy electrical equipment includes generators and converters, 6,000 KW and over; high tension switch gear; and large transformers, 1,500 KVA and over.

Electro-engineering other than heavy electrical equipment includes electric lamps and light fittings, installation materials, electric heating and domestic appliances, cables and wires, telephone and telegraph apparatus, domestic radios, and other electrical equipment.

Export of specified types of radio receiving sets is forbidden.
(c) Transport Engineering

(i) In the automotive industry capacity will be retained to produce annually 80,000 autos, including 40,000 passenger cars and 40,000 trucks, and for 4,000 light road tractors.

(ii) Capacity will be retained to produce annually 10,000 motor-cycles with cylinder sizes between 60 and 250 cubic centimetres. Production of motor-cycles with cylinder sizes of more than 250 cubic centimetres is prohibited.

(iii) In the locomotive industry available capacity will be used exclusively for the repair of the existing stock of locomotives in order to build up a pool of 15,000 locomotives in 1949. A decision will be made later as to the production of new locomotives after 1949.

(iv) Sufficient capacity will be retained to produce annually 30,000 freight cars, 1,350 passenger coaches, and 400 luggage vans.

(f) Agricultural Machinery To permit maximisation of agriculture, capacity will be retained for an annual production of 10,000 light agricultural tractors. Existing capacity for the production of other agricultural equipment, estimated at 80 per cent. of 1938 levels, is to be retained, subject to restrictions on the type and power of the equipment which may be produced.

(g) In estimating capacities there will be taken into account the production of normal quantities of spare parts for transport and agricultural machinery.

(h) Optics and Precision Instruments. Capacity will be retained to produce precision instruments in the value of RM 340,000,000 (1938 value), of which RM 220,000,000 is estimated as required for domestic use and RM 120,000,000 for exports. A further limitation for this industry is possible subject to the recommendations of the Committee for Liquidation of War Potential.

Mining Industries

9. (a) Coal. Until the Control Council otherwise decides, coal production will be maximised as far as mining supplies and transport will allow. The minimum production is estimated at 155 million tons (hard coal equivalent), including at least 45 million tons for export. The necessary supplies and services to this end will be arranged to give the maximum production of coal.

(b) Potash. The production of potash is estimated at over 100 per cent. of the 1938 level.

Electric Power

10. There will be retained an installed capacity of 9.0 million KW.

Cement

11. A capacity for the production of 8 million tons of cement annually will be retained.

Other Industries

12. The estimated levels of the following industries have been calculated as shown below as necessary for the German economy in 1949:

(a) Rubber 50,000 tons, including 20,000 tons from reclaimed rubber and 30,000 tons imports.

(b) Pulp, Paper and Printing 2,129,000 tons based on 26 kg per head per annum in 1949, plus 400,000 tons for export.
(c) Textiles and Apparel 665,000 tons of fibres based on 10 kg per head in 1949, including 2 kg for export.

(d) Boots and Shoes 113 million pairs based on 1.7 pairs per head in 1949 (figure excludes needs of occupying forces).

Production may exceed the above estimates in this paragraph (Other Industries) unless otherwise determined by the Control Council.

13. Building. No level will be determined for 1949. The industry will be free to develop within the limits of available resources and the licensing system.

14. Building Materials Industries (excluding cement). Existing capacity for building materials will be retained. Production will be in accordance with building licensing and export requirements.

15. Other Unrestricted Industries. For the following industries no levels have been determined for 1949. They are free to develop within the limitations of available resources. These industries are as follows:—

(a) Furniture and woodwork
(b) Flat glass, bottle and domestic glass
(c) Ceramics
(d) Bicycles
(e) Motor-bicycles under 60 cc
(f) Potash.

General Level of Industry

16. It is estimated that the general effect of the plan is a reduction in the level of industry as a whole to a figure about 50 or 55 per cent. of the pre-war level in 1938 (excluding building and building materials industries).

Exports and Imports

17. The following agreement has been reached with respect to exports and imports:—

(a) That the value of exports from Germany shall be planned as RM 3 billion (1936 value) for 1949, and that sufficient industrial capacity shall be retained to produce goods to this value and cover the internal requirements in Germany in accordance with the Potsdam Declaration.

(b) That approved imports will not exceed RM 3 billion (1936 value) as compared with RM 4.2 billion in 1936.

(c) That of the total proceeds from exports, it is estimated that not more than RM 1.5 billion can be utilised to pay for imports of food and fodder if this will be required with the understanding that, after all imports approved by the Control Council are paid for, any portion of that sum not needed for food and fodder will be used to pay for costs of occupation and services such as transport, insurances, etc.

 Determination of Capacities Available for Reparations

18. After approval of this plan the existing capacities of the separate branches of production shall be determined, and a list of enterprises available for reparations shall be compiled.

19. After decisions have been given on the matter now referred to the Co-ordinating Committee, the Economic Directorate would propose to prepare the final plan embodying those decisions and including a description of the various features of the plan such as disarmament, reparations, post-war German economy and the German balance of trade.

Berlin, March 1946.
THE ANGLO-AMERICAN AGREEMENT CONCERNING THE BRITISH AND UNITED STATES ZONES IN GERMANY, 2nd DECEMBER, 1946

"Representatives of the two Governments have met at Washington to discuss the questions arising out of the economic fusion of their Zones of Occupation in Germany. They have taken as the basis of their discussion the fact that the aim of the two Governments is to achieve the economic unity of Germany as a whole, in accordance with the agreement reached at Potsdam on August 2, 1945. The arrangements set out hereunder, for the United States and United Kingdom Zones, should be regarded as the first step towards the achievement of the economic unity of Germany as a whole in accordance with that agreement. The two Governments are ready at any time to enter into discussions with either of the other occupying Powers with a view to the extension of these arrangements to their Zones of Occupation. On this basis agreement has been reached on the following paragraphs:—

1. Date of Inception: This agreement for the economic fusion of the two Zones shall take effect on January 1, 1947.

2. Pooling of Resources: The two Zones shall be treated as a single area for all economic purposes. The indigenous resources of the area and all imports into the area, including food, shall be pooled in order to produce a common standard of living.

3. German Administrative Agencies: The United States and United Kingdom Commanders-in-Chief are responsible for setting up under their joint control the German administrative agencies necessary to the economic unification of the two Zones.

4. Agency for Foreign Trade: Responsibility for foreign trade will rest initially with the Joint Export-Import Agency (United States-United Kingdom) or such other agency as may be established by the two Commanders-in-Chief. This responsibility shall be transferred to the German Administrative Agency for Foreign Trade under joint supervision to the maximum extent permitted by the restrictions existing in foreign countries at any given period. (All references in this agreement to the Joint Export-Import Agency shall apply to this agency or to any agency established by the two Commanders-in-Chief to succeed it.)

5. Basis of Economic Planning: The aim of the two Governments is the achievement by the end of 1949 of a self-sustaining economy for the area.

Costs of Imports

6. Sharing of Financial Responsibility: Subject to the provision of the necessary appropriations, the Governments of the United States and the United Kingdom will become responsible on an equal basis for costs of approved imports brought into account after December 31, 1946 (including stocks on hand financed by the respective Governments), in so far as those cannot be paid for from other sources, in accordance with the following provisions:

(A) For this purpose the imports of the area shall be divided into two categories; those imports required to prevent disease and unrest (Category A), which are financed in decreasing amounts by appropriated funds; and those further imports (including raw materials), however financed, which will be required if the economic state of the area is to recover to an extent sufficient to achieve the aim laid down in paragraph 5 of this agreement (Category B).

(B) It is the intention of the two Governments that the full cost of Category A imports shall be defrayed as soon as possible, subject to sub-paragraph (C) below, from the proceeds of exports. Any portion of the cost of Category A imports which is not met by export proceeds will be defrayed by the two Governments in equal shares from appropriate funds.

(C) The proceeds of exports from the area shall be collected by the Joint Export/Import Agency and shall be used primarily for the provision
of Category B imports until there is a surplus of export proceeds over the cost of these imports.

(D) In order to provide funds to procure Category B imports:

(i) The Government of the United Kingdom will make available to the Joint Export/Import Agency the sum of $23,300,000 in settlement of the understanding reached in September, 1945, for the pooling of the proceeds of exports from the two Zones in proportion to import expenditures, which shall be credited to the United States contribution.

(ii) In addition to this sum the accumulated proceeds of exports from the United States Zone (estimated at $14,500,000), will be made available to the Joint Export/Import Agency for the purchase of Category B imports.

(iii) The Government of the United Kingdom will provide Category B goods at the request of the Joint Export/Import Agency to a value equal to that of the United States contribution under sub-paragraph (i) and (ii) above.

(iv) The Governments of the United States and the United Kingdom will make available to the Joint Export/Import Agency in like amounts their respective shares of the sum to be used for financing purchases of essential commodities for the German economy under the provisions, and upon ratification by the Government of Sweden, of the Accord dated July 18, 1946, between the Governments of the United States, the United Kingdom and France on the one hand and of Sweden on the other.

(v) Any further sums which are agreed by the Joint/Import Agency to be required for the purchase of Category B imports shall be provided by the two Governments on an equal basis in such manner as they may agree. To the extent that either Government advances sums for the purchase of raw materials for processing and re-export on special terms as regards security and repayment, the other Government may advance equal sums on similar terms.

(E) The costs incurred by the two Governments for their two Zones before January 1st, 1947, and for the area thereafter, shall be recovered from future German exports in the shortest practicable time consistent with the rebuilding of the German economy on healthy non-aggressive lines.

**Exchange Rate**

7. Relaxation of Barriers to Trade: With a view to facilitating the expansion of German exports, barriers in the way of trade with Germany should be removed as rapidly as world conditions permit. To the same end the establishment of an exchange value for the mark should be undertaken as soon as this is practicable; financial reform should be effected in Germany at an early date; and the exchange of full technical and business communications between Germany and other countries should be facilitated as soon as possible. Potential buyers of German goods should be provided access to both Zones to the full extent that facilities permit, and normal business channels should be restored as soon as possible.

8. Procurement: The determination of import requirements shall be the responsibility of the Joint Export/Import Agency. The procurement of these requirements shall be dealt with as follows:

(i) Procurement of Category A imports to the extent that they are financed from appropriated funds of either Government shall be the responsibility of that Government.

(ii) Procurement of Category B imports and of Category A imports to the extent that they are not financed by appropriated funds shall be the responsibility of the Joint Export/Import Agency, with such assistance from the two Governments as may be desired. Unless otherwise agreed, subject to the provisions of this paragraph, procurement shall be from
the most economical source of supply. However, the sources shall be selected to the fullest extent practicable so as to minimize the drain on the dollar resources of the United Kingdom. The two Governments will establish a Joint Committee in Washington with the following responsibilities:

(a) In the case of commodities in short supply, to support the requirements of the Joint Export/Import Agency before the appropriate authorities.

(b) To determine, where necessary, sources of supply and to designate procurement agencies having regard to the financial responsibilities and exchange resources of the two Governments.

With respect to sub-paragraph (a) above, the two Governments agree to assist the Committee in obtaining the requirements of the Joint Export/Import Agency having regard to all other legitimate claims on available world supply.

With respect to sub-paragraph (b) above, where the financial responsibility rests with one Government and the designated source of supply is the territory under the authority of the other Government, the latter, if so requested, will accept responsibility for procuring those supplies as agent for the former.

9. Currency and Banking Arrangements: The Bipartite Finance Committee (United States-United Kingdom) will be authorized to open accounts with approved banks of the countries in which the Joint Export/Import Agency is operating, provided that agreements are negotiated with those countries for credit balances to be transferred on demand into dollars or sterling. The Bipartite Finance Committee will be authorized to accept payment of balances in either dollars or sterling, whichever, in the judgment of the Joint Export/Import Agency, may be better utilized in financing essential imports.

10. Food: The two Governments will support, to the full extent that appropriated and other funds will permit, an increase in the present ration standard to 1,800 calories for the normal consumer as soon as the world food supply permits. This standard is accepted as the minimum which will support a reasonable economic recovery in Germany. However, in view of the current world food supply, a ration standard of 1,550 calories for the normal consumer must be accepted at present.

11. Imports for Displaced Persons: Subject to any international arrangements which may subsequently be made for the maintenance of displaced persons, the maintenance of displaced persons within both Zones from the German economy shall not exceed the maintenance of German citizens from this economy. Supplementary rations and other benefits which may be provided for displaced persons in excess of those available to German citizens must be brought into Germany without cost to the German economy.

12. Duration: It is the intention of the two Governments that this agreement shall govern their mutual arrangements for the economic administration of the area pending agreement for the treatment of Germany as an economic unit or until amended by mutual agreement. It shall be reviewed at yearly intervals.

(Signed) ERNEST BEVIN.
(Signed) JAMES F. BYRNES.

New York, December 2, 1946.