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Series : Bretton Woods, the World Bank and the IMF : 70th anniversary (Part 6)

The cancellation of German debt in 1953 versus the attitude to the Third World and Greece

- Features -

Publication date: Tuesday 26 August 2014

The United States cancelled the debts of some of its allies. The most obvious instance of this kind was the way the German debt was largely cancelled by the 1953 London Agreement. In order to make sure that the economy of West Germany would thrive and thus become a key element of stability in the Atlantic bloc, the creditor allies led by the United States made major concessions to German authorities and corporations - concessions that went beyond debt relief. A comparison between the way West Germany was treated after WWII and the current attitude to developing countries or to Greece today is a telling story.

If West Germany could redeem its debt and rebuild its economy so soon after WWII it was thanks to the political will of its creditors, i.e. the United States and their main Western allies (United Kingdom and France). In October 1950 these three countries drafted a project in which the German federal government acknowledged debts incurred before and during the war. They joined a declaration to the effect that âEurosoethe three countries agree that the plan include an appropriate satisfaction of demands towards Germany so that its implementation does not jeopardize the financial situation of the German economy through unwanted repercussions nor has an excessive effect on its potential currency reserves. The first three countries are convinced that the German federal government shares their view and that the restoration of German solvability includes an adequate solution for the German debt which takes GermanyâEuros"s economic problems into account and makes sure that negotiations are fair to all participants.âEuros [1]

Germany's prewar debt amounted to 22.6 bn marks including interest. Its postwar debt was estimated at 16.2 bn. In the agreement signed in London on 27 February 1953 these sums were reduced to 7.5 bn and 7 bn respectively. [2] This amounts to a 62.6 % reduction.

The agreement set up the possibility to suspend payments and renegotiate conditions in the event that a substantial change limiting the availability of resources should occur. [3]

To make sure that the West German economy was effectively doing well and represented a stable key element in the Atlantic bloc against the Eastern bloc, allied creditors granted the indebted German authorities and companies major concessions that far exceeded debt relief. The starting point was that Germany had to be able to pay everything back while maintaining a high level of growth and improving the living standards of its population. They had to pay back without getting poorer. To achieve this creditors accepted: *First*, that Germany should in most cases repay debts in its national currency (mark), and only marginally in strong currencies such as dollars, Swiss francs, pounds sterling. *Second*, while in the early 1950s, the country still had a negative trade balance (importing more than it exported), they agreed that Germany should reduce importations: it could manufacture at home those goods that were formerly imported. In allowing Germany to replace imports by home-manufactured goods, creditors agreed to reduce their own exports to this country. As it happened, for the years 1950-1, 41% of German imports came from Britain, France and the United States. If we add the share of imports coming from other creditor countries that participated in the conference (Belgium, Netherlands, Sweden and Switzerland) the total amount reached 66%. *Third*, creditors allowed Germany to sells its products abroad and even supported such exports so as to restore a positive trade balance. These elements are all present in the aforementioned agreement: âEurosoeThe payment capacity of Germany's private and public debtors does not signify only the capacity to regularly meet payment deadlines in DM without triggering an inflation process, but also that the country's economy could cover its debts without upsetting its current balance of payments. To determine Germany's payment capacity we have to face a number of issues, namely,

1. Germany's future productive capacity with special consideration for the production of export commodities and of import substitution;

2. the possibility for Germany to sell German goods abroad;

3. probable future trade conditions;

4. economic and tax measures that might be required to insure a surplus in exports.âEuros [4]

Moreover, in case of dispute with creditors, German courts were declared competent. It was said explicitly that in some cases âEurosÜGerman courts may refuse to enforce a decision of a foreign court or of an arbitral body,âEuros" for instance when the enforcement of the decision would be contrary to public policyâEuros" (Agreement on German External Debts, Article 17, (4)).

Another significant aspect was that the debt service depended on how much the German economy could afford to pay, taking the country's reconstruction and the export revenues into account. The debt service/export revenue ratio was not to exceed 5%. This meant that West Germany was not to use more than one twentieth of its export revenues to pay its debt. In fact it never used more than 4.2% (except once in 1959). In any case, since a large portion of the German debts were paid in deutsche marks, the German central bank could issue money, or in other words monetise the debt.

Another exceptional measure was that interest rates were substantially reduced (between 0 and 5%).

A benefit of huge economic value was granted by Western powers to West Germany: **article 5 of the London agreement postpones the payment of war debts and reparations (WWI and WWII) owed by the Federal Republic of Germany to attacked, occupied or annexed countries (and to their citizens)**.

Finally we have to consider the dollar grants the United States made to West Germany: USD 1,173.7 million as part of the Marshall Plan from 3 April 1948 to 30 June 1952 (i.e. about USD 12,5 billion at todayâEuros"s value -2014-) with at least 200 million added from 1954 to 1961 (about USD 2 billion today), mainly via USAID.

Thanks to such exceptional conditions West German economy was able to recover very fast and eventually absorbed East Germany in the early 1990s. It is now by far the strongest economy in Europe.

Some elements towards a comparison

It is enlightening to compare the way post-war West Germany was treated with the treatment of developing countries today. Although bruised by war, Germany was economically stronger than most developing countries. Yet it received in 1953 what is currently denied to developing countries.

Proportion of export revenues devoted to paying back the debt

Germany was allowed not to spend more than 5% of its export revenues to pay back its debt.

In 2004 developing countries had to spend an average of 12.5% of their export revenues to pay back their debts (8.7% for subsaharian African countries and 20% for countries in Latin America and the Caribbean). The proportion was even higher than 20% by the end of the 1990s.

Interest rate on external debt

As stipulated in the 1953 agreement about Germany's debt the interest rate was between 0 and 5%.

By contrast, the interest rates to be paid by developing countries was much higher. A large majority of agreement had rates that could be increased.

In 2012, the developing countries spent about 10% of their exportation income to pay the debt. This rose to more than 20% at the end of the 1990s and beginning of the 2000s.

Currency in which the external debt had to be paid

Germany was allowed to use its national currency.

No third world country can do the same except in exceptional cases for ludicrously small sums. All major indebted countries must use strong currencies (dollars, euros, yens, Swiss francs, pounds sterling).

Possibility of revising the agreement

The London Debt Agreement set up the possibility to suspend payments and renegotiate conditions in the event that a substantial change should curtail available resources.

Loan agreements with developing countries do not include such possibility.

Policy of import substitution

The London Debt Agreement stipulated that Germany could manufacture commodities it used to import.

By contrast the WB and the IMF prohibit developing countries from manufacturing anything they can import.

Cash grants in strong currencies

Although it was largely responsible for the Second World War Germany received significant grants in strong currencies as part of the Marshall plan and beyond.

While the rich countries have promised developing countries assistance and cooperation, the latter merely receive a trickle by way of currency grants. Whereas they collectively pay back some several hundreds bn US dollars a year, they receive about 30 bn. The largest indebted countries in the Third World receive no cash aid whatsoever.

Undoubtedly the refusal to grant indebted developing countries the same kind of concessions as to Germany indicates that creditors do not really want these countries to get rid of their debts. Creditors consider that it is in their better interest to maintain developing countries in a permanent state of indebtedness so as to draw maximum revenues in the form of debt reimbursement, but also to enforce policies that serve their interests and to make sure that they remain loyal partners within the international institutions.

Germany 1953 / Greece 2010-2012

If we attempt a comparison between the way Greece is treated today and the way Germany was treated after the Second World War, the differences are obvious and the injustice is flagrant. Here is a non-exhaustive list:

1.- Proportionally the debt reduction granted to Greece in March 2012 is far smaller that the one granted to Germany.

2.- Social and economic conditions associated with the plan (as well as with previous âEurosÜrescuesâEuros") do not support economic recovery whereas they largely contributed to restore the German economy.

3.- Greece must privatise its assets to foreign investors whereas Germany was prompted to control key economic sectors along with a fast-expanding public sector.

4.- GreeceâEuros"s bilateral debts (to countries that participated in the Troika âEurosÜrescueâEuros") have not been reduced (only debts to private banks) whereas GermanyâEuros"s bilateral debts (starting with those towards countries that had been invaded or annexed by the Third Reich) were reduced by 60% or more.

5. - Greece must pay in euros while its trade balance with European partners (particularly Germany and France) is negative, whereas Germany paid most of its debts with strongly devalued deutsche marks.

6. âEuros" The Greek central bank is not allowed to lend money to the Greek government while the Deutsche Bank did lend to the German government and ran the printing press (though moderately).

7. âEuros" Germany was allowed not to use more than 5% of its export revenues to pay its debt while no limit has been set for Greece.

8. âEuros" The new securities on Greek debt that have replaced the previous set of securities owned by the banks are no longer within the jurisdiction of Greek courts, but of courts in Luxembourg and the United Kingdom (and we know how sympathetic they are to private creditors) while the German courts were declared competent.

9. - In terms in paying external debts, German courts could refuse to enforce decisions of foreign courts or arbitration bodies when they were contrary to public security. In Greece the Troika obviously will not have Greek courts invoking public security to suspend payment. Now as it happens both the huge social protests and the rise of neonazi groups are the direct outcome of measures imposed by the Troika and by the countryâEuros"s repayment of debts. Whatever the outcry in Brussels, the IMF and the âEurosÜfinancial marketsâEuros" the Greek government could legitimately invoke the state of necessity and public security to suspend payment of debts and cancel the antisocial measures imposed by the Troika.

10.- In the case of Germany the agreement contained the possibility of suspending payments while conditions were renegotiated in the case of a substantial change that reduced available resources. Nothing similar is mentioned in the case of Greece.

11. âEuros" The agreement on the German external debt explicitly mentioned that the country could produce goods it formerly imported so as to achieve a trade surplus and support local producers. But the philosophy behind the agreements forced upon Greece and the rules of the EU prohibit such support, whether in farming, manufacturing, or services, since this would contravene âEurosÜfair competitionâEuros" with other EU countries (GreeceâEuros"s

main trade partners).

We could add that after the Second World War Germany received substantial grants, notably, as mentioned above, through the Marshall Plan.

We can thus understand why the Syriza leader, Alexis Tsipras, refers to the 1953 London agreement when he calls upon European public opinion. The utterly unfair way in which the Greek people is treated (as well as those other peoples whose governments enforce the TroikaâEuros"s recommendations) must raise a fair amount of public outrage.

But let us face reality: the reasons that led Western powers to treat West Germany the way they did after WWII do not apply for Greece today.

A genuine solution to the tragedy of debt and austerity will require massive social mobilizations in Greece and in other EU countries as well as the accession to power of a peopleâEuros"s government in Athens. The new government (backed by popular support) will have to decide on a unilateral act of disobedience, such as suspending repayment and cancelling antisocial measures, to force creditors to major concessions and finally impose the cancellation of illegitimate debts. A citizensâEuros" audit of the Greek debt must prepare the ground on which such decisions will be made.

Translated by Christine Pagnoulle and Judith Harris

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[1] Deutsche Auslandsschulden, 1951, p. 7 and following in Philip Hersel, El acuerdo de Londres de 1953 (III), http://www.lainsigna.org/2003/enero/econ_005.htm

[2] 1 USD dollar was worth 4.2 DM at the time. West Germany's debt after reduction (i.e. DM 14.5 bn) was thus equal to USD 3.45 bn.

[3] Creditors systematically refuse to include this kind of clause in agreements with developing countries.

[4] (Deutsche Auslandsschulden, 1951, p. 64 and following) in Philip Hersel, El acuerdo de Londres (IV), 8 de enero de 2003, http://www.lainsigna.org/2003/enero/econ_010.htm

