

Extrait du CADTM

<http://cadtm.org/Greece-Germany-who-owes-who-1>

Greece-Germany: who owes who? (1) London 1953: cancellation of the German debt

- English -
Date de mise en ligne : Monday 1 October 2012

CADTM

[Greek version](#)

Since 2010, in the stronger countries of the eurozone most political leaders supported by mainstream media have flaunted their so-called generosity towards the Greek people and other weaker countries in the eurozone that are currently in the limelight (Ireland, Portugal, Spain...). In this context, measures that further destroy the economy of recipient countries and involve social regression on a scale unprecedented over the past 65 years are called 'rescue plans'. To this we must add the ripoff of the March 2012 plan to reduce the Greek debt - a plan that involves a 50% reduction of debts owed by Greece to private banks whereas these same debts, if negotiated on the secondary market, had lost up to 65 to 75% of their value. While the government's debt to private banks was reduced, there was an increase in what it owes to the Troika resulting in new measures of phenomenal injustice and brutality. This agreement to reduce the debt aims at burdening the Greek people with permanent austerity; it is an insult and a threat to all peoples in Europe and elsewhere. According to the IMF research unit, in 2013 the Greek public debt will amount to 164% of GDP, which shows that the debt reduction announced in March 2012 will fail to provide any actual relief of the debt burden weighing on the Greek people. It is in this context that Alexis Tsipras visited the European Parliament on 27 September 2012 and underlined the need for a genuine reduction of the Greek debt, referring to the cancellation of a large portion of the German debt through the 1953 London agreement. Let us take a fresh look at this agreement.

The 1953 London agreement on the German debt

The radical reduction of the debt owed by the Federal republic of Germany and its fast economic recovery so soon after WWII were achieved through the political will of its creditors, i.e. the United States and its 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 attached a declaration to the effect that "the 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 Germany's economic problems into account and makes sure that negotiations are fair to all participants." [\[1\]](#)

Germany's pre-war 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 of suspending payments and renegotiating conditions in the event of a substantial change limiting the availability of resources. [\[3\]](#)

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:

Greece-Germany: who owes who? (1) London 1953: cancellation of the German debt

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 sell 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: "The 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." [\[4\]](#)

Moreover, in case of dispute with creditors, German courts were declared competent. It was said explicitly that in some cases 'German courts may refuse to enforce a decision of a foreign court or of an arbitral body,' for instance when the enforcement of the decision would be contrary to public policy' (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 10 billion at today's value) 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.

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 than the one granted to Germany. 2.- Social and economic conditions associated with the plan (as well as with previous 'rescues') 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.- Greece's bilateral debts (to countries that participated in the Troika 'rescue') have not been reduced (only debts to private banks) whereas Germany'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. - 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. - 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. - 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 country's repayment of debts. Whatever the outcry in Brussels, the IMF and the 'financial markets' 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.- 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 'fair competition' with other EU countries (Greece'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 Troika'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 people'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 citizens' audit of the Greek debt must prepare the ground on which such decisions will be made.

Translated by Christine Pagnoulle and Judith Harris

Coming soon: Greece-Germany: who owes who? (2) From the Third Reich debt to the Greece of today

Post-scriptum :

Eric Toussaint, associate professor at the University of Liège, is president of CADTM Belgium (Committee for the Abolition of Third World Debt, www.cadtm.org). Author with Damien Millet of *Debt, the IMF, and the World Bank, Sixty Questions, Sixty Answers*, Montly Review Press, New-York, 2010, of AAA. *Audit Annulation Autre politique*, Seuil, Paris, 2012.

[1] Deutsche Auslandsschulden, 1951, p. 7 and following in Philipp Hersel, El acuerdo de Londres de 1953 (III),

<http://www.lainsigna.org/2003/enero...>

[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...>