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Cold-War Economics: The Use of Marshall Plan Counterpart Funds in Germany, 1948–1960

Armin Grünbacher

THE originally propagated view that the Marshall Plan was an altruistic endeavor through which the U.S. saved Europe from collapse and starvation has long been dismissed and replaced with a more realistic approach to international affairs. Whereas *Realpolitik* and the perception of the evermore menacing Cold War made it inevitable that Marshall Plan aid and its counterpart funds would become a weapon in the ideological conflict of the two political ideologies, the overwhelming body of literature looks at the Marshall Plan either from a political and diplomatic or from an economic viewpoint.[1] Beyond general statements that the Marshall Plan was used as a weapon in the Cold War, relatively little research has been carried out into how this weapon was wielded. This is even truer for the counterpart funds, which are usually only mentioned in passing in the literature, if at all. This is despite the fact that Marshall Aid in general and the counterpart funds in particular had actually quite a significant impact in Cold-War propaganda and economic matters in Western Europe, which most likely contributed to the declining appeal of communism. This article will look at the specific action of American and, after September 1949, German authorities in the use of counterpart funds to demonstrate their significance.

Due to the country's political and economic situation as an occupied and then only semi-sovereign nation, but also because of its institutional tradition, Germany can be seen as the prime example of how Marshall Plan counterpart funds worked in the Cold-War context. It will be shown that this is true not only during the actual lifetime of the European Recovery Program (ERP), the Marshall Plan's official name, but also well after the program's termination.

[1] The best-known examples for the political approach are Michael Hogan, *The Marshall Plan: America, Britain, and the Reconstruction of Europe 1947–1952* (Cambridge and New York: Cambridge University Press, 1987); and Gerd Hardach, *Der Marshall Plan. Auslandshilfe und Wiederaufbau in Westdeutschland 1948–1952* (Munich: dtv Verlag, 1994). Alan Milward, *The Reconstruction of Western Europe 1945–1951* (London: Routledge, 1984); and Immanuel Wexler, *The Marshall Plan Revisited: The European Recovery Program in Economic Perspective* (Westport, CT, and London: Greenwood Press, 1983) are best for the economic perspective.

This is done in two parts. The first section will, in a wider look, investigate the workings of the Marshall Plan; the second part will then explain the peculiar German structures that shaped how Germans used the counterpart funds by presenting three case studies—miners' and refugee housing, aid to Berlin, and export and development aid—to highlight the direct impact Marshall Plan counterpart funds had in the Cold War.

* * *

The working of the Marshall Plan is often not understood.[2] The U.S. government did not give money directly to the participating countries so that they could buy whatever they thought they needed. Instead the U.S. delivered the goods and provided services, mainly transatlantic shipping, to the participating governments, which then sold the commodities to businesses and individuals who had to pay the dollar value of the goods in local currency ("counterparts") into so-called ERP Special Accounts that were set up at the country's central bank. This way of operation held three advantages: the provision of U.S. goods to Europe without European dollar payments helped to narrow the dollar gap that strangled European reconstruction; the accumulated funds could be used for investments in long-term reconstruction (as happened in France and Germany) or for paying off a government's war debts (as in Great Britain); and the payments of the goods in local currencies helped to limit inflation by taking these funds temporarily out of circulation while they were held in the Special Accounts.[3] This approach was applied by the Economic Cooperation Administration (ECA), the Marshall Plan's administrative body in the case of West Germany, where the release of counterpart investment funds was held back for economic policy reasons until September 1949 to dampen the post-currency inflation.[4]

The idea of counterpart funds was not a new one; it had already been used during the United Nations Relief and Rehabilitation Administration (UNRRA) program immediately after the war. New under the Marshall Plan was that the release and use of counterparts was now no longer in the hands of each government but subject to approval by the ECA.[5] The precise conditions to which the participating countries had to adhere were laid down in the so-called "Economic Cooperation Agreement" between the U.S. and each

[2]For a proper explanation, see Marie-Laure Djelic, *Exporting the American Model: The Post-War Transformation of European Business* (Oxford and New York: Oxford University Press, 1998), 188–93; or Armin Grünbacher, *Reconstruction and Cold War in Germany: The Kreditanstalt für Wiederaufbau, 1948–1961* (Aldershot: Ashgate, 2004), esp. 53–56.

[3]William A. Brown and Redvers Opie, *American Foreign Assistance* (Washington, D.C.: The Brookings Institute, 1953), 244.

[4]Hardach, *Der Marshall Plan*, 273 f.

[5]Brown and Opie, *American Foreign Assistance*, 78 f, 188.

participating country. For West Germany the signing of the agreement in 1949 was the country's first international treaty.[6]

The agreement allowed the U.S. considerable influence into a participating country's economy. Other than being able to determine for which purpose millions of counterpart funds could be used, countries that took part in the Marshall Plan could be requested to sell strategic materials to the U.S. in case there was short supply of them in America. This clause was directed mainly toward Britain's and France's overseas raw material bases at a time when the U.S. was trying to become independent of strategic metals' supply from the Soviet Union. Additionally, each country had to set aside five percent of their counterpart funds for American use, either to pay for these scarce materials or for American "administrative purposes." Most of the money under the five-percent clause ended up serving a direct Cold-War purpose: after President Truman had given his blessing, the money was used as a $200 million a year slush fund for the newly established CIA, which was able to pay for significant covert operations in particular in France and Italy.[7] Further research in this particular topic is needed since the monograph that deals with the matter remains vague and at times even confused about the transfer and use of the money.[8] A small amount of the five percent fund was also used directly to propagate the Marshall Plan by paying for one of the most famous endeavors to advertise the Marshall Plan, the "ERP train." This was a seven-carriage train that toured most of Western Europe to promote the Marshall Plan and attracted some six million visitors in the process.[9]

For West Germany, the Economic Cooperation Agreement had three further conditions attached: in contrast to the other participating countries, any aid for the Federal Republic constituted a claim against Germany; they demanded far-reaching West German economic support for the city of West Berlin, although it was not part of the Federal Republic of Germany (FRG); and the agreement additionally called for increased German efforts in the production and export of Ruhr coal, which was essential for European reconstruction.[10]

[6] Grünbacher, *Reconstruction*, 54. For the Economic Cooperation Agreement between the United States of America and the Federal Republic of Germany, see *Bundesgesetzblatt*, vol. I (1950): 9 ff., also for the following details.

[7] Evan Thomas, *The Very Best Men. Four Who Dared: The Early Years of the CIA* (New York: Simon & Schuster, 1995), 40, 62, 87; Burton Hersh, *The Old Boys: The American Elite and the Origins of the CIA* (St. Petersburg, FL: Tree Farm Books, 1992, 2002), 220.

[8] Sallie Pisani, *The CIA and the Marshall Plan* (Lawrence, KS: University Press of Kansas, 1991).

[9] Harm G. Schröter, *Americanization of the European Economy: A Compact Survey of American Economic Influence in Europe since the 1880s* (Dordrecht: Springer, 2005), 48.

[10] *Bundesgesetzblatt* (1950). For the differences to the agreements with France and Great Britain, see Bundesarchiv Koblenz, Z 14/173, letter Deutsches Büro für Friedensfragen to Verwaltungsrat des Vereinigten Wirtschaftsgebietes, September 22, 1948; and letter Bank deutscher Länder to Vorsitzender des Verwaltungsrates des Vereinigten Wirtschaftsgebietes, September 28, 1948.

In West Germany's ERP Special Accounts some DM 5.9 billion counterpart funds accumulated over the lifetime of the ERP and its successor programs in this way. Additionally, approximately DM 3 billion from the Government Appropriations for Relief in Occupied Areas (GARIOA) program were paid in, but most of this money was used straightaway to pay for some of the costs for the Berlin airlift as well as for Berlin's monthly budget deficit of DM 53 million.[11] American influence and control over the use of German counterpart funds remained quite stringent and prescriptive for some time, in stark contrast to Great Britain or France which were regarded as important allies in the emerging fight against communism, a fact that gave them considerable leverage in the use of counterpart funds. In the British case the Labour government was allowed to use the funds not for investment and reconstruction but to repay its accumulated sterling war debts, which was a principle requirement and in line with American wishes to create a freely convertible sterling currency as part of the Bretton Woods agreement. By using the American fear of the strengthening of the communist party in its country, the French government was able to use counterpart funds not only to finance its ambitious Monnet Plan but also, through some shrewd accounting, directly to support its budget and payments deficit, something ERP rules did not actually allow.[12] In Germany, on the other hand, the ECA and the U.S. Military Government prevented the release of counterpart funds for the rebuilding of the crucial ball-bearing industry at Schweinfurt, which the Germans saw as a high-priority project, because of security concerns.[13] Furthermore, not until 1951–52 could counterpart loans be provided for the reconstruction of German factories that had been subject, totally or partially, to dismantling. This changed only in October 1951 when, after the outbreak of the Korean War, the ECA was replaced by the Mutual Security Agency (MSA). Under the new agency's changed rules, "*Remontage Kredite*" (i.e., loans for the reconstruction of dismantled plants) became available.

The MSA signified a clear militarization of the counterpart funds. In 1953 the agency released DM 150 million from the funds to be used solely for defense purposes (i.e., companies applying for these funds had to produce goods or semifinished goods that were needed by NATO countries for defense purposes) with

[11] Dietrich Dickertmann, *Öffentliche Finanzierungshilfen. Darlehen, Schuldendiensthilfen und Bürgschaften als Instrumente des finanzwirtschaftlichen Interventionismus* (Baden Baden: Nomos, 1980), 293, elaborates on the size of the ERP funds. The Federal Minister for the Marshall Plan, ed., *Recovery under the Marshall Plan 1948–52* (Bonn: Federal Ministry for the Marshall Plan, 1953), 24, lists the deliveries from GARIOA. GARIOA funds which arose prior to the currency reform of June 20, 1948, became invalid because of the reform. For details, see Grünbacher, *Reconstruction*, 57 ff.

[12] See, for example, Irvin M. Wall, *The United States and the Making of Postwar France, 1945–1954* (Cambridge: Cambridge University Press, 2002), chap. 6, 158 ff.

[13] Grünbacher, *Reconstruction*, 80.

MSA demanding the repayment of these loans within two years.[14] In contrast to 1951, when the Federation of German Industry (*Bundesverband der deutschen Industrie*, BDI) had offered to produce any kind of material useful for the defense of "western cultural values," including individual pieces of military hardware (*militärische Einzelgeräte*), there were no interests in these loans and the MSA had to reallocate most of the funds for civilian projects instead.[15] Eventually only some DM 30 million of the MSA money went to a former armaments factory. The failure to take up the loan can be explained by several reasons and was not only due to the strict conditions attached. By 1953, German machine tool making capacity, which had been massively expanded before and during the war, was still utilized only by sixty percent which was one factor why there was widespread unwillingness from German industry at the time to invest in new equipment for armaments.[16] The lack of suitable companies that matched the strict MSA conditions can also be interpreted as a German attempt to emancipate themselves from the strict controls at a time when the improved economic recovery allowed them to do so.

When the Marshall Plan began, only so-called "first generation" counterpart funds (i.e., those paid in by the German purchasers of ERP goods) fell under the supervision of the ECA or its successor organizations. German authorities could allocate funds that originated from loan repayments or interest payments according to their own remit as long as they were used for the continuation of projects that had received counterpart funding. This changed in 1952 with the introduction of the so-called Zablocky Amendment in the Mutual Security Act. From there on, any loans made from repayments and interests became also subject to U.S. approval in the same way as first-generation funds, a clear sign of tighter control of the funds in an intensifying Cold War. At the same time, this step would have prevented any further "disappearance" of counterpart funds into the normal government budget, as had happened in France, for example.[17] It is therefore possible that the move was also an expression of U.S. frustration about how little control they had over the Marshall Plan in some countries. The U.S. remained in nominal control of the German counterpart funds until the end of 1960.[18]

[14] Kreditanstalt für Wiederaufbau, *Jahresberichte* (1952), 33; Kreditanstalt für Wiederaufbau, Historisches Archiv (henceforth KfW HA), BS 81, letter by Michael Harris to Minister Blücher, March 17, 1953.

[15] For a translation of the BDI memo, see Armin Grünbacher, *The Making of German Democracy: West Germany during the Adenauer Era, 1945–1965* (Manchester: Manchester University Press, 2010), 167 f. KfW HA, BS 81, memo dated September 2, 1954.

[16] Werner Abelshauser and Walter Schwengler, *Wirtschaft und Rüstung, Souveränität und Sicherheit. Anfänge westdeutscher Sicherheitspolitik 1945–1956*, vol. 4 (Munich: Oldenbourg, 1997), 114, 63 f.

[17] Wall, *Postwar France*, 158.

[18] Wolfgang Becker, *Das ERP Sondervermögen. Entstehung und Verwaltung* (Göttingen: Institut für Völkerrecht, 1968), 30 f, 35.

A crucial legal step for the German Counterpart Special Accounts and therefore for West Germany's continuing Cold-War economic policy came with the passing of a bill on August 31, 1953, which, in line with German administrative tradition, turned them into a *Sondervermögen des Bundes* (Federal Special Asset). This guaranteed their continuing existence outside the government budget and their preservation as a revolving fund for reconstruction finance. Due to this revolving nature and the interest paid on lending, the funds continued to grow and, by 1997, they had increased to a staggering DM 23 billion.[19]

Three so-called *Hauptleihinstitute* (Main Lending Institutes)—the Berliner Industriebank, Bank für Vertriebene und Geschädigte (Lastenausgleichsbank), and the Kreditanstalt für Wiederaufbau (KfW)—were set up to deal with, respectively, counterpart investments to West Berlin, loans to war-damaged natives and to expellees and refugees from the East, and to the economy in general. Only the largest of the three, the KfW (which by now has swallowed the other two) will be considered in this paper in detail.

The KfW's supervisory board (*Verwaltungsrat*) was made up of government ministers; representatives from the German *Länder* and the banking sector, including the Central Bank; representatives of the most important economic sectors, including manufacturing, the housing industry, and agriculture; and some trade-union men. The bank's task was to support the reconstruction process with long-term investment finance wherever "ordinary" market solutions did not work and commercial banks had refused the required funding. Although the government had a majority on the supervisory board, the KfW was not an outright state bank since it could carry out its day-to-day business completely independently. Principally run by its deputy chairman, Hermann Josef Abs of Deutsche Bank, the KfW was allowed, as well as being able to draw on the counterpart assets, to issue bearer bonds, borrow from the German government and, in exceptional cases, even borrow short-term from the BdL to raise the money necessary for reconstruction. Since none of these market options was anything close to sufficient during the first postwar decade, its main source of funding became the counterpart assets. In 1950 more than three-quarters of the bank's funding came from ERP funds, and it was only in 1959 that funds from "other sources" surpassed the ERP Special Assets in size, which once again signifies the importance of the counterpart funds in West Germany's reconstruction process.[20] Although total gross capital investments made by ERP loans between 1949 and 1956 amounted to just under DM 5.6 billion compared to DM 226 billion in total (i.e., 2.47 percent), they remained economically crucial because they were used in key areas and bottleneck sectors essential for

[19] Susan Stern, *The Marshall Plan 1947–1997: A German View* (Frankfurt am Main: Inter Nationes, 1997), 5.

[20] Kreditanstalt für Wiederaufbau, *Jahresberichte* (1950), 33; (1959), 41.

the wider reconstruction.[21] The emphasis on the significance of the Marshall Plan counterpart funds does in no way contradict claims made by Milward or Abelshauser that reconstruction funds could have been raised in other ways as well.[22] This is what the counterpart fund's relatively small share of 2.47 percent demonstrates; however, the funds allowed the German authorities to provide additional funds for bottleneck sectors that were crucial to the overall reconstruction. It will be shown in the following that counterpart investment did not only enable reconstruction and economic growth, but also that some investments were politically important in the Cold-War context as well.

* * *

Diane Kunz has called America's postwar economic diplomacy the country's "first line of offense in the Cold War."[23] This claim can be quite well substantiated by looking at the use of Marshall Plan counterpart funds in Germany, both while there was direct American influence over the use of the funds during the ERP years as well as in the mid- and late 1950s when the funds were all but in name under German control. The three case studies presented here, housing construction, aid to Berlin, and export finance, will highlight common interests but also the differences of approach between the U.S. and the Federal Republic in various stages of the Cold War and how the counterpart funds were used to fight ideological battles and propaganda campaigns during the late 1940s and 1950s.

Miners' and Refugee Housing

Due to wartime destruction, the influx of some ten to twelve million refugees, and limited construction between 1932 and 1949, the Federal Republic in 1948–49 suffered from a shortfall of six million dwellings, making housing the burning issue for the country. Amid the generally desperate housing situation, the two most critical problems were homes for Ruhr coal miners and homes for refugees.

The vital material for reconstruction not only in West Germany, but also in Western Europe as a whole, was coal from the Ruhr. Housing in the Ruhr, however, had suffered badly from Allied bombing raids. In the town of Bochum, for example, living space per person had dropped from 14 square

[21] Egon Baumgart, *Investitionen und ERP Finanzierung* (Berlin: Duncker & Humblodt, 1961), 118–122.

[22] Werner Abelshauser, *Wirtschaft in Westdeutschland 1945–1948. Rekonstruktion und Wachstumsbedingungen in der amerikanischen und britischen Zone* (Stuttgart: Deutsche Verlags-Anstalt, 1975); Milward, *The Reconstruction of Western Europe*.

[23] Diane B. Kunz, *Butter and Guns: America's Cold War Economic Diplomacy* (New York: Free Press, 1997), 5.

meters in 1939 to 4.1 square meters in 1947.[24] Under such squalid conditions neither the output of coal, nor the increase in the number of miners that would enable the necessary rise in output, was possible. For 1949, the U.S. Military Government in Germany (OMGUS) had demanded from the German authorities a DM 400 million miners' housing program. Eventually the KfW provided DM 23.5 million for miners' housing which was part of a DM 135 million general housing package OMGUS had authorized from GARIOA funds. Out of a scheduled miners' housing program of 113,000 units in total, 18,000 dwellings could be built with these funds.[25]

During summer and autumn 1950 German authorities continued to quarrel among themselves and also with the ECA about how to build. It was the increased coal shortage caused by the Korean War that made both the U.S. High Commission (which had replaced OMGUS in September 1949) and the ECA step up their pressure on the German government to produce results. They now called for an investment of DM 90 million into the collieries and another ninety million exclusively for miners' housing; the German counterproposal called for eighty million and forty-five million, respectively, but with an additional DM 135 million general housing program. The German government feared that if non-miners were not considered in the housing program, social and eventually political unrest would ensue. Other than housing for the bombed-out natives, Chancellor Konrad Adenauer had to consider the millions of refugees who needed proper housing and resettlement from the rural refugee camps all along the Federal Republic's eastern border so that they could be integrated into society and the economic process.[26]

Eventually in 1951, the ECA agreed to the release of a further DM 100 million for miners' housing, but with strong strings attached. The money was to be used for new constructions only and not for repair. This meant that not as many dwellings could be made available, but the new constructions offered a considerably higher standard of living. To enforce these rules, the ECA insisted on authorizing every individual project, which delayed construction considerably. The final string attached was that twenty-one percent of the funds had to be used to support miners' mortgages so that they could afford ownership of their dwellings instead of tenancies. The resulting shortfall in funds for construction could be compensated only after a difficult compromise was reached in which the state government of North-Rhine Westphalia covered the shortfall.[27]

[24] Werner Abelshauser, *Der Ruhrkohlenbergbau seit 1945. Wiederaufbau, Krise, Anpassung* (Munich: Beck, 1984), 34.

[25] Grünbacher, *Reconstruction*, 174.

[26] Ibid., 175.

[27] KfW HA, BA-Sch 85c, Memo from the Ministry for the Marshall Plan, Finanzierungsstand des 100 m Bergarbeiterwohnungsbaus, February 6, 1952; Grünbacher, *Reconstruction*, 175 f.

About ten percent of all funds for miners' housing were counterpart funds channeled through the KfW. This meant that, due to the way the projects were financed (i.e., the KfW provided only a small sum for many dwellings), at least twenty to thirty percent of all miners' housing construction would have received some funding from the counterparts. As a result the ECA had a massive say in the construction of houses, and they used it to push for a much higher standard of living than was usual at the time. Although this increased overall building costs, the Americans had ulterior motives for their insistence on the higher standards: increased standard of living made for much better propaganda. It helped to grow miners' numbers since the higher housing standard attracted newcomers to the pits and made old miners stay on, and it demonstrated to the German workers the superiority of the capitalist system; thus ECA-dominated housing construction helped to counter communist influences and propaganda in the Ruhr. Regardless of whether they liked it, German authorities (i.e., colliery-sponsored and municipal housing programs) had to increase the housing standards for non-ERP housing construction as well. In the wider picture this meant an advertisement for the "American way of life" and a standard of living that the Americans tried to advertise and spread throughout Germany. It is questionable whether the counterpart funds had their biggest Cold-War impact directly in the number of dwellings built or indirectly in terms of propaganda, or if the two are inseparable. Ultimately they did play a part in West Germany's building of more and higher-quality houses than ever before. Even on an international scale West Germany built nearly twice (ninety-nine) the number of dwellings per 10,000 inhabitants as Great Britain (fifty-seven) and nearly three times as many as France (thirty-five) in this period.[28]

These aspects also have to be considered when looking at housing construction for refugees. In the British-American zone of occupation nearly a quarter of the population was refugees. With the existing shortage of six million dwellings in its territory and on the very optimistic assumption that the FRG could build annually as many houses as the Weimar Republic had built in the whole of the Reich in its best years, it would take twenty-five to thirty years to close this housing gap. Since refugees were usually the "have-nots" of postwar society, it was expected that they would be the last to benefit from new housing. In March 1949 the U.S. Military Governor, General Clay, had warned about the potential political radicalization of the homeless and suggested that housing construction be a priority everywhere in West Germany, not only in the Ruhr.[29] Having about a fifth of the FRG's population wait for twenty years or more

[28] Günter Schulz, *Wiederaufbau in Deutschland. Die Wohnungsbaupolitik in den Westzonen und der Bundesrepublik von 1945 bis 1957* (Düsseldorf: Droste, 1994), 336.

[29] KfW HA, VS 67/II, BiCO Finance Group memorandum FIN 26563/1, Problems in Housing Construction.

for the provision of decent housing would have meant an unacceptable growth of social—and eventually political—problems and tensions. In other words, refugee housing had to become a political priority for the Adenauer government to guarantee the political stability of the FRG.

The ECA acted accordingly when it released the first funds for general housing construction, some DM 81 million, and imposed strict guidelines for all building projects to concentrate and use resources to their fullest. The location of building sites as well as the number of dwellings, their size, and cost were stringently defined. The dwellings were supposed to benefit only those who were workers and refugees/expellees or "war victims" who were employed in so-called "productive sectors."[30] The tenancy rules were so stringent that in many cases they had to be relaxed because not enough eligible tenants could be found. The ECA's evaluation of all individual building projects meant that the first funds were released to the KfW only in September 1949, just when the construction season came to an end and less than DM 20 million was passed on to borrowers in that year.[31] Other countries experienced similar delays due to ECA red tape as well, as Chiarella Esposito has documented in particular for Italy. In contrast to Italy, however, the German authorities and agencies were always keen to spend their counterpart allocations as soon as possible and to the fullest extent possible.[32]

While the ECA was flexible enough about tenants, they were not in regard to building specification. In one particular incident in 1950 they withheld DM 21 million out of a total of thirty million for refugee housing projects in Bavaria due to slight overruns on cost or size of the houses.[33] The German authorities defended their procedures and pointed out that some of the ECA restrictions were imposed or tightened only retrospectively. The Kreditanstalt informed the Minister for Housing that by late 1950 they had distributed DM 134 million of ECA money for new housing, contributing on average some DM 2,775 to the construction of 50,000 houses (each costing on average about DM 10,000–12,000 in total). Internally the KfW suspected that the ECA had tightened the rules so that it could redirect the refused funding for a program of so-called *Demonstrationsobjekte* or *Entwicklungsbauten*.[34] These were usually prefabricated buildings with a high standard of living for the time, exclusively for refugees but not necessarily in line with German building traditions. In 1951–52 the

[30] KfW HA, BA Sch 83b, Richtlinien für die Gewährung von Hypotheken Darlehen aus dem Sofortprogramm, September 15, 1949.

[31] Kreditanstalt für Wiederaufbau, *Jahresberichte* (1949), 29 f.

[32] Chiarella Esposito, *America's Feeble Weapon: Funding the Marshall Plan in France and Italy, 1948–1950* (Westport, CT, and London: Greenwood Press, 1994). For the German way of fund allocation, see Grünbacher, *Reconstruction*.

[33] KfW HA, BA Sch83b, memo on meeting with Mr. Butler, ECA Housing Section, Dec. 19, 1950.

[34] KfW HA, BA Sch83b, appendix to a letter from the KfW to the federal Housing Ministry, Jan. 3, 1951; KfW HA, Prot 10–1, Protokoll der 19. Sitzung, TOP 1.

ECA provided a further DM 30 million for these projects, amid strong German resistance. This opposition would have been well in line with the resistance Mark Roseman had described to earlier British attempts in the Ruhr to build miners' housing, against German tradition, without a cellar.[35]

The significance the Americans assigned to refugee housing went beyond the Marshall Plan. In 1953, the U.S. donated agricultural produce worth $15 million to the FRG, with the attached condition that the counterparts for the donation, DM 63 million, would be used for refugee housing only. Against strong West German opposition, the Americans demanded that nearly a third of the money, DM 20 million, had to be used for refugee housing in West Berlin to demonstrate America's continued support for the city. By 1953, following the increase in repressive measures in the GDR even prior to the June 17 uprising, West Berlin had become effectively the only escape route for East Germans. Since 1951 approximately 450,000 people had fled the GDR; in March 1953 alone 58,000 left, most of whom went to West Berlin.[36]

There were several reasons that the Adenauer Government wanted to use the full amount for GDR refugee housing in the Federal Republic, not just the remaining DM 43 million. Moving the refugees to the FRG would have meant that they did not swell the still high number of unemployed in Berlin; they were also a highly sought-after addition to the West German labor market; and of course, there was the German expectation that the Americans would continue to provide further aid to Berlin in any case. Ultimately, the DM 43 million was used on the most generous terms: the KfW provided DM 6,000 loans for each dwelling, about double their normal loan. In addition the loans were interest free, with only an annual administration fee of 0.5 percent to pay. The preferential treatment of (young) GDR refugees is evident in other places as well. Regardless of their actual earnings, their status as GDR refugees classified them automatically as a low-income group, but as refugees they were entitled to additional benefits not available to native low-income earners. Between 1953 and 1958 more than 320,000 dwellings were built exclusively for GDR refugees. Although by that time a lot of money came directly from federal coffers and no longer from ERP Sondervermögen funds, the underlying motive was the same. Housing construction had become an extremely potent propaganda weapon for the West and as such it is understandable that ten percent of all counterpart funds went into housing construction up to 1956.[37]

Providing housing for the refugees and eventually the actual closing of the postwar housing gap by 1961, in twelve instead of the originally estimated

[35] Grünbacher, *Reconstruction*, 183. Mark Roseman, *Recasting the Ruhr, 1945–1958: Manpower, Economic Recovery, and Labour Relations* (New York and Oxford: Berg, 1992).

[36] Hans-Ulrich Wehler, *Deutsche Gesellschaftsgeschichte 1949–1990* (Bonn: Bundeszentrale für politische Bildung, 2010), 29 f.

[37] Grünbacher, *Reconstruction*, 185 f., 188.

twenty-five to thirty years forecast, contributed significantly to the political stabilization of the FRG as well as demonstrating its economic superiority over the GDR. The successful closing of the housing gap and the provision of housing for the millions of refugees has therefore to be seen as the "real" economic miracle in West Germany, and the counterpart funds provided a significant contribution to this success. The significance of the counterpart funds here was once again not their overall size, which amounted to only 1.2 percent of gross capital investment into housing construction up to 1956, but lay once again in their use for strategic areas such as refugee housing and/or in providing *Anschubfinanzierung* (initial funding) of five to ten percent per dwelling.[38]

Berlin

By 1949 it had become obvious to everyone that the city of Berlin had become the foremost symbol and battleground of the Cold War. It was for this reason that the U.S. bound West Germany in the Economic Cooperation Agreement to "make available to the U.S., U.K., and French sectors of Berlin, to the maximum extent possible" economic aid as required for the economic maintenance of the city.[39] Nothing demonstrates more the importance the Americans ascribed to the city than the fact that, according to German statistics, by March 1953 no less than DM 2.1 billion, more than a third of the total of DM 6.15 billion German counterpart funds spent, were used in West Berlin. Of these DM 2.1 billion, at least DM 670 million were costs of the airlift.[40]

Other than the disproportionally large share of counterparts for Berlin, there were some other peculiarities. The first allocation of counterpart funds followed a request by Berlin authorities just one week after the Berlin Blockade had ended in May 1949. The mayor of West Berlin did not approach the ECA but instead asked the Military Governors for a DM 55 million loan to rebuild an electrical power plant in the British sector of the city so as to be no longer dependent on power supply from the Soviet occupied zone. Since West Berlin was not yet participating in the Marshall Plan (the fact that the city joined the program in late 1949 has to be directly attributed to the escalation of the Cold War) and due to the urgency of the matter, U.S. Military Governor Clay released DM 44 million from *Staatliche Erfassungsgesellschaft für öffentliches Gut* (StEG) counterparts to the KfW so that the project, which had continued during the blockade, could be completed.[41]

[38] Baumgart, *Investitionen und ERP Finanzierung*, 47.

[39] *Bundesgesetzblatt*, vol. I (1950), 9 ff., Economic Cooperation Agreement, Art. 7.

[40] National Archives, RG 469, Record of the U.S. Foreign Assistance Agencies 1948–61, Office of European Operations, German Division, subject files, box 4, letter from the German Mission to the MSA (Fitzgerald), March 2, 1953.

[41] StEG was an agency set up in the American zone to "demilitarize" and sell old military equipment, first from the German and then from the U.S. Army. Grünbacher, *Reconstruction*, 197.

During and after the blockade, the Americans had provided aid for Berlin through the GARIOA counterpart funds, the release of which was controlled by the Military Governor, not the ECA. GARIOA counterpart funds provided not only for a large part of the costs of the commodities flown into Berlin, but also for vital work creation schemes in the city to keep the soaring unemployment below thirty-five percent; and they helped to cover West Berlin's budget deficit. Marshall Plan counterpart funds, which became available after the city's inclusion in the ERP in late 1949, were strictly limited to long-term investment and reconstruction projects. Their use for immediate relief work was actually prevented by the 1948 Economic Cooperation Act, which only allowed for investment finance.[42]

Thus with the GARIOA program scheduled to end in early 1950, the effectiveness of U.S. aid and reconstruction efforts in Berlin were threatened. Consequently the State Department (in overall control of ERP funds) signed an agreement with the Department of the Army (in charge of GARIOA) that transferred twenty-five percent of all ERP counterpart funds that arose in Germany after June 1, 1950, into GARIOA accounts. Just under $200 million were transferred in this way, of which just less than a quarter, DM 200 million, was released for projects in West Berlin by the end of 1952.[43] The transfer of funds allowed the U.S. High Commissioner in Germany, who had succeeded the Military Governor, to provide funding from the counterpart funds for politically desirable projects without being restricted by the much tougher ECA guidelines and oversight by Congress.[44] Financial support was given not only for the economic stabilization of West Berlin, which had its own propagandistic value; at least as important for the Americans was funding given to "direct" propaganda, for example, by financing the operational cost of the Rundfunk im Amerikanischen Sektor (RIAS) radio station.[45] RIAS's German broadcasts were meant not only for listeners in West Berlin but could be received in large parts of the GDR, which meant a huge advantage to American and Western Cold-War propaganda.

In addition to GARIOA funds, some DM 816 million in ERP funds went to Berlin before the end of 1952.[46] More than DM 400 million of these had become available by top-slicing and diverting ten percent of ECA counterpart payouts in West Germany, which demonstrates again the importance the Americans placed on Berlin. The interest rates attached to the loans confirm this. They ranged from five percent for industrial reconstruction loans to as little as 2.5 percent for

[42]Peter G. Rogge, *Die amerikanische Hilfe für Westberlin von der deutschen Kapitulation bis zur westdeutschen Souveranität* (Tübingen: J. C. B. Mohr, 1959), 167 ff.

[43]Brown and Opie, *American Foreign Assistance*, 247, 421 f; The Federal Minister for the Marshall Plan, ed., *Recovery under the Marshall Plan*, 215.

[44]Grünbacher, *Reconstruction*, 198 f.

[45]Pisani, *The CIA*, 95.

[46]The Federal Minister for the Marshall Plan, ed., *Recovery under the Marshall Plan*, 215.

business start-up credits for expellees and "political" refugees from the GDR, which meant that the loans were one-third to two-thirds cheaper than the standard ERP loans of 7.5 percent given in West Germany, which themselves were below the standard market rate.[47]

West German experts within the KfW voiced serious doubts and concerns about the size of the top-sliced funds for Berlin, but they were told that due to the underlying political motives even more money could be transferred into the city. Other than losing funding for West German reconstruction projects, the German experts actually regarded one problem in Berlin as actually being caused by ERP loans to the city's companies. While the loans allowed them to invest in new equipment and stocks (plundered by Russian dismantling in 1945 or depleted during the blockade), they had the disadvantage that they "overleveraged" the companies. Firms had to use all their remaining assets to secure these loans, thus they had no remaining company assets (*Eigenkapital*) left to gain further necessary credit.[48] In the past, the situation could have been remedied simply by providing new contracts to Berlin companies and thus profits to boost the balance sheets. Before 1939, Berlin had been an industrial center bigger than the Ruhr, because it had been home to a large part of Germany's manufacturing and electrical industry.[49] By the end of the Berlin blockade, however, the situation was quite different. West German companies had long found new suppliers, and none of them wanted their supplies potentially interrupted by a new Soviet blockade of the city; other than the insecurity of the transit routes, a further big detriment to trade with the city was the much higher transport costs that arose by trading with Berlin. An incentive scheme, the *Berliner Auftragsfinanzierung*, was developed to counterbalance these negative effects. From 1951 onward customers from the FRG who wanted to buy in Berlin could apply for a medium- to long-term loan from GARIOA funds through the Berliner Industriebank of up to sixty percent of the order value, with a further twenty-percent loan made available by Berlin banks. Strict rules were applied to make sure that loans were given only for new contracts. In this way additional orders in the value of DM 330 million were attracted to the city by the end of 1955.[50] Together with the other measures, this helped to rebuild Berlin industry, secure jobs or create new ones, and thus stabilized the city's economy as a whole, turning it into the "shop window of capitalism" deep in the Soviet zone.

Financed with counterpart funds, the KfW began to operate a similar German scheme under its own authority from 1954 onward, although the loans were

[47] Rogge, *Die amerikanische Hilfe*, 140; Grünbacher, *Reconstruction*, 48 and passim.

[48] Grünbacher, *Reconstruction*, 199 ff.

[49] Wolfgang Benz, *Die Gründung der Bundesrepublik. Von der Bizone zum souveränen Staat*, 3rd ed. (Munich: dtv Verlag, 1989), 9.

[50] Rogge, *Die amerikanische Hilfe*, 284 f.

limited to sixty percent of the order value. Here the program was initially financed from repayments made on previous loans from counterpart funds, thus providing a good example of the significance of the special assets' revolving nature. At first the program was only small in scale, DM 4.4 million in 1954 and DM 26 million in 1955, which was financed from the repayments of ECA loans to Berlin, but from 1956 on larger revolving funds from West German repayments became available.[51] By the end of 1960 the total of the KfW's Auftragsfinanzierung amounted to DM 728 million, which means orders of more than DM 1.2 billion were placed under the scheme. Two-thirds of the money was given in 1959–60 alone following an appeal by the BDI, in what has to be understood as an economic-political response to Khrushchev's 1958 Berlin Ultimatum.[52]

Exports and Development Aid

Exports for West Germany after World War II were more important than ever. At the time many German decision makers realized that after the Nazi atrocities the country's political rehabilitation could be sped up if West Germany were able to use its economic potential within the European reconstruction process and in an international setting. More importantly, after the loss of the agricultural surplus areas in the east of the former Reich, West Germany had to import more foodstuffs than ever before. While in the immediate postwar years a lot of these imports were paid for by the Allies under their various aid programs, it was clear that sooner rather than later West Germany would have to pay for them itself and the only feasible source of funds to pay for them would be export revenue; thus the reconstruction of the export industry had to be given priority.

The Cold-War developments of the late 1940s and 1950s then created their own impact on how and why counterpart funds would be used for the West German export economy. It led to politically motivated export finance and ultimately to the establishment of the KfW as Germany's development-aid bank to handle this politically sensitive business.[53] At the same time export finance provides an excellent study of how the originally intended use and purpose of the Sondervermögen changed.

For the period 1948–49 to 1961, three distinct phases of support for exports from counterpart funds can be identified. In 1949, no funds for the export industry were released by the ECA, despite the economic significance of exports; the need for basic reconstruction elsewhere was just too great. As part of the second

[51] Kreditanstalt für Wiederaufbau, *Jahresberichte* (1955), 43; and other years passim.

[52] Gerad Braunthal, *The Federation of German Industry in Politics* (Ithaca, NY: Cornell University Press, 1965), 228; Heinrich Harries, *Wiederaufbau, Welt und Wende. Die KfW eine Bank mit öffentlichem Auftrag* (Frankfurt am Main: Fritz Knapp Verlag, 1998), 57.

[53] Grünbacher, *Reconstruction*, 243 ff.

counterpart fund release in 1950, DM 2.9 million was made available, most of which was used to promote German goods abroad. Some counterpart loans were given to individual companies with good export reputations, the most famous case here perhaps being the optical firm Zeiss. This company which had fled from the GDR received loans to rebuild, virtually from scratch, its camera and lens production business destined largely for the export markets. Although it could not offer any securities at the time, once Zeiss had received ERP loans, regular banks provided further credit to the company, thus enabling it to begin and expand production of the vital exports.[54] Eventually, the 1951 ECA III program considered the export industry in its own right with loans of DM 50 million for the industry's rehabilitation. A further DM 100 million was advanced by the Bank deutscher Länder as part of the government's 1950 work creation scheme on the condition that the sum would be redeemed as soon as possible from ECA III funds. How important these loans were at the time can be seen from a KfW comment that described them as one of the most valuable schemes for the national economy.[55] This comment has to be seen in the context of the "Korean crisis" that followed the outbreak of war in Korea. It had caused a major balance of payments crisis in Germany, which nearly ended the reconstruction process at the time. In this dire situation any stimulation of German exports would have been welcomed to contribute toward the country's economic stabilization and rehabilitation.

The second phase of export finance began in 1953, when the KfW projected DM 26 million for the export industry as part of its new DM 320 million *Zins und Tilgungs Programm* (Z&T, interest and repayment program) (i.e., a program that relied on "second-generation" funds). In the following year, the KfW began to plan with DM 100 million for export finance that would become available from Z&T in 1958–59.[56] This phase meant a shift away from loans to rebuild production facilities or restore trade links in favor of an active support of German exports and the improvement of German competitiveness on the world market. The loans were usually given to companies that had tendered for big export projects (e.g., large rail contracts or whole industrial plants) so that they could maintain their cash flow while they were awaiting payments for their goods, which were often spread over five to ten years. The loans allowed the companies to calculate their offers much more tightly, thus giving them a competitive advantage over rival foreign companies. As such the loans fulfilled two functions, an economic one that promoted German exports and thus supported the balance of payments; and a political one, namely the continuing rehabilitation

[54] Deutsche Bundesbank, Historisches Archiv, B 330/3338, Protokoll der 6. Sitzung des (KfW) Kreditbewilligungs-Ausschusses, TOP 1; Grünbacher, *Reconstruction*, 215.

[55] KfW HA, BS 73, unmarked memos by the Economics Ministry, dated August 7, 1950; Kreditanstalt für Wiederaufbau, *Jahresberichte* (1950), 28; (1951), 31, 35.

[56] Kreditanstalt für Wiederaufbau, *Jahresberichte* (1953), 44; (1954), 62.

of the Federal Republic in the wake of Nazism, through its industrial prowess, in parallel with Adenauer's wider foreign policy. Both developments must have been welcomed by Washington for three reasons: first, it reduced German economic reliance on U.S. support; second, it made West Germany a more "acceptable" partner for the West in the bipolar Cold-War world; and third, it would, in the late 1950s, put the Federal Republic in a position in which it could actively support President Dwight Eisenhower's economic foreign policy in the Third World.[57] Germany's initially quite hesitant involvement in development aid as part of the "Western defense" is the signifier of the third phase of German export finance, which will now be elaborated.

This third stage is clearly the most important one in the Cold-War context. It meant that West Germany began to develop and carry out its own economic foreign policy, mainly in support of its Hallstein Doctrine.[58] It would take the original KfW brief from reconstruction finance to becoming officially West Germany's development-aid bank in 1961. The process began tentatively during 1956–57, when the Federal Ministry for Economic Cooperation (the successor to the Marshall Plan Ministry) realized the need for a more permanent solution for export finance, which was to be provided from ERP Sondervermögen. The KfW confirmed the increased need for a more permanent solution to export finance one year later in its annual report and subsequently in 1958, a DM 260-million revolving ERP Export Fund was established.[59] It is during this time that—partly because of pressure from the Eisenhower administration and very much to the disgust of Economics Minister Ludwig Erhard—export finance began to move away from being only a subsidy for German exporters and instead became a tool in the FRG's Cold-War arsenal. By 1959, the pressure to put the KfW's work in this area onto a proper legal footing was mounting. By granting those loans, the KfW was actually operating way out of its officially authorized remit. In 1959 the KfW gave large loans to foreign countries. The bank had not only given a DM 200-million loan from the counterpart fund to Greece, the economically struggling NATO member, but it had also bought Indian government promissory notes, officially to support a big export deal.

The case of aid to India highlights like no other one the usefulness of the counterpart funds for German Cold-War economic policy.[60] As part of the

[57] See, for example, *Foreign Relations of the United States 1958–1960,* vol. IX, 692 ff., letter from Eisenhower to Adenauer, October 7, 1960.

[58] Under the doctrine, West Germany would terminate diplomatic relations with any country that recognized the GDR since the Adenauer government regarded itself as the only legitimate representative of the whole of the German people. As one of the "Big Four," the Soviet Union was declared an exception and excluded from the rule. The doctrine was applied in 1957 against Yugoslavia and in 1963 against Cuba; see Grünbacher, *The Making of German Democracy*, 191 f, 195 f.

[59] Kreditanstalt für Wiederaufbau, *Jahresberichte* (1956), 45 f.; (1957), 48 f.; (1958), 48 f.

[60] In an earlier but smaller case, the KfW had financed export loans to Yugoslavia from its own sources raised on the capital market; see Grünbacher, *Reconstruction*, 225 ff.

country's modernization program, the Indian government had commissioned a steel plant from a German consortium under the leadership of Krupp, which was to build the plant in direct competition to a steel works delivered and built by the Soviet Union.[61] Because of its role-model status as the first former colony to gain independence and its resulting position as a leader of the non-aligned countries, India was able to play for high stakes with the West and especially the Adenauer government. When the Indian trade deficit grew larger and larger, Indian government officials hinted that Nehru was considering recognizing the GDR. This would have destroyed Adenauer's claim for sole representation since other developing countries would have followed the Indian lead. To keep India in line, West Germany adopted a carrot and stick approach, in which the termination not only of political, but also of all economic, links was threatened if India were to recognize the GDR. The carrot, on the other hand, was large-scale financial aid, including the purchase of the promissory notes that helped India carry out its ambitious modernization program.[62] Since the counterpart funds were administered outside the normal federal budget, they could be used relatively easily to pay for the Indian demands without parliamentary scrutiny, thus saving Adenauer from the embarrassment of having to admit that he had to "pay" for the upholding of the Hallstein Doctrine. With financial support for India, precedence was set. For the next ten years, until the Hallstein Doctrine was officially abandoned in 1969 under Chancellor Willy Brandt, West Germany remained prone to political blackmail from developing countries. Since the Adenauer government, partly under pressure from the Americans, had passed a law that enabled the KfW to act as West Germany's development-aid bank, the financing of other Cold War-motivated projects was guaranteed because the bank was allowed to continue to draw on the counterpart funds for its new task.

Conclusion

In conclusion it is easy to see that the counterpart funds played an important role in the Marshall Plan and beyond in Cold-War economic policy.[63] In the context of West Germany's reconstruction, the counterpart funds and later on the ERP Sondervermögen had wider impacts than the ones described in this essay. The funds were actually used by both the Americans and the Adenauer government as part of a clear political, as well as economic, agenda.

Having the ultimate say about the release of counterpart funds allowed the Americans the control of and limitation, or even prevention, of reconstruction

[61] Kreditanstalt für Wiederaufbau, *Jahresberichte* (1959), 52 ff.; Grünbacher, *Reconstruction*, 234 ff.

[62] Armin Grünbacher, "Profits and Cold War—Politically Motivated Export Finance in West Germany during the 1950s: Two Case Studies," *German Politics* 13, no. 4 (Dec. 2001).

[63] Some aspects, in particular the financing of the CIA, deserve further research.

projects during the Marshall Plan years. The Americans' control of the funds allowed them, usually against German resistance, to redirect funds into areas they thought important. The economic sector that stands out here was the electricity industry which, by 1952, was the first sector to have received more than DM 1 billion in ERP loans, far more than any other economic sector.[64] Housing construction, in particular special programs for miners and refugees, were of similarly high importance because of the economic and social necessities of such projects. At the same time, housing construction provided the Americans with first-rate propaganda opportunities against the East but also toward West Germany, in which they could spread the gospel of the "superior American way of life." This was rooted in the high-quality living standard they insisted on for the new dwellings and even more in the required sign-posting of all major construction sites, which visibly labeled the sites as being "supported by Marshall Aid"; the latter proved to become part of the Marshall Plan's lasting image and memory in West Germany.

The benefits on the German side were perhaps even more significant: among ordinary Germans the sign-posting of construction sites created the impression that "unlimited" U.S. funds were pouring into German reconstruction. This in turn supported the obviously wrong belief that the reconstruction effort was paid through Marshall Aid and not through borrowing, which reduced the German fear of inflation. The sign-posting of American aid was also a visible expression that West Germany was no longer a pariah, and the signs were thus welcomed by both ordinary Germans and the Adenauer government. This was in stark contrast to France, where the advertising of Marshall Aid was seen as a sign of French insufficiency and loathed as a result by the government.[65] In economic terms, the counterpart funds allowed the German economy to counterbalance the negative side of Erhard's economic policy of the immediate postwar years, in particular by providing long-term investment funds in the bottlenecks of the basic industries.

From the early to mid-1950s onward, the ERP Sondervermögen provided funds for important but low-yielding infrastructure projects, for example, in agriculture where it paid considerable sums toward the *Flurbereinigung*, the re-parceling of small patches of agricultural land which was an essential part of West Germany's structural modernization. Finally, the creation and preservation of the ERP Sondervermögen provided the government with a "slush fund" that could be used to pay for politically motivated programs, such as the early development aid which was mainly motivated by Cold-War policies and the underlying support for the Hallstein Doctrine.

[64] Kreditanstalt für Wiederaufbau, *Jahresberichte* (1953), 61.
[65] Wall, *Postwar France*, 174.

Although it obviously no longer serves Cold-War purposes, the fact that the ERP Sondervermögen was maintained by all successive governments and not integrated into the budget but still exists today is perhaps the best indication of how useful it was for these governments, especially during the time of reconstruction and the height of the Cold War.

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