

Boris BEGOVIĆ, PhD*

Holtfrerich, Carl-Ludwig. 2024. *Edward A. Tenenbaum and the Deutschmark: How an American Jew Became the Father of Germany's Postwar Economic Revival.* **Cambridge: Cambridge University Press, 780.**

Straumann, Tobias. 2025. *Out of Hitler's Shadow: Debt, Guilt, and the German Economic Miracle.* **Oxford: Oxford University Press, 297.**

THE ORIGINS OF THE GERMAN POST-1945 ECONOMIC MIRACLE

'There are *not* two Germanys, a good one and a bad one, but only one, whose best turned into evil through devilish cunning.'

Thomas Mann, *Germany and the Germans*, 1946

1. INTRODUCTION

There is no doubt that Germany experienced substantial economic growth in the 1950s and 1960s. In the 1950s, the compound annual growth rate was almost 8 per cent (Galofre-Vila *et al.* 2018, 2).¹ It was followed by a

* Professor (retired), University of Belgrade Faculty of Law, Serbia, *begovic@ius.bg.ac.rs*, ORCID iD: 0000-0001-7343-190X.

¹ Unless otherwise stated, 'Germany' in this book review essay refers to West Germany, i.e. the Federal Republic of Germany, the country that was created in 1949 out of the US, UK and French post-war occupation zones, and remained occupied by these three countries until 1955.

somewhat lower compound annual growth rate of almost 5 per cent in the 1960s (Eichengreen, Ritschl 2009, 192). The German government lost no time in calling it an economic miracle – *Wirtschaftswunder*.² Be it a miracle or not (the term is so persuasive that it even appears in the title of this book review essay), it is the task of economic historians to explain the remarkable economic growth of Germany during that period. The two books that are about to be reviewed together provide input for that analysis by examining the possible causes of that impressive growth. The suspects this time are the 1948 German currency reform, according to Holtfrerich's book,³ and the 1953 London Debt Agreement, which provided substantial foreign debt relief, according to Straumann's book.⁴

These two books are written in completely different ways. Holtfrerich's book, focused on the role of Edward A. Tanenbaum in the 1948 German currency reform, is very, very well-researched, voluminous, dry, and not at all dynamic. There are many well-established facts listed, though not ranked by relevance, but not so many insights. The book is difficult to read, but it is very useful for readers and provides a solid foundation for further research on many issues, along with substantial food for thought on post-war Germany and on Germany under the Nazis. Although it is a book focused on the role of one man in the 1948 German currency reform, it discusses not only his role, nor even only the 1948 German currency reform, but rather the inter-Allies dynamics, especially the Cold War developments that resulted in the division of pre-war Germany into two German post-war states: West Germany (the Federal Republic of Germany) and East Germany (the German Democratic Republic).

The other contribution, Straumann's book, is quite the opposite: it is short, written like a novel, even a detective story, a nail-biting (although the outcome is known to the reader in advance) page-turner thriller. The book's dynamics are incredible. The price of that is, though, inevitably paid:

² It seems like a pattern of German government officials in charge of propaganda or public relations to look for miracles. The Nazi Germany propaganda machine in the late stages of the war launched the idea of wonder weapons – *Wunderwaffe* – that would turn the tables. There was no miracle – the tables stayed put.

³ Carl-Ludwig Holtfrerich is an emeritus professor of economics and economic history at the Free University of Berlin. For decades, his contributions focused on 20th-century German economic history.

⁴ Tobias Straumann is a professor of modern and economic history at the University of Zurich Faculty of Arts and Social Sciences, whose research focuses on financial and monetary history, more specifically in the interplay between economic crises, institutions and politics. His previous book (Straumann 2019) is about the political economy of the Nazis' ascent to power in Germany.

many areas are not well researched, insights are sparse, and on some issues the book remains silent. Nonetheless, its 'horizontal approach', emphasising simultaneous processes of foreign debt negotiations, negotiations of national security arrangements, and German sovereignty agreement, i.e. termination of its occupation in the early 1950s, combined with Israel's request for reparations, provides readers a fruitful starting point for pondering the origins of European post-war institutional arrangements, even considering the advent of the European Coal and Steel Community and the beginning of the European integration process as a byproduct of solving German post-war economic problems and political status.

The aim of this book review essay, while reviewing the main findings of the books, is to revisit the issue of the German post-war economic miracle, focusing on its two pillars: the 1948 currency reform, which introduced the Deutschmark (DEM), and the foreign debt relief and reparations suspension in the 1953 London Debt Agreement. For proper reconsideration of the issues, two steps back must be taken from these two watershed events. The first one is a brief history of German foreign debt between the two world wars, and the second one is a brief history of occupied post-war Germany before the 1948 currency reform began.

2. PROLOGUE: FROM VERSAILLES TO DEFAULT

The story of Germany's post-1945 foreign debt negotiations and relief should start with the German reparations after the First World War. The 1919 Treaty of Versailles (The Treaty of Peace between the Allied and Associated Powers and Germany) imposed reparations on Weimar Germany.⁵ The Treaty itself did not specify the amount of the reparations payments to the Entente countries, nor the maturity or other payment terms. The Treaty left these details to the Reparation Commission, which produced the 1921 London Schedule of Payment. In short, the total reparations bill was 33 billion US dollars (132 billion Goldmarks). Nonetheless, the total bill was divided into two tranches. The first one, 12.5 billion US dollars (50 billion Goldmarks), became due immediately, with the stipulation that it would be paid in annual tranches of 500 million US dollars, plus 26 per cent of Weimar Germany's exports. Depending on the level of German export, and thus annual payment tranches, it was expected that the first tranche of the reparations

⁵ Part VIII (Sections 231–247 with 7 annexes) of the Treaty deals with the reparation. The full text of the Treaty is available at: https://avalon.law.yale.edu/subject_menus/versailles_menu.asp, last visited April 29, 2026.

would be paid off (effective maturity) in 30–35 years. The second tranche of the remaining 20.5 billion US dollars (82 billion Goldmarks) would be due only after the first tranche was fully paid, effectively (as was informally communicated to Weimar Germany's officials) never due and hence never paid. This means that there was a significant discrepancy between the nominal and effective reparations burden, with the effective being only 38 per cent of the nominal.⁶

Nonetheless, from the very beginning, Weimar Germany defaulted on its obligations, and it was clear that the crucial issue was not its ability to pay but its willingness to pay reparations – or rather, the lack of it. This paved the way for the 1924 Dawes Plan, which enabled Weimar Germany (including local authorities) to borrow capital from US banks, i.e. from US private creditors. The amount borrowed from the US was substantially above the reparations requirement, as reparations outlays were less than half of the capital inflows from US private loans. Weimar Germany became a heavily indebted country, though not because of the reparations, but rather because of its voracious appetite for borrowing. The 1929 Young Plan basically continued the same policy. Weimar Germany experienced a substantial net capital inflow.

Then the 1929 Wall Street Crash occurred, followed by severe financial crises and the Great Depression, which hit Weimar Germany with a vengeance in 1931. The recession turned into a depression, and US private creditors, engulfed by the financial crisis, refrained from refinancing Weimar Germany's debt, i.e. rolling over its liabilities. Under these conditions, the issue of payment of the reparations obligation became critical. This led to the 1931 Hoover Moratorium, a one-year suspension of the Weimar Republic's reparations payment, as well as the servicing of the Entente's war debt to the USA. After a one-year suspension, the 1932 Lausanne Conference reduced Weimar Germany's reparations obligations to only 5.7 per cent of the initial first tranche payment schedule, amounting to 714 million US dollars. Nonetheless, the Treaty of Lausanne was never ratified, and it was conditioned by another treaty between the USA and the Entente concerning

⁶ The difference between the nominal and effective reparations burden was convenient for both sides to declare victory. All the facts and information about Weimar Germany's reparations are based on the comprehensive review of the topic provided by Gomes (2010). These accounts have never been contradicted in contemporary historiography literature.

the latter's war debt. This enabling treaty never materialised. Hence, the Treaty of Lausanne was a failure, with no *de jure* consequences for Weimar Germany's reparations obligations whatsoever.⁷

In 1933, Weimar Germany became Nazi Germany, and Adolf Hitler's cabinet repudiated the Versailles Treaty reparations obligations. Furthermore, in 1934 Nazi Germany defaulted on all sovereign obligations to the US private creditors that were established within the framework of the Dawes Plan and the Young Plan. Effectively, Nazi Germany broke international financial ties in sovereign borrowing.⁸ The issue of Nazi Germany's foreign debt came back with a vengeance after its defeat in the Second World War.

It is reasonable to ask the question why this section of the paper, this short chronology of the relevant events regarding pre-war German foreign debt, is necessary in a book review essay. The answer is simple: because there is nothing, not a single word, about it in Straumann's book, which is about the German foreign debt negotiations after the end of Nazi Germany. Since the book's title is *Out of Hitler's Shadow*, it is evident that a segment of Hitler's financial/debt shadow is based on events preceding his demise, especially his decisions regarding Nazi Germany's pre-war default. Alas, Straumann's book is silent about it, as if the German post-war debt came out of the blue. It is not a great commendation for a book if its review essay must fill the gaps.

Instead of dealing with facts, Straumann fully subscribes to the ostensible 'conventional wisdom' that the harsh reparations imposed by the 1919 Versailles Peace Treaty with Germany were the decisive reason for the economic hardship and impoverishment of the German population that created the economic ground for the Nazi's rise to power, i.e. that the origins of the Second World War should be traced back to the reparations imposed on Germany after the First World War. Straumann's view demonstrates the lasting influence of John Maynard Keynes' thinking and advocacy (Keynes 1920), an influence that should not be underestimated.⁹

⁷ It is curious that, for some reason, there is a widespread misconception that the Treaty of Lausanne proclaimed Weimar Germany's reparations obligations null and void. This false claim has been repeated at some economic history seminars/webinars.

⁸ It is interesting that Nazi Germany did not proclaim a general default to all the creditors, something Soviet Russia did in 1918, but only defaulted sequentially on loan by loan, with discriminatory treatment of the creditors. Guinnane (2015) provides details about this pattern of its defaulting.

⁹ Begović (2020), in his centennial review of Keynes (1920) contribution, points out ten key fallacies of the book. Needless to say, the book review is done in hindsight, but some of these fallacies seemed rather obvious at the time the book

The problem with this Straumann's view is that it is not based on facts. Tooze (2014) demonstrated that Weimar Germany experienced very dynamic economic growth in the 1920s, following the Treaty of Versailles. The compound annual growth rate for the 1919–1929 period was 5.8 per cent, comparable to German growth rates in the 1950s. As noted by Ritschl (2012, 949), Weimar Germany underwent its own 'roaring twenties'.¹⁰ The economic distress began with the 1931 Great Depression, but that was twelve years after the Treaty of Versailles, and there was no causal link between the two. It was not the reparations that created the Great Depression in Germany. Furthermore, as Tooze (2014) shows, the reparations outlays exceeded 5 per cent of Weimar Germany's national income for only two years.¹¹ This means that the Versailles reparations burden was not substantial and did not strangle Weimar Germany's economy.

Although Straumann (2019) argued that Weimar Germany's high indebtedness due to reparations was decisive for the magnitude of the 1931 Great Depression in the country, this argument is not convincing. First, only a portion of the German foreign debt was due to reparations; the rest was due to excessive borrowing under the Dawes and Young plans.¹² Second, and more importantly, as demonstrated in the literature (Ritschl 1998; Tooze 2006), the main reason for the severity of the 1931 Great Depression in Weimar Germany was the inadequate economic policy of the cabinet led by Chancellor Heinrich Brüning, as it fought recession, unemployment and poverty with cyclical economic policy measures, which reinforced the recession. Furthermore, when all other countries devalued their currencies, Weimar Germany did not do so, meaning that its currency effectively

was published.

¹⁰ The compounded annual growth rate includes the annual negative growth rate of –14.9 per cent for 1923, the year of hyperinflation, as economic activities were substantially impaired by huge monetary instability and distorted expectations. Without that year taken into account, the compounded annual growth rate of Weimar Germany would be above 6 per cent. This is quite an impressive economic growth for any country, and especially for an advanced economy like Weimar Germany was.

¹¹ These years were 1921 and 1922, i.e. before the Dawes Plan. The table with all the relevant data is provided in Tooze (2014, 369).

¹² Alas, Straumann (2019) provides no data on Weimar Germany's foreign sovereign and non-sovereign debt, nor the share of reparations burden in the total foreign debt. Hence, the magnitude and maturity of the foreign debt must be sought in other publications, not in the book whose hypothesis is that foreign debt brought the Nazis to power. It seems to the reader that Straumann has a substantial data aversion.

revalued, losing the export-competitive edge of the national economy, and reinforcing the recession. Hence, the depth of the 1931 Great Depression in Weimar Germany was a self-made disaster.

As to the political consequences of the Treaty of Versailles, especially its reparations segment, the Nazi Party (*Nationalsozialistische Deutsche Arbeiterpartei* – *NSDAP*) was politically insignificant, a fringe party in the 1920s, in the decade immediately after the signing of the Treaty of Versailles. For example, the Nazi Party won only 2.6 per cent of the votes in the 1928 parliamentary elections.¹³ An even bigger failure occurred in the 1925 presidential elections. The Nazi Party's presidential candidate, General (retired) Ludendorff, a war hero for many in the constituency, won only 1.1 per cent of the votes. Hence, the political consequences of the Treaty of Versailles and its reparations were negligible in the 1920s. The surge of the Nazi Party in the polls came with the 1931 Great Depression, and, as already demonstrated, it was not caused by the reparations.

There is no doubt that the origins of the Second World War lie in how the previous world war ended, but the reparations seem not to be part of the equation. As suggested by Marks (1969), a victory parade of Entente troops in Berlin in 1919 (i.e. the surrender of the German Empire and its occupation) would have been a much more promising start for a peaceful future than the 11 November 1918 armistice.¹⁴

3. AFTER THE VICTORY DAY: THE BURDEN OF OCCUPATION

The Second World War, contrary to the previous one and perhaps because of lessons learned in its aftermath, ended with the unconditional surrender of the German armed forces demanded by the Allies, the dismemberment of pre-war Germany into four occupation zones, and the temporary abolishment of the German state, by the 1945 Berlin declaration (Declaration Regarding the Defeat of Germany and Assumption of Supreme Authority by

¹³ The data and the analysis of the political development in Weimar Germany in the 1920s are based on Kolb (2005, 224–225).

¹⁴ The 1919 timing of the victory parade in Berlin is consistent with the estimation that the rejection of the German Empire's plea for the armistice in the autumn 1918 and prolonged, say, half a year of the Entente offensive would have ended in a crushing defeat of the enemy. No doubt that the British Victory Parade on Charlottenburger Chaussee in Berlin, on 21 July 1945, and the Allies' Victory Parade on the same boulevard in Berlin on 7 September 1945 inspired Marks (1969) to this insight.

Allied Powers).¹⁵ The administration of what was German territory and its population was run by the Allies, with the Allied Control Council (ACC), as the supreme governing body, having both legislative and executive powers. This made the Allies thoroughly responsible for the population in that territory and the future of the German state. The responsibility was an inevitable consequence of the unconditional surrender and the dismantling of the German state, i.e. an unavoidable burden of the Allies occupying Germany.

As to the character of the occupation, Holtfrerich's book provides some clues: two of the Allied countries have distinctive economic concepts. Apart from ideological influence and the spread of Bolshevism in the area, for the USSR the occupation was predominantly a precondition for immediate in-kind reparations, involving dismantling German manufacturing, transportation and infrastructure capacities, and the transfer of these assets to the USSR as a means of rebuilding the facilities destroyed by the 1941 Nazi Germany invasion and the ferocious war on the Eastern Front, mainly on USSR territory (Naimark 1995).¹⁶ The US approach was initially focused on the thorough and decisive restructuring of the German economy along the lines of the Morgenthau Plan,¹⁷ which inspired US JSC Directive 1067,¹⁸ aimed at

¹⁵ The preamble of the Declaration contains the following sentence: 'The Governments of the United States of America, the Union of Soviet Socialist Republics and the United Kingdom, and the Provisional Government of the French Republic, hereby assume supreme authority with respect to Germany, including all the powers possessed by the German Government, the High Command and any state, municipal, or local government or authority.' The Declaration was signed, on behalf of the four victorious powers, by their most senior military field commanders, who commanded the occupation troops of each victorious power. The full text of the Declaration is available at: <https://avalon.law.yale.edu/wwii/ger01.asp>, last visited April 29, 2026.

¹⁶ The French position regarding the in-kind reparations, as a priority of the occupation aims, was rather close to the Soviet one.

¹⁷ Although it is common in the literature to refer to the Morgenthau Plan, it was rather a memorandum by Morgenthau, submitted in 1944 to the US president at the time, Franklin D. Roosevelt. Since Morgenthau was Secretary of the Treasury in the Roosevelt administration, his ideas were very influential in shaping US policy in its occupation zone and in occupied Germany as a whole. Nonetheless, in practice, only some ideas disclosed in the memorandum were implemented for a limited time (Gareau 1961). The original five-page Morgenthau memorandum is available at: <http://docs.fdrlibrary.marist.edu/PSF/BOX31/a297a01.html>, last visited April 29, 2026.

¹⁸ Joint Chiefs of Staff of the US Armed Forces (JSC) Directive 1067, issued on 26 April 1945, was the Directive to the Commander in Chief of the United States Forces of Occupation Regarding the Military Government of Germany. The full text of JSC Directive 1067 (52 sections altogether) is available at: <https://history.state.gov/historicaldocuments/frus1945v03/d351>, last visited April 29, 2026.

dismantling and demolishing German heavy industry, in order to achieve 'industrial disarmament' and to make Germany 'primarily agricultural and pastoral in its character', with agriculture, food production and only light industry: 'wooden toys as the most sophisticated product' in the sarcastic words of one UK official. Morgenthau's concept of 'industrial disarmament' was based on the aim of eradicating German industrial capacity in sectors essential for military strength, especially coal and steel, to prevent future German rearmament, remilitarisation, and military endeavours. Since many industries – virtually all metal-processing, machinery, and chemical industries – are basic to military strength, even the latitude for the operations and growth of a light industry in Germany was inevitably very narrow.¹⁹

The two approaches reinforced each other in the Potsdam Agreement of 1 August 1945.²⁰ The Agreement (Section 11) stipulates that the production of items necessary for a war economy should be 'rigidly controlled and reduced to Germany's approved post-war needs'. Furthermore, '[p]roductive 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'. Section 13 emphasises that '[i]n organizing the German Economy, primary emphasis shall be given to the development of agriculture and peaceful domestic industries'. Finally, Section 15 declares that the 'Allied controls shall be imposed upon the German economy [...] to carry out programs of industrial disarmament and demilitarization, of reparations,

¹⁹ The rationale of the Morgenthau Plan was purely preventive, without a punitive component, i.e. without the aim of retribution against the German population, as described in Morgenthau (1945). However, implementing the plan would inevitably decrease the standard of living for the German population, as the German economy would be restructured and the labour force redirected towards low-productivity sectors, resulting in low salaries. By contrast, elements of JSC Directive 1067 were punitive, with the explicit aim of reducing the standard of living of the German population. For example, Section 5b of the Directive stipulated the control of the economy of the occupied area with measures 'as they may be essential to protect the safety and meet the needs of the occupying forces and assure the production and maintenance of goods and services required to prevent starvation or such disease and unrest as would endanger these forces'. The wording of this section leaves no doubt that vengeance was the order of the day for the US troops. Taylor (2011) provides more details on the implementation of the punitive policies in post-war Germany, particularly in the US and UK occupation zones.

²⁰ Formally, the Potsdam Agreement is the Protocol of the Proceedings of the Berlin Conference of the Three Heads of Government of the USSR, USA and UK, which took place from 17 July to 2 August 1945 in Potsdam, a city located in the Berlin metropolitan area. The full text of the Potsdam Agreement is available at: <https://history.state.gov/historicaldocuments/frus1945Berlinv02/d1383>, last visited April 29, 2026.

and of approved exports and imports'. Furthermore, according to Paragraph (b) of Section 15, the controls will be used to '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* (italics – BB) exceeding the average of the standards of living of European countries'. The provision was the legal ground for retribution against the German population, with a silver lining.

Hence, not only did deindustrialisation and retribution went hand in hand, but also the US policy of German deindustrialisation and 'pastoralisation' went hand in hand with the Soviet policy of urgent in-kind reparations. Not only did the USSR have the unrestricted right to remove manufacturing capacities, transportation, and infrastructure assets, i.e. physical capital, from its occupation zones, but it was also entitled to contributions from the Western Allies' zones of occupation.²¹ Independently, the Western Allies commenced dismantling manufacturing and transportation capacities and transferring them as in-kind reparations to their own countries and other countries invaded by Nazi Germany, save the USSR and Poland.²² Two problems became apparent even before the first signs of the Cold War surfaced, even during the 'honeymoon' of the Allies in defeated and dismembered Germany. First, the problem was that transferred capacities, due to in-kind reparations, did not work well without a well-trained and well-accustomed labour force for the specific hardware: know-how was missing, decreasing the productivity of the transferred capacities. Second, massive restrictions on economic activity, especially in heavy industries, including coal mining, led to the collapse of economic activity in the German territory under occupation. The wording of the Potsdam Agreement created some

²¹ The precise terms of these contributions were stipulated in Chapter 'Reparation from Germany' of the Potsdam Agreement (Chapter III, with ten sections).

²² These in-kind reparations, which were far from the estimated war damage in the countries that Nazi Germany invaded, were based on the 1946 Paris Agreement on Reparations from Germany, on the Establishment of an Inter-Allied Reparation Agency and on the Restitution of Monetary Gold, concluded on 14 January 1946. The full text of the Agreement is available at: <https://treaties.un.org/doc/Publication/UNTS/Volume%2520555/volume-555-I-8105-English.pdf>, last visited April 29, 2026. The USSR and Poland were not signatories, i.e. parties to the Agreement, as the USSR had its own occupation zone for in-kind reparations and agreed to handle all in-kind reparations on behalf of Poland. Furthermore, since a substantial part of pre-war Germany was annexed by Poland, with the blessing of the Allies, this was considerable compensation for the nation, as Poland had acquired territory, industrial capacity, and infrastructure – all of that without (the expelled) ethnic Germans, save the prisoners of war.

latitude for the Allied occupation zone commanders, i.e. military governors, to adjust some, if not all, of the restrictive policies, but there were no signs of German economic recovery.

Even in the early stages of the occupation, people like Edward A. Tenenbaum, a protagonists of Holtfrerich's book, realised that the Morgenthau-inspired policy of 'deindustrialisation', enhanced by the punitive spirit of JSC Directive 1067, was unsustainable. The retribution worked too well, so the German population's subsistence depended on transfers from the Allied nations. Since the transfers were funded by national budgets, they were not politically acceptable to the US and the UK. It was the US administration, under the influence of Tenenbaum and others, that began the process of reversing early policy towards occupied Germany, on the grounds of economic sustainability. This was basically a political economy argument for why the US policy changed, and more broadly, why the policy of the three Western big powers changed (Tooze, 2006). From deindustrialisation and retribution, the policy shifted to reconstruction, facilitating economic growth and raising the standard of living for the German population, based on domestic production and earnings. The idea was that the Western occupation zones should become economically sustainable and independent of transfers from the occupying powers. The occupation of Germany became too costly for the victorious powers; hence, punitive policies became less attractive than they had seemed in the immediate aftermath of the war. Furthermore, Germany's economy, especially its manufacturing, was already strongly interconnected with the European economy, and it was reasonable to assume that Europe could not recover without a viable German manufacturing industry.

The change in the US policy towards the occupied Germany was marked by two watershed events. The first was the promulgation of JSC Directive 1779, which succeeded JSC Directive 1067, emphasising economic recovery in occupied Germany and downplaying the punitive elements of US policy.²³ The second event that shaped the US policy's complete turnaround was the launch of the Marshall Plan (European Recovery Program, ERP) on 2 April 1948, which emphasised economic recovery, reconstruction, and the development of Western Europe, including the western zones of occupied Germany.

With these undisputed events as evidence of the reversal of US policy, there is another explanation for this development: the emergence of the Cold War (Bark, Gress 1989). The new geopolitical situation implied the political

²³ The full text of the Directive is available at: <https://history.state.gov/historicaldocuments/frus1948v02/d470>, last visited April 29, 2026.

necessity for the US and generally Western Allies to have the Germans in their occupation zones on their side in this conflict, not to succumb to communist ideology and propaganda. The three Western occupation zones, with a loyal German population, became a strategic asset in the Cold War against the expected Soviet expansion. The western part of Germany had become the pillar of the Kennan containment policy. For that reason, the West needed Germany as an ally, economically strong, prosperous, and with a contented population. The West needed to 'win the hearts and minds' of Germans.²⁴

These two explanations, these two concepts, do not contradict each other but rather reinforce one another. Some specific policies can be explained primarily by one or the other hypothesis,²⁵ but together they provide a comprehensive interpretation of policy changes that enabled the German post-war economic recovery and growth – a miracle, in juicier language. The first pillar of the German economic revival was the 1948 currency reform.

4. THE ONSET OF THE COLD WAR, DIVISION OF GERMANY AND CURRENCY REFORM

In the aftermath of the defeat of Nazi Germany in the four occupation zones on the territory of Germany (reduced, whatever remained after the annexations), there was a strange mixture of policies that maintained an economic environment for business decisions, both on the supply and demand side. As for the currency, there were essentially two currencies circulating simultaneously. One was the Reichsmark, the legal tender of Nazi Germany, which remained in circulation even after the German defeat and abolishment of the German state by the 1945 Berlin Declaration. Nonetheless, there was no central bank as the guardian of the currency and the authority to enforce monetary policy, let alone the lender of last resort. Alongside the defunct Reichsmark, the other currency in circulation was Allied Military Currency (AMC), specifically the AM-Mark. That currency was issued to Allied military personnel occupying Germany; their remuneration was paid

²⁴ This 'winning hearts and minds' expression was coined by the French administrators in French colonial Indo-China in the late 19th century. Hence, no oppression, but still, it is clear who is in charge.

²⁵ For example, the policy of leniency in prosecuting German war criminals, commuting the sentences of already convicted war criminals, and pardoning the sentenced ones was obviously a concession to the German public, to make them loyal allies to the Western side in the Cold War, and had nothing to do with German economic reconstruction. Punitive justice suffered as a result of the necessity of the Cold War alliance.

in it, and it entered circulation through local purchases initiated by the Allied servicemen. With the AM-Mark in circulation, the German population was free to use it in transactions that did not include Allied servicemen.

The currency pandemonium in post-war Germany also entailed the rigid economic policy of Nazi Germany, dominated by strong government control: price control, wage control, and all imaginable economic control measures. On top of that, as described in the previous section of the paper, the supreme authority in occupied Germany was the ACC, with the discretionary power to intervene in economic affairs as it saw fit. This was an institutional framework which had remained after the defeat of Nazi Germany, very far from the market economy, let alone a free-market economy, with a typical consequence: ubiquitous shortages.

Holtfrerich's book is effectively a very detailed biography of Edward A. Tanenbaum, a key figure in the 1948 currency reform that introduced a new, successful currency. He was an American Jew whose parents had immigrated to the US from Polish Galicia. He graduated from Yale University with a major in economics and joined the US Army shortly after the US entered the war. He joined the Office of Strategic Service (OSS) on the first day of his military service – he became an intelligence officer in the US Army. After a stint in Washington, DC, Tanenbaum joined combat units in Europe in August 1944. He was an intelligence officer with the 12th Army Group (the largest US combat unit in Europe). Having that position, Lieutenant Tanenbaum was one of the first two US servicemen to enter the Buchenwald concentration camp, on 11 April 1945. He witnessed first-hand the outcome of the Nazi racial policy. From the onset, he had no second thought about the grim, raw, and horrible reality of the Holocaust.

After Germany's surrender, Lieutenant Tanenbaum was posted to the Office of Military Government, United States (OMGUS), which administered the US occupation zone, as an economic adviser to the military governor (General Lucius D. Clay). After being honourably discharged from the military in 1946, Tanenbaum continued to work as a civilian advisor to the OMGUS and, as Holtfrerich documents, designed the currency reform in this capacity. German experts were involved in the currency reform, but at the end of the day, it was Tanenbaum who intellectually led it, and it was Americans who provided the framework for decision-making, even literally. "The seven-week session from April 20 to June 8, 1948 aimed at "perfecting last-minute details" of monetary reform. Its location was Haus Posen on a former German (since 1945 US) airfield next to the village of Rothwesten near Kassel. In addition to barbed wire around the whole airfield with its barracks, the building itself was surrounded by a fence with barbed wire on top and military police around, reinforced with signs warning anyone

outside or inside to be shot in case of climbing the fence' (p. 440). The introduction of the new currency was swift, as the banknotes had already been clandestinely printed in America, and the conversion rate for the DEM was set at 1:10 against the defunct Reichsmark. What swiftly followed was thorough price and wage liberalisation.²⁶ Hence, the market began to operate, provided with a new stable currency, and shortages disappeared shortly thereafter. This was the first step of German recovery.

The Deutschmark was officially introduced on Sunday, 20 June 1948, announced by Ludwig Erhard, who had no role in designing the currency reform, and who did not attend the seven-week session. Nonetheless, it was the Western Allies who selected him to announce the currency reform – as the most suitable German public figure for the job. Because it was Erhard who announced the currency reform, he has for decades been credited as the 'father of the Deutschmark'. Holtfrerich's book provides evidence that this was not the case. The father of the Deutschmark was an American Jew – Edward A. Tenenbaum.

A reasonable question is why such a historical inaccuracy has persisted for so long. Holtfrerich provides three answers. The first one is Tenenbaum's character. He was a modest, unassuming, self-effacing person. He was not one who claimed credit for himself, but was only interested in the job being done well. When he was confronted with the fact that Erhard was taking the credit as the father of the new German currency, Tenenbaum replied 'Who cares who gets the credit?'

Holtfrerich's second complementary explanation for the inaccuracy concerns Erhard's self-aggrandising personality. There were literally hundreds of media interviews in which he praised himself as the father of the Deutschmark. His photographs, with a giant 1 DEM coin behind him, a Churchillian cigar in his mouth, and a complacent smile, are, for many, beyond the fringe of good taste, but obviously they made a lasting impression.²⁷ As effective in self-promotion, Erhard was also effective in covering up the traces of his collaboration with the Nazi government, especially, as Holtfrerich points out, with SS General Otto Ohldendorf, one

²⁶ Eichengreen (2025) points out that the liberalisation program was somewhat influenced by the Marshall Plan conditions for concessional loan disbursement and that it could be, up to a point, compared to what became known as 'Washington Consensus' in the 1980s.

²⁷ This is not to claim anything about Erhard's work as long-standing German Minister for Economic Affairs (1949–1963) and German Chancellor (1963–1966). This remark is only about his role in the 1948 currency reform.

of the most notorious Nazi war criminals, whom Erhard met in the Reich Ministry for Economic Affairs in Berlin, as late as December 1944, to plan the post-war economic and financial order in Germany.²⁸

The third Holtfrerich's answer is generally about politics. Politicians of West Germany needed a positive self-image, both of themselves and the country, taking into account Nazi Germany's horrific crimes. A positive story was desperately needed. New political heroes were desirable, but they were in short supply. What better story than a domestic, home-grown, knowledgeable and efficient currency reform, spearheaded by a German? With such a story, the German government PR machine received a lot of high-octane fuel. With the fuel tank filled to the brim, the reader ponders, Erhard simply volunteered to be the German post-war hero.²⁹

All three of Holtfrerich's answers seem like reasonable explanations that do not contradict or exclude each other. Nonetheless, the reader wonders what motivated Edward A. Tenenbaum to do what he did, to the benefit of the German people. Edward A. Tenenbaum's motivation was indisputably very strong, his persistence was impressive, and his generosity was surprising – especially taking into account that he was a Jew, a liberator of Buchenwald. It seems like there was no desire for vengeance of any kind on his part. We will never know his thoughts when he repressed the images of Buchenwald

²⁸ Otto Ohlendorf, who held PhDs in both law and economics, was a commander of *SS Einsatzgruppe D*, which was responsible for killing about 100.000 civilians, mostly Jews, in 1941 and 1942, behind the lines of the advancing Wehrmacht troops in the south of the USSR. Unlike many high-ranking Nazi officials, he did not deny the crimes, but provided the details of them, including the motivation. He was sentenced to death, and was hanged in the last batch of executions of Nazi war criminals in West Germany, on 7 June 1951. Even the Cold War rapprochement of the Americans to West Germany could not spare him from the gallows. For more on Ohlendorf's testimony see the account by Benjamin B. Ferencz, the prosecutor in the 1948 *Einsatzgruppe* trial: <https://www.benferencz.org/stories/1946-1949/mass-murderers-seek-to-justify-genocide/>, last visited April 29, 2026. It remains elusive whether Erhard in 1944 was aware of Ohlendorf's *Einsatzgruppe* experience, but he was, by all means, aware that he was collaborating with a SS General (*Gruppenführer*, equivalent to Major General). After all, during the meeting(s) Ohlendorf wore an SS uniform with a highly visible rank.

²⁹ Taking into account this insight by Holtfrerich and the substantial level of antisemitism still widespread in Germany (more about it in *infra* footnote 40), the reader ponders that announcing that a Jew was the father of the currency reform would have been a PR disaster for the German government. This demonstrates that, in politics, especially in its PR segment, lies frequently pay off.

and started graciously to work for the benefit of the nation from which the Holocaust perpetrators emerged. Although we will never learn his thoughts and the origin of his generosity, it is fascinating to ponder them.³⁰

Apart from debunking this historical inaccuracy, as a byproduct, Holtfrerich provides a comprehensive story of the divisions in post-war Germany. Immediately following the defeat of Nazi Germany, the victorious powers worked together in the occupation of Germany and the administration of the territory. Together, they had issued the occupation currency (AM-Mark), each in their respective occupation zones, and they started to work together on the monetary reform. Nonetheless, the Cold War took its toll; the disagreements became greater. Although the Potsdam Agreement stipulated that all four zones would be treated as a single economic unit,³¹ the flow of goods and production factors between the occupation zones became sluggish and more difficult. In these circumstances, the US occupation zone was the least economically sustainable one because it was isolated and lacked a hinterland (unlike in the French or Soviet zones) or sea access (unlike the UK zone). This was the reason for the integration of the US and the UK occupation zones into a single Bizone, on 1 January 1947. The currency reform started in the Bizone, but the initiative was not kept secret from the Soviet military authorities, and they were invited to join. The hope was to have a currency reform across all the occupation zones, in line with the Potsdam Agreement, which stipulated the establishment of 'common policies', among other things, regarding 'currency and banking, central taxation and customs'.

Nonetheless, relations between the wartime Allies became untenable, and all cooperation in the administration of occupied Germany ended when the Soviets withdrew from the ACC on 20 March 1948: the USSR representative, Marshal Vasily Sokolovsky, walked out of the ACC meeting and no further Soviet representatives attended. This effectively ended any collaboration between the wartime Allies in policy formulation and cleared the way for the

³⁰ A sideline thinking of the author of this book review essay, who, as Tenenbaum did, belongs to the tribe of economists, is that members of that tribe instinctively, deeply and profoundly hate inefficiencies, wherever they appear. Perhaps the horribly inefficient currency arrangements and price control that Tenenbaum witnessed in post-war Germany triggered that instinct.

³¹ Section 14 of the Agreement stipulates that '[d]uring the period of occupation, Germany shall be treated as a single economic unit'.

US to push for currency reform only in the Bizone. The USSR announced a blockade of Berlin on 24 June 1948, and that was just the seal of confirmation that the wartime alliance was dead.³²

With the currency reform in the Bizone announced a few days earlier (20 June 1948), and with the last hope of collaboration having vanished, France decided to join the Bizone, thus the Trizone was established on 1 August 1948.³³ The Trizone was transformed into the Federal Republic of Germany, i.e. West Germany, on 23 May 1949. In the East, the German Democratic Republic, i.e. East Germany, was established on 7 October 1949. The division of Germany was complete. A status equilibrium of the divided Germany had been achieved, and it would last until the end of the Cold War.

The things were now ready for the next relevant development: the German foreign debt settlement.

5. THE GERMAN FOREIGN DEBT AND REPARATIONS SETTLEMENT: EFFICIENCY AND UNFAIRNESS

With the currency reform completed and West Germany established (from the three western occupation zones, minus the Saar Protectorate), the issue of the German foreign debt had become urgent. As Straumann points out, six years after the war, the West German business sector was still unable to borrow abroad to fund its operations and, especially, investments.

³² Although the Berlin Blockade was motivated by strategic reasons, and was obviously planned some time before the announcement, the timing of its start, at the symbolic level, provides some evidence that it was a response to the announcement of the currency reform in the Bizone, only a few days earlier. According to Holtfrerich, the Soviets were aware of the pace, though not of the details of the currency reform, hence they were not surprised by the announcement. Politically, they were on their last legs because the West took the initiative. The Berlin Blockade was a Soviet strategic fight back. It flopped. Not only did the Berlin Airlift prove that the West was resilient to Soviet bluffs (the Blockade was lifted 11 months later, with the *status quo ante* restored), but it also demonstrated the commitment of the Western Allies, helping them to 'win the hearts and minds' of the Germans. All of that, courtesy of the Soviets.

³³ On 16 February 1946, France disentangled the Saar region from the Allied zones of occupation and established the separate Saar Protectorate, which was *de facto* no longer under the joint Allied jurisdiction and was not a part of the French occupation zone but rather a territory with a special status. Accordingly, the Saar region was not initially part of the Trizone or Western Germany. Based on the results of the status referendum on 23 October 1955, the Saar region joined West Germany and became its federal unit (*Bundesländer*) on 1 January 1957.

With the creation of the European Payment Union (EPU) on 1 July 1950, aimed at short-term sovereign borrowing between European countries, i.e. members of the EPU, to fund balance of payment (BoP) deficits, the Germany government sorted out the foreign liquidity problem (aggravated by a substantial German BoP deficit in 1950), but the private sector was short of funding, endangering the recovery that had already started with the currency reform. In short, without a foreign debt agreement, West German banks and real-sector firms remained excluded from international capital markets and constrained in their expansion. There was no micro foundation for sustainable economic growth.

Nonetheless, the German foreign debt negotiations proceeded simultaneously with the developments of two other avenues: one concerned the German sovereignty negotiations, as West Germany was still an occupied, not a sovereign country, and the other concerned the European (national) security arrangements negotiations. A politically appealing idea was to reach an agreement on all three fronts simultaneously.

Straumann's book on the German foreign debt agreement is written like a novel, a play, even a thriller, with the 'Cast of Main Characters' at the beginning, like a conventional *personae dramatis*. This is a chronicle of all the twists and turns, including reversals, ups and downs, with new characters entering the stage, and emerging developments. This means that the explanation of causalities, let alone considerations of historiography controversies, is inevitably downplayed – too cumbersome for the page turner concept.

As in all debt negotiations, the first step was to get a clear and undisputed picture of the different types of German foreign debts, a standard debt reconciliation.³⁴ It was decided that Germany's debt was the pre-war debt that Germany defaulted on in 1933 and later, predominantly consisting of debt due to loans under the Dawes Plan and Young Plans, as well as the post-war debt, due to humanitarian assistance provided by government loans from the US, under the Government Aid and Relief in Occupied Areas (GARIOA) plan and the Marshal Plan,³⁵ and the UK and France. As to the

³⁴ 'Debt reconciliation' is a standard debt negotiators' jargon and a shorthand for 'debt data reconciliation'. It is about the negotiation sides agreeing on what they are about to negotiate. Annex I of the London Debt Agreement contains classes of German debt that were reconciled.

³⁵ GARIOA was a program under which, after the 1945 end of the Second World War, the United States, from 1946 onwards, provided emergency aid to the occupied nations Japan, Germany and Austria. The emergency aid was predominantly food to alleviate starvation in the occupied areas. In all three cases, the aid had to be paid

pre-war German debt, it includes: all German pre-war foreign debt that is acknowledged by the Federal Republic of Germany and which the Agreement would deal with: (1) the debt of the central government, i.e. *Reich*; (2) the debt of the states (*länder*), municipalities and similar public bodies within the territory of the Federal Republic of Germany, plus the debt of the State of Prussia; (3) medium- and long-term German debts resulting from private capital transactions; (4) 'standstill debts', foreign short-term banking credits which were frozen in the wake of the German financial crisis of 1931; and (5) all other debts which were summarised in the Agreement as 'claims arising out of goods and services transactions, of certain, claims arising from capital transactions and of various other claims'. This meant that West Germany not only accepted the liabilities of the defunct *Reich*, but also non-sovereign liabilities, i.e. liabilities without sovereign guarantees. Actually, it is only the liabilities of 'states (*länder*), municipalities and similar public bodies' outside the territory of the Federal Republic of Germany that West Germany did not accept liability for. Hence, the 1952 London Debt Conference was about virtually all of Germany's foreign debt, not only its sovereign debt.

The most important decision by the Western Allies in the debt-reconciliation stage, with substantial political and economic consequences, was to cancel all remaining reparations claims against Germany by deferring them until a formal peace treaty with a reunited Germany was concluded. In short, apart from the in-kind reparations during the second part of the 1940s, the countries that invaded, devastated and plundered by Nazi Germany would have to wait for the reunification of Germany for reparations to be paid, if any were specified in the peace treaty.³⁶ At the end of the day, no reparations to Germany were imposed at the end of the foreign debt negotiations by the 1953 London Debt Agreement. Straumann emphasises, 'This verdict was hard to swallow, as it challenged all conventional notions of

for. Effectively, it was a loan with a loan servicing obligation, creating post-war debt for the receiving nation. The Marshall Plan, in the case of Germany and Austria, was a loan-based recovery and development assistance program that also created post-war debt.

³⁶ Alas, the peace treaty with Germany was rather specific, with very few provisions, i.e. not a fully-fledged peace treaty. It was the Four-Plus-Two (four victorious powers plus two German states, East and West Germany), basically a treaty on German unification (the Treaty on the Final Settlement with Respect to Germany), concluded in September 1990. It was rather short, and its main point of contention was the NATO membership of the unified Germany (Sarotte 2021). There was not a single word about German reparations to other countries in the Treaty. The story of the reparations just died out. The full text of the Treaty is available at: https://treaties.un.org/Pages/showDetails.aspx?objid=08000002800b8042&clang=_en, last visited April 29, 2026.

justice. Nazi Germany had committed unspeakable crimes, but its successor state, the Federal Republic, received lenient treatment, while those countries which had suffered from the Nazi terror were asked to shoulder the bulk of Hitler's debt' (p. 23).³⁷

Then, the twist came to the story. After this strategic decision, a country that was not invaded by Nazi Germany (for a simple reason – it did not exist at the time) came with its request for reparations – Israel. For the obvious reason – the Holocaust – Israel was a special case. Straumann explains that in the early 1950s the Israeli public was bitterly divided over whether the country should establish *any* relations with Germany. It was the dire financial constraints of the new country, with a small and not-so-rich population, that led to Prime Minister David Ben Gurion's decision to submit a reparation request to Germany.³⁸

At the time, German public opinion was still deeply antisemitic,³⁹ and German debt negotiators, for obvious financial reasons, wanted to reduce the country's total liabilities. But it was the Western Allies, predominantly the US, that made up the German mind. In the centre of the game was Konrad Adenauer, the first chancellor of the FR Germany, who skilfully steered the country through the negotiations on debt agreement, the sovereignty treaty and the security arrangement, refusing Stalin's offer of German unification,

³⁷ The reader has grown annoyed with the notion of 'Hitler's debt' so frequently used in Straumann's book, even in the title. This was a foreign debt of the nation, of Germany, whoever the supreme leader of the country was. Had the Second World War reparations obligation been imposed on Germany, it would have been a sovereign debt of the nations; it would have been Germany's debt. The reader concurs that using Hitler's name 80+ years after his demise still has a non-negligible marketing value, and still can attract, for whatever reason, greater attention of the public, but it is evident that it has been abused in Straumann's book.

³⁸ This was done by addressing the issue to the Allies. Straumann explains that two notes were sent to the Allied Powers of the Second World War, which included the Soviet Union. The first, dated 16 January 1951, dealt with the individual claims of European Jews; the second, dated 12 March, addressed reparations. While the first note was written in a neutral style, the second listed all German atrocities over several pages and also mentioned the sum of USD 1.5 billion – one billion for the Federal Republic of Germany and half a billion for the German Democratic Republic. The amount was based on the calculation that Israel had received about 500,000 refugees, with each of them costing the government around USD 3,000.

³⁹ At the time, according to Straumann, quoting a relevant public opinion research, one fifth of West German respondents said the Jews themselves were partly responsible for what happened to them during the Third Reich, and one third rejected a law which would prohibit expressions of antisemitic sentiments.

rightly judging that it would have come under the Kremlin's auspices. According to the book, Adenauer was the key player in the simultaneous game and the winner.

The other twist of the story came from France. After the First World War, France was concerned about Germany's heavy industry and the possibility of rearmament. The same concern returned after the next global conflict ended. With the obvious demise of the Morgenthau Plan, the establishment of West Germany, and the US enthusiasm for its sovereignty, these concerns grow even larger. French apprehensions were predominantly linked to the German coal and steel industry concentrated in the Ruhr Valley – whatever was left of it after the United States Army Air Force and Royal Air Force bombing campaign during the war. Hence, it was a senior French official, Robert Schuman, who offered a solution: the European Coal and Steel Community (ECSC) with the idea of integrating Europe's coal and steel production into a single common market, which would be governed by a High Authority made up of appointed representatives from the member states. The rationale was to prevent Germany from using its powerful steel industry in the Ruhr Valley to rearm unilaterally. Furthermore, the new body should serve as the means for Franco-German rapprochement after the two disastrous wars. In hindsight, it was the beginning of the sweeping process of European integration. The reader ponders whether the process is more an unintended consequence of the Schuman initiative to solve a specific (German) problem, rather than of his bold vision for the European future with the European Union and a single currency area.⁴⁰

With France's concerns dispelled and it on board, the issues of German sovereignty, national security and foreign debt were ripe for settlement. Nonetheless, the Western Allies were firm: there would be no debt deal before Germany and Israel concluded an agreement on reparations. The signal was very clear and unambiguous, Adenauer fully understood it, and on 10 September 1952, the Luxembourg Agreement, i.e. the Reparations Agreement between Israel and the Federal Republic of Germany, was concluded.⁴¹ According to the Agreement, West Germany is obliged to pay

⁴⁰ Reading the 1950 Schuman Declaration provides very few strong arguments to dispel the doubts. It seems that contingencies played a significant role in the European integration process. At least, it was verified once again that 'necessity is the mother of invention', this time institutional. The Declaration is available at: https://european-union.europa.eu/principles-countries-history/history-eu/1945-59/schuman-declaration-may-1950_en, last visited April 29, 2026.

⁴¹ The full text of the Reparations Agreement between Israel and the Federal Republic of Germany is available at: <https://treaties.un.org/doc/Publication/UNTS/Volume%20162/v162.pdf#page=215>, last visited April 29, 2026.

reparations to Israel in the amount of DEM 3 billion (USD 750 million) and to the World Jewish Congress (on behalf of the Claims Conference, which represented the interests of private Jewish organisations) DEM 450 million (USD 112.5 million). Reparations to Israel were to be paid in goods and services. The maturity was 14 years, with equal annual instalments (except in 1953, the first year of the arrangement).⁴²

The London Debt Agreement, i.e. the London Agreement on German External Debts, was next in line. Mainly negotiated during 1952, it was concluded on 8 August 1952, pending the reparations agreement between Germany and Israel, and finally signed on 27 February 1953.⁴³ The bottom line was massive debt relief for Germany. Not only was the Agreement non-punitive, but it was also very favourable for Germany. As to the German post-war debt, the face-value reduction averaged 57 per cent. Most of the debt (85 per cent) was to the US. This debt was reduced by 62.5 per cent, the maturity was 35 years, and the interest rate was 2.5 per cent. As to the German pre-war debt, it was, on average, reduced by 44 per cent of its face value. The maturity was rather generous to the debtor.⁴⁴ Accordingly, the overall face-value debt relief was around 49 per cent. After the Agreement, the total German foreign debt was DEM 14.45 billion (around USD 3.6 billion). According to Strauman, Germany's debt burden was 10 per cent of its GDP. As to the dynamics of servicing the debt, according to Straumann, in the first five years, Germany had to pay creditors DEM 567.2 million annually, and thereafter DEM 765 million. The last payment was not due until 1994.⁴⁵

⁴² East Germany (the German Democratic Republic) was not part of the deal. Although Israel, in the note to the Allies, allocated part of the reparations to East Germany, the government of the country refused it, arguing, Straumann explains, that the German Democratic Republic was not 'a successor state of Nazi Germany'.

⁴³ The full text of the 1953 London Agreement on German External Debts is available at: <https://web.archive.org/web/20190715201513/http://www3.austlii.edu.au/au/other/dfat/treaties/1954/17.html>, last visited April 29, 2026.

⁴⁴ For example, Dawes loan bonds were to be completely paid off (amortised) in 1969, and Young loan bonds were to be completely paid off in 1980. These two loans accounted for most of Germany's pre-war debt, and part of it was used to pay reparations under the Treaty of Versailles.

⁴⁵ West Germany paid prematurely all foreign debt obligations specified by the 1953 London Debt Agreement in the early 1980s. Nonetheless, some of the deferred interest payments became due as Germany unified in 1990. New bonds were issued and amortised in 2010. That was the end of Germany's war debt.

As already pointed out, Germany was relieved of the obligation of reparations for the war damage it caused in the Second World War pending the conclusion of the peace treaty.⁴⁶ In short, the implicit expectation of all signatories was that the German reparations obligations would be set out in the peace treaty following Germany's unification, whenever it happened. Since at the time of the 1953 London Debt Agreement, the Cold War was at its height, it was reasonable to expect that it would take decades for Germany's unification and reparations obligation to materialise. Nonetheless, these obligations never come through.⁴⁷

The important outcome of the 1953 London Debt Agreement was that West Germany, by assuming responsibility for all pre-war German debts (the debt of the defunct *Reich*), all German sovereign and non-sovereign liabilities, effectively became the successor state to the *Reich*. As in the case of the Israeli note of reparations, the authorities of East Germany claimed that the German Democratic Republic was not 'a successor state of Nazi Germany'. It was convenient, both politically and financially, for the moment, but it fired back many years later; the price was paid when the unification was on the table. Since West Germany, i.e. the pre-1990 Federal Republic of Germany, was undoubtedly a successor state, the unification was effectively the annexation of what was East Germany. Since the word annexation, i.e. *Anschluss*, has a delicate 1938 historical connotation, the official euphemistic term used for the unification by annexation was the integration of 'new federal states' (*neue Bundesländer*) into the Federal Republic of Germany.⁴⁸

The outcome of the simultaneous game played on different chessboards also came simultaneously. The General Treaty reestablishing the sovereignty of Western Germany was concluded on 26 May 1952, although it did not

⁴⁶ The 1953 London Debt Agreement (Article 5) stipulates that reparations from the First World War are also suspended, i.e. 'shall be deferred until the final settlement of the problem of reparation'. This is an indirect confirmation that Germany defaulted on its reparations obligation in 1933, and that the outcome of the 1932 Lausanne Conference was not the cancellation of Weimar Germany's reparations obligation, as the Treaty was never ratified.

⁴⁷ There is an ironic twist to history. Germany's Axis allies (Italy, Bulgaria, Hungary, Romania and Finland) all paid reparations to the countries they had occupied according to the 1947 Paris Peace Treaties that were concluded with them. In short, the leading culprit was spared. Of course, the fairness of the different treatment of Germany and its allies is at least questionable.

⁴⁸ On the financial front, West Germany was effectively compensated. A segment of the debt relief was justified on the grounds that the country assumed the liabilities of all pre-war Germany (including the debts of the State of Prussia, *de jure* abolished in 1947), save only states and local authorities outside of West Germany, and East Germany repudiated any debt of the *Reich* (Guinnane 2015).

enter into force until May 1955. On 27 May 1952, the Treaty of Paris, i.e. the Treaty Establishing the European Defence Community (EDC), was signed, although it was not later ratified by the French parliament. Finally, on 8 August 1952, the London Debt Agreement was finalised, although not signed until February 1953. In this, there were three big outcomes for Germany, regarding its sovereignty, national security, and foreign debt, which came at almost the same time. This demonstrated that the debt negotiations were not an isolated event. The way the negotiations were conducted demonstrated the strategic significance of the debtor, both geopolitical and economic.

Straumann evaluates that '[e]conomically, the London Debt Agreement served its purpose, but it challenged widely held notions of justice and redemption' (p. 6). Furthermore, he points out that '[t]he London Debt Agreement may not have been just or fair, but it provided a perspective to both the victorious and the defeated nations' (p. 7). His view is that the benefits far outweigh any disadvantages.

This opinion, this evaluation of the outcome of Germany's debts negotiation, seems reasonable, irrespective of whether the reader fully subscribes to it or not. Nonetheless, what the reader is missing from Straumann's book is the substance of the London debt negotiations, the expectations of the negotiating parties, their dilemmas and the way they solved them. It is unclear from the book how the negotiating parties evaluated the other side's position. Some attention was paid to the chief German negotiator, Hermann Josef Abs, and his personality (he was not a Nazi, but had had a successful career at the central bank under the Nazi regime), but that is all the reader gets about the content of negotiations. This seems to be the inevitable price of thriller-style historiography.

As to the explanation why the 1953 debt relief was so generous to Germany and the reparations were postponed, Straumann subscribes to the what he understands as the failure of the Treaty of Versailles reparations regime, which policy makers ostensibly understood: 'The Federal Republic may have been able to pay a higher bill, but it is understandable that the United States and its Western allies played safe after the disastrous experience with a failed reparations regime after the First World War' (p. 243). The reader simply finds this explanation implausible for several reasons. As already noted, the experience of the Treaty of Versailles reparations regime for Weimar Germany's economic growth was far from disastrous, as demonstrated by Tooze (2014). The second reason is that the economic doctrine in the early 1950s was quite distinctive from that in the early 1920s. Meanwhile, the Great Depression happened, and Keynesianism was triumphant, with macroeconomics as an established discipline. In the early 1950s, attention was focused on aggregate demand and fiscal space to boost

it through generous public expenditures, and the Bretton Woods institutions, with their macroeconomic and developmental roles, were in place. None of that had existed in the 1920s. The world keeps on changing, and those who subscribe to Keynes (1920) influence should take that into account. Third, perhaps the most important, is the arrival of the Cold War, and the geostrategic goal of keeping the Germans on the right (Western) side. That was done through many concessions to West Germany, one of them being debt relief and reparations postponement – indefinitely, as it happened. The reader is sceptical that all the mentioned changes in economic doctrine would have had any significant impact without the onset of the Cold War and the geopolitical aim of containing Soviet expansion to the west. In these conditions, the order of the day was ‘winning the hearts and minds’ of the Germans. Economists and their doctrines were not as important.

Although Straumann points out that debt relief carried out in the 1953 London Debt Agreement was crucial for Germany’s post-war economic recovery, i.e. for the economic miracle (*Wirtschaftswunder*), much more important than any other factor, he offers no hard evidence for that. His insight, that sovereign debt relief created bigger fiscal space for public investments and, in that way, generated the appropriate environment for economic growth, is intuitive but not convincing as evidence that debt relief was the crucial mechanism that boosted German post-war economic growth. Galofre-Vila *et al.* (2018) reviewed a number of explanations of that growth and also provide empirical analysis of the effects of the debt relief. Their analysis supports the view that the debt relief ‘might have partially contributed indirectly to growth by creating a propitious economic environment as well as directly by stabilising German public finances and allowing for greater public investment’ (Galofre-Vila *et al.* 2018, 2).⁴⁹ This 29-page paper provides more evidence about the effects of the 1953 London Debt Agreement on post-war Germany’s economic growth than Straumann’s entire book. That is not commendable for the book.

It is no surprise that Straumann paid no attention to the relevance of the 1953 London Debt Agreement for dealing with contemporary highly indebted countries. Therefore, the author of this book review essay must step in once again.

⁴⁹ As demonstrated in the paper, ‘propitious economic environment’ is a shorthand for the reintegration of Germany into international financial markets, the sustainability of the country’s public finances, and the convertibility of the domestic currency.

6. THE AFTERMATH: THE RELEVANCE OF THE GERMAN POST-WAR EXPERIENCE

In hindsight and with sufficient historical distance, it is reasonable to explore the relevance of the German post-war experience in currency reform and debt relief for contemporary economic policies.

As to currency and monetary reforms, the German experience demonstrated that they must be swift, decisive, and clandestinely prepared and executed. This is the only way to do it successfully. The reason is that the money market is based on expectations and speculation. The rational expectations of economic agents are based on information about the currency reform, which triggers financial adjustments that undermine it. There is nothing controversial in the recommendation of swift, clandestine and decisive currency reform.

Nonetheless, the relevance of the debt relief and generosity regarding future obligations (reparations) at the 1953 London Debt Agreement is controversial. The question is: should it serve as a policy model for HIPC's (Heavily Indebted Poor Countries), low-income states, and middle-income, heavily indebted countries? It was even suggested (Piketty, Zucman 2014; Sachs 2015) that the 1953 London Debt Agreement should serve as a model for Greece during the Greek sovereign debt crisis in the 2010s.

There are some very specific features of 1945 Germany that distinguish it from HIPC's and, more generally, from less-developed economies, rendering the 1953 London Debt Agreement irrelevant for highly indebted developing countries in the 21st century, even for Greece, which is an EU member state. These specific features do not make the 1953 London Debt Agreement model suitable for other countries, especially low-income countries.

The first distinctive feature is the German cultural pattern. As Mokyr (2017) demonstrates, specific cultural traits are highly beneficial for economic growth. 'Culture is a set of beliefs, values and preferences, capable of affecting behavior, that are socially (not genetically) transmitted and that are shared by some subset of society' (Mokyr 2016, 8). So, the ingredients of culture patterns are: (1) beliefs, effectively containing knowledge, both codifiable and tacit, including (positive) statements about the physical and metaphysical environment; (2) values, as normative statements about the social environment; and (3) preferences, as normative statements

about individual matters, such as consumption and personal affairs.⁵⁰ The dominant German cultural pattern of discipline as a virtue (based on values and preferences) provides a solid foundation for productivity and economic growth in the modern economy.

The second specific feature was the stringent German work ethic as part of the cultural pattern, which should not be confused with the concept of the Protestant ethic (Weber 1920). It has been demonstrated (Blum, Dudley 2001) that Weber's thinking was essentially about the Calvinist ethic, and most German Protestants are Lutherans, not Calvinists.⁵¹ Whatever the source of the German work ethic, regardless of reward, the value of the job well done is inherent in German culture and distinguishes it from other countries. The effects of Protestantism in Germany have been mainly at the level of human capital, beginning with literacy, due to the Lutheran *sola scriptura* principle (Becker, Woessmann 2009).

The third specific feature was the substantial level of human capital in Germany in 1945, irrespective of inter-confessional differences. There were no measurements of Germany's level of human capital at the time,⁵² but it is reasonable to assume that, due to a very well-developed and effective educational system and appropriate cultural traits regarding learning, knowledge was placed high on the list of virtues. Another contributing factor is the self-reinforcing, increasing level of human capital, driven by parents' preferences to obtain higher levels of human capital for their children (Doepke, Zilibotti, 2019). Hence, human capital is inherited, up to a point, and the probability that children have higher human capital than their parents is very high.

Fourth, in 1945, the German economy was on the technological frontier in many industries and, in some sectors, such as aerospace, was more advanced than any other country. Operation Paperclip, i.e. the transfer of German industrial experts and their know-how to the United States, mainly, though not only, in the aerospace industry, was a testament to Germany's technological

⁵⁰ Informal institutions (Alesina, Giuliano 2015) and deeply embedded institutions (Roland 2004) are frequently confused with culture. One way or the other, they are *grosso modo* synonyms for culture.

⁵¹ Additionally, according to the 1950 census in West Germany, 43 per cent of the population of West Germany were Catholics. Source: https://www.statistischebibliothek.de/mir/receive/DEHeft_mods_00130466, last visited April 29, 2026. So much for Germany as a beacon of Weberian Protestant ethics.

⁵² The Human Development Index (HDI), as a measurement index, was launched in 1990, so no comparative measurement of human capital was conducted prior to that. In the latest measurement, Germany ranked 5th in the world, and in the most recent rankings, it has consistently been among the top 10 countries.

prohess. It was a Nazi rocket scientist (Wernher von Braun) who headed the US space program, after all.⁵³ It is indisputable that German manufacturing did not successfully apply mass armament wartime production (for various reasons that are beyond the scope of this consideration), as the USA and USSR did (Tooze 2005) and which was decisive in the economic warfare of the Second World War, and it lost the economic warfare – but not because it was technologically backwards.

Fifth, there is an institutional argument in favour of Germany. There were favourable economic institutions for investments and trade, for the flow of capital and technological transfers, especially after the 1948 currency reform and liberal, pro-growth economic policies. There is hardly any doubt that favourable economic institutions contribute to sustainable economic growth (Acemoglu, Johnson, Robinson 2005).

Finally, all these arguments were empirically tested prior to the Second World War. There was an overestimated fear, due to Keynes's (1920) influence, that the huge debt/reparations service burden would strangle the German economy. Nonetheless, with a solid economic foundation, as already demonstrated in section 2 of this essay, Weimar Germany experienced dynamic economic growth in the 1920s, its own version of the roaring twenties, even with all the reparations burden of the Treaty of Versailles.

In the contemporary case of HIPCs and many low-income developing countries, these conditions, which existed in post-war Germany, are not met. This does not mean that there should be no debt relief for these countries if their debt is unsustainable,⁵⁴ but only to say that one should not expect these countries to replicate the German economic miracle, and everyone should be aware of the moral hazard of future bad sovereign borrowing by these countries. What these countries desperately need is structural and institutional reform, which would facilitate their integration into the international division of labour in the globalised world, attract foreign direct investors, and, in due course, increase the level of human capital in the local labour force. These reforms should address the origins of poverty in those countries and the causes of their unsustainable sovereign debt; they should address the cause of the problem, not its results.

⁵³ The Soviet space program was also heavily influenced by German expertise. Helmut Gröttrup was the leading German rocket scientist who (compulsorily) worked for the USSR and influenced early Soviet rocket designs. Nonetheless, unlike the US, the USSR did not disclose such information. For more about Gröttrup's role visit: <http://astronautix.com/g/groettrup.html>, last visited April 29, 2026.

⁵⁴ The analytical rules for debt sustainability are rather well developed in modern economics (Debrun *et al.* 2020).

High sovereign debt can be detrimental to economic growth, and mechanisms of crowding out of private investment due to foreign debt repayment are well analysed. There is little doubt that, *ceteris paribus*, a country with a higher sovereign debt is likely to have a lower growth rate than a country with a lower one. It is not only the amount of debt that is important but also its maturity, the interest rate, and the refinancing possibilities. Debt relief is a legitimate operation, but on its own, it cannot produce recovery. HIPC countries would not mimic Germany. The point is that debt relief, under certain conditions and if it is accompanied by a high debt burden, can be a necessary, but definitely not a sufficient condition for dynamic economic growth.

The Greek financial crisis is a good example. It was the structural reforms recommended by the Troika that made the Greek economy healthy and led it back to the growth path, not debt forgiveness, as suggested by many, referring to the 1953 German example. The German economic story was a success, as was the Greek story in the late 2010s and early 2020s, under different circumstances. There is no ready-made solution: one-size-fits-all is not a standard that should be universally applied. If the country needs deep structural and institutional reform, debt relief cannot substitute for that. On the contrary, debt can sometimes be an incentive for institutional and structural reform. The only important thing is whether the debt can be refinanced and, if so, under what conditions. The rest is up to the domestic constituency.⁵⁵

7. CONCLUSION

Reading these two books and considering their insights is nothing short of a dazzling journey through time, in a first-class time capsule provided by Holtfrerich and Straumann, which, with all the drawbacks already mentioned, yields ample food for thought. Some insights follow.

In general, retribution inherently contradicts economic recovery and growth. Across-the-board implementation of punitive justice creates wrong incentives, and it is counterproductive for economic growth. In these conditions, people focus on evading or reducing the punishment, and they have nothing to look forward to, save for food and shelter. Survival is

⁵⁵ Guinnane (2015), who is sceptical about the 1953 London Debt Agreement as a model for debt forgiveness, provides detailed arguments as to why that model could not apply to Greece. The argumentation is somewhat different to the one in this book review essay, but definitely complementary, with the same conclusion.

the order of the day. They have no incentive to work, to invest, to start a business, to innovate. These decisions are the micro foundation of economic growth. Without people investing and innovating, there is no economic growth. Nonetheless, the right incentives must be in place for that to happen. People must be confident in the future – not only regarding survival, but also betterment, and then they will contribute to the economic growth.

This is not to say that there should be no post-war punitive justice – especially after the colossal disaster created by Nazi Germany. Punitive justice is a mean of a nation's moral reconciliation. Nonetheless, it should be focused, swift (though with due legal process), and efficient. The perpetrators, like Otto Ohlendorf, should have been punished. The same goes for many other Nazi war criminals who have not been, at least not properly. Nonetheless, the new generations, those who were not born at the time of horrors, should be absolved for the crimes of their fathers and grandfathers. The only thing that should remain is a warning, a deterrent for future prospective villains.

The occupation of a country comes at a costs. Not only direct costs, in terms of the opportunity costs of the resources used for the occupation, but also in terms of responsibility for the people who are being occupied. The US learned that lesson the hard way. An occupation without the collaboration of the occupied people and without economic prospects for them is simply unsustainable. That is the political economy of the profound change of the US policy towards Germany, moving away from the Morgenthau Plan and towards the Marshall Plan. For many, the emergence of the Cold War was decisive in that change, but most economists still believe that the political economy argument at least contributed to the outcome.

West Germany's post-war political elite, especially Konrad Adenauer, played their cards very well, but this was not crucial. It was contingencies, the main one being the onset of the Cold War, that produced the constellation that enabled the good outcomes for Germany: restoring the sovereignty of the country, currency reform, foreign debt agreement with substantial debt relief and reparations suspension, and appropriate national security arrangements. Germany was allowed to thrive and move towards prosperity, which was good for the democratic and capitalist parts of Europe. Without that constellation, nobody, not even Konrad Adenauer, could make it. Nonetheless, even with that constellation, someone other than Konrad Adanaur could have ruined things.

It remains unclear to what extent the foreign debt relief was decisive or indispensable for the German post-war economic miracle. Perhaps the answer to this question is not essential. The debt relief was a significant contributing factor, but only one of the many factors behind the German

post-war economic miracle. The theory of economic growth demonstrated that there are many contributing factors to economic growth: institutions, culture, human capital, available technology, etc. It was the reversal of the Western policies towards Germany, effectively the institutional reform, that unleashed all those factors that were abundant in West Germany – and remarkable economic growth occurred. Without such institutional change, the nation with the same culture and same human capital on the other side of the border stagnated. That institutional difference proved decisive. In many other countries, none of the factors of economic growth exist to the extent and quality as they do in Germany. This is the reason why the debt relief, delivered by the 1953 London Debt Agreement, is not a model for other highly indebted countries.

The 1953 London Debt Agreement was both an economic and political success for Germany. It was an economic success for most of Europe, particularly those parts outside the Bolshevik sphere of interest. Decades of viable economic growth followed. Since the German reparations were postponed indefinitely, and at the end of the day effectively abolished with the German unification, the thesis is that the 1953 London Debt Agreement did not provide justice to many – to all the victims of Germany's aggression and policy of extermination and destruction. Nonetheless, one could wonder whether German reparations, those that were not paid, would have been an appropriate policy measure. At the end of the day, it would have been a certain amount of money as compensation for Nazi Germany did. Let us put this proposal into perspective.

Crimes of Nazi Germany were of biblical proportions: the Holocaust, the Genocide, massive deaths, colossal destruction and vast plundering. There was no amount of reparations in the world that could settle the accounts. Some things, like human misery, especially on that scale, cannot be repaid, compensated with reparations, or repaired. Hence, one could argue that it was better that Germany never paid reparations. After all, it is, or at least it could be, poetic justice. No reparations were paid, so no one in Germany can ever say, not even washed-up neo-Nazis, like the *Alternative für Deutschland*, represented by Alice Weidel: 'God damn you Jews, Poles, Czechs, Serbs, Greeks, Russians, *et al.*, we paid you, did we?'. No, you did not!

Poetic justice aside, if justice, however specified, contradicts economic progress and prosperity, it seems that the latter should have some priority. Today, Germany is a prosperous, liberal and democratic country, precisely because of policies that contradicted justice, at least some of its concepts. Let us all hope that it stays that way. Because if, according to the epigraph, Germany is 'turned into evil through devilish cunning' – the costs would be immense.

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