

THE WAY TO WAR INDEMNITIES
IN KIND

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The Contrast between World War I and World War II

Finland was the first country, in connection with World War II, from which reparations were demanded. That happened in March 1944 when Armistice negotiations were conducted in Moscow between Finland and the Soviet Union. The most conspicuous trait in the Russian reparation scheme, besides the staggering amount asked for, was the stipulation that the payment was to be effected entirely in commodities. The negotiations failed, however, at that time, but when renewed about half a year later they led to the conclusion of the Armistice Treaty of September 19, 1944. The principle of reparations in kind was included in the following clause of Article 11: »Losses caused by Finland to the Soviet Union by military operations and the occupation of Soviet territory will be indemnified by Finland to the amount of 300 million dollars, payable over six years in commodities (timber products, paper, wood pulp, sea-going and river craft, sundry machinery).»

Already a week earlier a stipulation of identical bearing had been inserted in the Armistice Treaty concluded with Rumania, though in this case the payment was to be made in »oil, corn, timber, vessels, various machinery etc.» Subsequently similar obligations of deliveries in kind were applied to Bulgaria, Hungary, and Italy. In all these cases the original clause of payment in kind was preserved in the Final Peace Treaties, signed in Paris on February 10, 1947.

With Germany alone, from which an »unconditional surrender» was demanded, no Armistice Treaty was signed. Nor has a Peace Treaty till the present day been concluded.¹ But already before Germany's final defeat, the Allied Powers had announced that from her, too, reparations in kind were to be required, and that decision was confirmed, after Germany had surrendered, by the Potsdam Conference. The Protocol of the preceding Yalta Conference, signed on February 11, 1945, contains the following detailed stipulations as to payment in kind:

¹ The case of Austria is a separate one and may be left here aside as she was relieved, formally at least, from paying reparations.

1. Germany must pay in kind for the losses caused by her to the Allied nations in the course of the war. Reparations are to be received in the first instance by those countries which have borne the main burden of the war, have suffered the heaviest losses and have organised victory over the enemy.

2. Reparations in kind are to be exacted from Germany in three following forms:

a) Removals within two years from the surrender of Germany or the cessation of organised resistance from the national wealth of Germany located on the territory of Germany herself as well as outside her territory (equipment, machine-tools, ships, rolling stock, German investment abroad, shares of industrial, transport and other enterprises in Germany etc.), these removals to be carried out chiefly for purpose of destroying the war potential of Germany.

b) Annual deliveries of goods from current production for a period to be fixed.

c) Use of German labour.

The principle of war indemnities to be paid *e x c l u s i v e l y* in kind was a new one. True, deliveries in kind in connection with wars and peace settlements had been practised long before. It can even be upheld that they constitute historically the original form of indemnities, as that was simply the only possibility to exact payment at a time when money was unknown or played only a subordinate role in economic transactions. Later, however, a «mixed system», based partially on payment in money, and partially, in kind, was often applied, for instance during the Punic Wars. The most illustrious case of purely monetary indemnity is, of course, supplied by the Franco-Prussian War of 1870—71; an indemnity of 5 milliard gold francs was then imposed on France, and also paid by her.

The reparations insisted upon after World War I were mainly of financial character. But not entirely, for the reparation program included certain deliveries in kind, consisting primarily of commodities immediately available and easily transferable, such as enemy assets in foreign countries or ceded territories, ships as well as various rawmaterials and semiproducts. This mode of payment was, however, regarded rather as an exception to the general rule, and the trend was to get rid of it. Thus, according to the Young Plan of 1929, deliveries in kind were gradually to shrink and finally to cease around 1940, whereas the reparations in money were scheduled to last until 1989.

The subordinate place given to payments in kind after World War I was partially a consequence of the notion, prevalent especially among economists and other more sophisticated people, that they represented something of an anomaly in modern societies and that they were, therefore, harmful for the established channels of trade. Partially again they were looked upon by influential groups, especially by industrialists, as a

potential source of unfair competition. Both of these viewpoints may be found represented in the following paragraph which J o h n M a y n a r d K e y n e s wrote as early as 1922:

»Reparation deliveries in kind should be abolished, with the exception of manufactured or semi-manufactured goods directly required for the repair of the devastated areas. These latter, which are useful in principle, are not likely, however, if we judge from recent experience, to amount to much in practice, partly on account of the opposition of the French industrialists. The coal deliveries, on the other hand, are injurious to the whole economic system of Europe, and greatly reduce Germany's aggregate capacity to pay. — — — I admit that, as long as we follow the unfruitful policy of grabbing whatever is tangible regardless of its effect on what we shall get in the long run, there is something in favour of the coal deliveries. But compulsory deliveries, which pay no attention to the natural geography of coal or to the relative urgency of demands for it, can form no part of a productive scheme of reparations.»¹

But in this case, as so often, there was a clash between theory and practice, between the disfavour with which deliveries in kind were treated, and the achievements by this mode of payment. The only part of the reparations program after World War I that did not prove a disastrous failure consisted of just the deliveries in kind. Thus, prior to September 1924, when the Dawes Plan was started, Germany had paid, according to the Books of the Reparation Commission, RM 10 027 million in reparations, and of this amount the payments in kind represented, RM 7 682 million. (Actually this part was evidently even much greater, as the deliveries in kind were manifestly undervalued in the official bookkeeping; the German Government estimated, though making certainly an error in the opposite direction, the value of these deliveries in kind at RM 54 221 million).² After 1924 Germany paid, indeed, considerable sums in money as reparations, but these were counterbalanced by capital poured into Germany at the same time by foreign investors and speculators.

Reparation Policy in the Making

Whereas the reparation epoch after World War I closed with a definite bias for payments in money, the reparation epoch after World War II

¹ J. M. K e y n e s, Is a Settlement of the Reparation Question Possible now? The Manchester Guardian Commercial, »Reconstruction in Europe» Supplement, Sept. 28, 1922.

² H a r o l d G. M o u l t o n and L e o P a s v o l s k y, War Debts and World Prosperity. New York 1932, p. 479.

opened with an even more pronounced bias for payments in kind. How is this strange contrast between two periods separated by only a few years to be explained?

One thing, at least, is clear. Such fundamental change cannot have been just accidental. The sudden and for the most of the spectators unexpected display of the new model of reparation system in 1944 and 1945 must have been preceded by a time of gestation when new ideas were brooded and a new policy was in the making. For an outsider many details of this process are unknown, as documents are still concealed in secret archives and some of them may never be disclosed. Nevertheless, a rough outline of the policy in making can be reconstructed on the basis of what actually has been made public as well as in the light of the course of events.

It is known that soon after the outbreak of the war attention was, naturally enough, directed in different quarters to the problems of postwar period. This certainly was the case with America where a study of these problems was started immediately after Poland had been invaded by Germany and the Soviet Union.¹ And among these were the questions pertaining to reparation, which were under discussion in the Department of State long before the end of the war; committees were at work in an attempt to formulate a policy which would protect America's interests, meet her other objectives, and still prove acceptable to her Allies.²

This preliminary work led finally in 1943 to a draft of proposals for the postwar treatment of Germany »evolved at the State Department during frequent consultations among ourselves and with other interested Departments and following a number of conversations with the President», as told by Mr. C o r d e l l H u l l in his Memoirs.³ Mr. Hull does not mention explicitly, however, what the proposals on reparations were in the draft, but we do know that President Roosevelt had already made up his mind on this issue: »He thought that reparations should be exacted in manpower and equipment.»⁴

Meanwhile, the same postwar problems had been under consideration also in the other Allied Capitals. In London, the reparation question was discussed at least as early as 1941, and even the formula of payment in

¹ The Memoirs of Cordell Hull, II, p. 1626. New York 1948.

² D u d l e y M. P h e l p s, The Problem of German Reparation. Quarterly Review (Michigan University), 1948.

³ C o r d e l l H u l l, o.c., II, p. 1284.

⁴ C o r d e l l H u l l, o.c., II, p. 1266.

kind seems to have been touched upon already at that time, as may be concluded from the following statement:

»The question of Reparations in the old sense would not arise, as the impossibility of financial tribute is now generally admitted, while questions of reparations in kind would be merged in the Reconstruction Commission's redevelopment plans spanning both Germany and a wide area of devastated Europe all round. Reparations can and should be made by the Germans foregoing a certain part of their potential income to export gratuitously machinery and equipment, just as they are now foregoing it to export bombs, torpedoes, and crashed Messerschmidts.»¹

The present writer has also been informed that in 1942 a Committee of economic experts, including Keynes, was studying the reparation issue at the Treasury in London, while another Committee was working on similar lines at the Board of Trade. As outcome of these discussions, certain memoranda were written and circulated, though they seem never to have been published. The American draft on the postwar treatment of Germany, mentioned above, was also discussed with the British, while under preparation.²

Moscow, too, had been working on the reparation issue. Thus, *The Economist* (London) reported in September 1943 that »an official Commission has for some time been preparing the list of Russia's material losses, and assessing their size in terms of finance.» And it was, evidently, on the basis of this preliminary work that »the Extraordinary State Committee for ascertaining and investigation of the crimes committed by the German-fascist invaders and their associates, and the damages caused by them to citizens, collective farms, public organizations, State enterprises and institutions of the USSR» was able to produce immediately after the war a »Soviet People's Bill to Germany» of 679 000 million gold rubles (1 ruble = 4 gold marks).³

But already two years earlier, at least, demand for reparations had been firmly and unequivocally presented by Moscow. On September 1, 1943, the leading Russian economist, Professor E u g e n V a r g a had given in Moscow a public lecture in which he had pointed out that the Soviet Union would claim reparations to prevent the Germans from having a higher standard of living than the countries on which they had inflicted

¹ Political and Economic Planning. The Future of Germany. Broadsheet no. 172, p. 11. London, 1941.

² C o r d e l l H u l l, o. c., II, p. 1284.

³ The Information Bulletin of the Embassy of the Union of Soviet Republics, Sept. 18, 1945. Washington D. C.

the damage; that ten years of work by ten million skilled labourers would be required to repair the property damage; and that the labour should be supplemented by repayment to Russia in money, goods, livestock, machines and other deliveries.¹

Only a few weeks later Mr. Varga returned to this subject in a lengthy article published in the Moscow periodical *War and the Working Class* on October 15 under the heading »Payment of Reparations by Hitler Germany and her Accomplices«. This article as well as the previous lecture by Varga represented, of course, the views of his Government; anything else would have been impossible under the political system prevailing in the Soviet Union. This fact is, moreover, confirmed by the further fact that Varga's article was immediately reproduced in English and given a wide circulation by the Soviet Embassies in London and New York.²

The Article of Varga's was the first official or semiofficial declaration on the reparation issue made public during World War II. On account of the tremendous influence it was to exert on high policy of the Allied Countries as well as on public opinion in these countries, it would be worth while to reprint it here in its entirety, and that so much more as it represents in its forceful and blunt rhetoric a masterpiece of political pamphleteering. By reason of limited space, however, only the latter part, containing the main proposals, is given below:

»As regards the apportionment of the obligation to pay compensation for losses, it seems to me that, in contra-distinction to the First World War, this obligation should be laid not only on Germany but also upon Italy, Rumania, Hungary and Finland. The immense material loss incurred by countries which have suffered from occupation, and by the Soviet Union in the first place, embraces all branches of the national economy: agriculture, mining, manufacture and transport. It is therefore just, feasible and essential that all the countries which shared in Hitler's marauding campaigns should immediately after the war ends be made to take part in compensation for the damage they caused, by turning over part of their national wealth to the victim countries.

The countries which have suffered from aggression need movable property of all kinds: industrial machinery, machine tools, tools, railways, locomotives and cars, motor vehicles, shipping, livestock, seed and other agricultural products, coal, metals, et cetera. Great Britain and the United States, who will not necessarily depend on deliveries in kind for the restoration of their economy, might have their reparations claims satisfied partly by the transfer to them of the foreign investments of the aggressor countries.

As regards the extent of compensation to be paid from the national wealth of the

¹ The New York Times, Sept. 2, 1943.

² The Information Bulletin of the Embassy of the Union of Soviet Republics, Nov. 30, 1943. Washington D. C; and Soviet War News Weekly, Dec. 2, 1943. London.

aggressor countries immediately upon the termination of the war, it would be a glaring injustice if they were not called upon to contribute to compensation for losses at least to an extent which would leave them no better off economically than their victims. Justice further demands that the property of persons guilty of fomenting war and persons who enriched themselves by the spoliation of the occupied countries, be confiscated and used for compensation of damages.

The next question is the amount of compensation to be paid in subsequent years from current production. I consider the same principle applies here as in the case of contributions from the national wealth. It is not a question of punishing the peoples of the aggressor countries by making them pay reparations. The responsibility of the ringleaders of the Hitlerite gang for the aggression and barbarous spoliation and devastation of occupied countries and regions; the degree of guilt of the German soldiers who docilely obeyed orders; and lastly the degree of guilt of the German people who tolerated and supported this piratical government — all these are questions beyond the scope of our scheme. But it would certainly be unjust if the peoples whose armies have been guilty of unprecedented destruction were to live better after the war than peoples who were victims.

That Germany is in a position to pay large annual reparations is evident from the following: According to Hitler's own statement, in the period of 1933—38 Germany spent 90 billion [milliard] marks for armaments, or an average of 15 billion [milliard] marks per annum. Since there will of course not be such expenditure for armaments, these sums can be applied to the payment of reparations.

Regarding the method by which payments should be made, the experience of the First World War teaches us that the main stress should be laid on deliveries in kind, which in fact is the only possible method. For the Soviet Union, with its planned economy under which no discrepancy between production and consumption is possible and the supply never exceeds the demand — with the consequence that economic crises are out of the question — it would be positively desirable to receive compensation for damage done not in the form of money but of goods.

Lastly, it would be both just and practically expedient to requisition labor power from Germany and from countries allied to Hitler for the postwar rehabilitation of devastated regions. The Hitlerite bandits trampled upon international law and forcibly deported to Germany millions of peaceful citizens from the occupied countries, particularly from the conquered regions of the Soviet Union, and compelled them to produce weapons for the struggle against their own country. Justice demands that after the war the Germans be made to take part in rebuilding the railroads, bridges, cities and factories they destroyed during the war.»

Mr. Varga's statements on reparations, being the first emanating from authoritative sources during the war, had the effect of a bombshell on the Western opinion. He was quoted and referred to over and over again. Some were critical and especially the desirability of using »slave labour« was drawn into doubt, but the bulk of the comments were more or less favourable. And all seem to have been convinced that the reparation problem had again become an issue of current politics, and that a new way

had been shown for its solution. To take only one example, the *Evening Standard* (London) wrote under the heading »How the Russian Keynes would make Germany Pay»:

»Few economists, politicians or journalists seem to have realised that only a few days ago this prominent Professor put before them the most difficult crossword puzzle they have ever had to solve, a puzzle which is certain to absorb the attention of the experts as well as of the general public for many years to come. — — — Professor Varga suggests a method altogether novel.»¹

The prevalent notion that the idea of reparations payable entirely in kind was of Russian origin, may or may not have been right. The general public had, however, no knowledge of the fact — and could not have on account of the secrecy of the preparatory work — that the reparation question had already been a long time under a close scrutiny not only in Moscow, but in Western Capitals as well, and that at the time of Varga's appearance on the stage, the period of gestation for ideas striking by their novelty was actually approaching its termination. That seems, indeed, to have been reached at the Tripartite Meeting of the Foreign Ministers of the United Kingdom, the United States and the Soviet Union held in Moscow on October 13 to 30, 1943.

It was to this Conference that Mr. Hull brought the American draft for the postwar treatment of Germany on which the British had already been consulted. The presentation of this document took place as follows, as Mr. Hull reports in his Memoirs:

»When I was together with Molotov, I drew the document out of my pocket and gave it to him saying: 'This is not a formal United States proposal but something to show a slant of mind. It is just a personal suggestion you and I can talk about. Then, if you like, we can talk to Eden about it and see what he thinks. I can make the proposal mine, or you can make it yours.'

Molotov said he would like to take the document and study it. The next day he came back, his face radiant. 'I have shown this to Stalin', he said in effect, 'and he is enthusiastic. It expresses Russia's thoughts about Germany exactly as if we had expressed them. We have had those thoughts but have not been able to express them, Stalin would like to make this a Russian proposal.' I agreed.»²

The Tripartite Conference in Moscow was, in the words of President Roosevelt »a tremendous success». As far as reparations were concerned, the Conference recommended that »Germany would pay reparations for the physical damage inflicted upon the USSR and other Allied and occupied countries, such reparations to be determined through a Commission on

¹ The *Evening Standard* (London), Nov. 15, 1943.

² Cordell Hull, o.c., II, p. 1285.

German Reparations consisting of representatives of the three powers?» That this formula covered, though such was not explicitly said, the acceptance of the principle of payment in kind seems to be beyond doubt in the light of the circumstances referred to above, and this observation is also fully corroborated by the subsequent decisions of Yalta and Potsdam. There is, indeed, a striking correlation between Mr. Varga's views, made public on the eve of the Moscow Meeting, and the Yalta Protocol on German Reparations.

It may, however, be observed that the original American draft was only concerned with the postwar treatment of Germany and that also in the recommendation of the Moscow Conference Germany alone was mentioned, whereas, on the other hand, Mr. Varga's reparation program included also other countries which were at war with the Soviet Union, and all the postwar Armistice and Peace Treaties actually came to include clauses on reparations payable exclusively in kind. The question then arises: Was this broader geographical interpretation of the new reparation policy likewise unanimously accepted by the Allied Powers? The answer seems to be in the affirmative.

Already at the first Armistice negotiations during the war, those between Finland and the Soviet Union in March 1944, Finland was requested to pay reparations in kind, as pointed out above. The public opinion in the Western Countries having become somewhat disconcerted by the harshness of these terms, the Soviet Embassy in Washington made an announcement according to which »the Soviet Armistice terms, including a demand for indemnity in the sum indicated, were approved by the Allies who found them to be moderate and fair.»¹ This statement was a few weeks later confirmed by Mr. Eden in the House of Commons, though his version and emphasis, as far as Finland was concerned, were slightly different: »I have been asked about the extent of our collaboration now. For instance, are we consulted on such matters as Soviet peace terms to Rumania, and the negotiations with Finland? The answer is we were consulted on both questions. In respect to Rumania we thought Mr. Molotov's speech, and the offer made, fair and just to Rumania. In respect to Finland, we deplored the fact that the Finnish Government had turned down the peace terms. On both matters we were consulted.»²

¹ The Information Bulletin of the Embassy of the Union of Soviet Republics, May 4, 1944. Washington D. C.

² Louise W. Holborn, *War and Peace Aims of the United Nations*, II, p. 503. World Peace Foundation. Boston 1948.

Why the System of Payment in Kind?

In the 1930s and still at the outset of World War II it was generally believed, in the Anglo-Saxon countries at least, that the issue of war reparations, which had proved such a dismal failure after Versailles, would not be raised again. But it *was* raised, as we have seen.

The psychological reasons leading to the resurrection of an issue generally regarded as dead are clear enough and need not detain us here. They were connected with the human and material losses caused by warfare and the wave of hatred that always follows like a shadow in the steps of wars. The longer the war lasted and the more ruthless the forms it took, the stronger grew the psychological and political pressure for compensation for damages brought about by enemy action. Only a few could resist this popular sentiment. There were, however, those who remained consistent to the end in their aversion to reparations; there were economists like J. B. Condliffe and Jacob Viner and periodicals like *The Economist* (London). But even they had to recede from their original positions, though much against their fundamental conviction and with forebodings of evil. Thus, we find *The Economist* writing after Mr. Varga's program had come into the limelight:

»If reparations there must be, let them be confined in assessment to the restitution of deliberate loot and damage, in collection to what can be paid in goods and labour, and in duration to five years. And let us hope that reparations, so modified, will not once again prove to be a bedeviller of the peace.»¹⁸

But »if reparations there must be», why was just the system of payment in kind selected, and that in contrast both to the »mixed system» based on the Treaty of Versailles and the later trend towards purely financial reparations? Looking closer into this matter we shall find that there were several factors working simultaneously in one and the same direction. These may be grouped under the following three headings:

The Lesson from World War I

It took a long time to learn that the policy drafted at Versailles had been ill-conceived; but at last this lesson was sunk deep into the general consciousness. And so it became almost a commonplace opinion that the

¹ *The Economist*, Nov. 6, 1943.

rock upon which the earlier reparation policy had been wrecked was the »vexed» transfer problem, i.e. the impossibility of transferring vast sums from debtor to creditor countries.

This was the *negative* lesson drawn from the experiences after World War I. But there was also a *positive* lesson to be drawn. Attention was directed to the fact, much neglected in the earlier debate on the reparation problem, that that part of the former reparation program which had demanded payment in kind had been carried out much more successfully than that calling for reparations in money. Why? Because, so it was argued, no transfer difficulties were involved in these payments, and could not be, as the recipients had declared themselves willing to accept the goods to be delivered by the tributary countries.

These observations became the logical foundation of the new reparation policy. The success of this policy would be secured by a requirement exclusively of deliveries in kind, that was the slogan constantly reiterated in the contemporary discussion. Thus, Mr. Edwin W. Pauley, the head of the American Delegation to the Allied Commission on Reparations, asserted after the Potsdam Conference:

»While we return with a feeling of keen satisfaction in the fact that the shaping of the whole program of reparations is in accord with the will of the American people, we recognize a problem of such magnitude is never wholly solved, nor can a program of such far-reaching economic consequences ever be guaranteed in all its details at the time of its formulation.

We believe we have avoided the errors that rendered the settlement after World War I a failure. We are not going to rebuild a strong Germany in order to pay reparations. We are giving out no blank checks without knowing what is in the bank. We are dealing in things which we have at hand or which we know we shall have. Where we have steel mills, we are dealing in existing steel capacity, not in hypothetical or unearned dollar values.

I wish to emphasize that the reparations plan is thoroughly workable.»¹

The Lesson Supplied by Germany

Germany practised during the war a methodical policy of looting by which she was able to amass an enormous booty from occupied countries and territories, as described by a contemporary writer:

¹ *The Axis in Defeat*. A collection of documents on American policy toward Germany and Japan. The Department of State, publication 2423, p. 103. Washington D. C., 1945.

»The indemnities imposed upon Norway, Denmark, the Netherlands, Belgium and France under the guise of »occupation costs» totalled annually, after 1940, nearly 10 milliard marks. — — — But »occupation costs» do not tell the whole story, for loot in German-occupied countries has taken a remarkable variety of forms. According to official German figures, the total contribution of occupied countries to the German budget amounted in 1940—41 to 12 milliard (£ 1 000 million) and in 1941—42 to 16.2 milliard marks (£ 1 350 million). And according to the calculations of the British Ministry of Economic Warfare, the total financial burden supported by the occupied countries came to £ 1 700 million.»¹

We are not concerned here with the accuracy of these figures, they are reproduced only as a matter of illustration. The fact of relevance in this connection is that Germany's predatory policy raised automatically the complicated problem of restitution, and it was raised even before reparations had become an official issue. On January 5, 1943, the Governments of 17 Allied nations whose territories had been invaded, issued a warning to the enemy countries as well as to all neutrals announcing their determination that all property removed from the occupied territories by force or by trick would be restored to its rightful owners after the war.²

This demand for restitution was, of course, based on an elementary principle of justice. But, in practice, it proved difficult, if not impossible, to draw a clear line of demarkation between restitution of objects actually removed by the enemy, and compensation for objects that could not be restored. And even if there was such a line, it tended to fade in the course of events. This may be illustrated by the following quotation taken from the mass of similar statements:

»By broadening the principle of restitution to include equivalent goods of the originals which have been lost or destroyed, a considerable amount of railroad rolling-stock, industrial machinery, livestock and building materials might be restored to the liberated nations. Under this plan the Poles, for example, whose forests have been pillaged by the Nazis for the past five years, might receive cuttings from German forests for use in reconstruction, meanwhile permitting their own trees a period of uninterrupted growth. In effect, those suggestions for restitution to the liberated countries of goods comparable to those stolen by the Germans would amount to a capital levy imposed on Germany immediately after the armistice.»³

This transformation of the original meaning of the term »restitution» was bound to lead to deliveries in kind on a broad front, and, thus, it

¹ Étienne Mantoux, *The Carthaginian Peace or the Economic Consequences of Mr. Keynes*, p. 126. London 1946.

² *The Times* (London), Jan. 6, 1943.

³ Winifred N. Hadsel, *What Kind of Peace with Germany?* Foreign Policy Reports, Nov. 15, 1944. New York.

paved the way for reparations in kind. But that was not all. Attention was soon also drawn to the fact that the predatory practices of Germany were in reality, even if not in name, nothing else than indemnity imposed on the occupied countries at a time when war was still going on. This case seemed, therefore, to supply a new example, in addition to earlier experiences, that vast reparations could be attained, if only they were collected in kind. And from this observation it was a short step to extolling the German policy as a model which the Allies themselves could profitably emulate. This point of view was bluntly stated, for instance, in the following passage:

»The methods by which a successful reparation policy can be carried out should not call for any considerable exercise of imagination either; what is needed, rather, is common sense and perseverance. The success with which Germany recovered her war levies from the conquered peoples should have taught us a useful lesson in this respect. Russia has already made it plain that she will not feel cramped by economic sophistry in the problem of reconstruction: she will, for one thing, force the Germans to rebuild with their own hands what they have devastated and destroyed — she will make them hewers of wood and drawers of water without any fear of German labour creating home unemployment, or of German deliveries disrupting home industries.»¹

The strange thing happened that step by step with the approaching military defeat of the German regime, it was making ideological conquests in the West. Simultaneously as the technique applied by Germany for transferring enormous values from the vanquished countries aroused aversion and hatred in the Allied countries, it created, paradoxically enough, a desire to copy it. The German example was even believed to have supplied »the final answer» as to the practicability of exacting larger reparations than generally had been thought possible.²

»The End of Laissez-Faire»

A reparation system of payment in kind is hardly compatible with market economy. It requires, manifestly, at least some degree of economic planning by a centralized authority. And the more centralized the economy becomes, the better would be the prospects for success. Consequently, in a country like the Soviet-Union deliveries in kind are apparently the most suitable system of reparations, as was also rightly pointed out by Varga and many others besides him.

¹ Mantoux, o.c., p. 197.

² Mantoux, o.c., p. 131.

This obvious correlation that exists between any system of reparations and the economic framework of Society — of Society as it is or as it is presumed to develop — seems also to give an explanation why the majority of economists as well as the general opinion were so much more receptive after World War II to the principle of reparations in kind. Economic ideologies had undergone a change since the early 1920s and even Keynes had written his »The End of Laissez-Faire». In his stead the »Russian Keynes», Eugen Varga was now extolled as the leading economist on reparations. Only in quarters still cramped by the »economic sophistry» of liberalism was strong aversion felt against the new reparation policy.