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ECONOMIC CONTRIBUTIONS FROM OCCUPIED AREAS—

GERMAN EXPERIENCES

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GENERAL MCKINLEY:

Gentlemen, this morning we have with us Dr. Robert Eisenberg from the State Department. Dr. Eisenberg is a political analyst with the Division of Research for Europe in the Department of State.

He received his Doctor's Degree in Law and Politics at the University of Prague and was an economist in the Prague Bank until 1939. He came to the United States in 1941, where he worked first in private business, then with the Federal Reserve Board, where he remained until joining the Army. In the Army he was assigned to the Research and Analysis Division of OSS.

This morning Dr. Eisenberg's subject is "Economic Contributions from Occupied Areas--German Experiences." I take extreme pleasure in introducing Dr. Robert Eisenberg.

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DR. EISENBERG:

German economic policies in occupied countries were formulated so as to assure the achievement of both political and economic objectives. Legal considerations were given little importance. Although international law of belligerent occupation was formally respected in some countries it was completely discarded in others; namely, the countries annexed by Germany or considered as parts of its colonial empire. The legalistic reasoning used by the Germans to justify such action referred to the supposed non-existence of the other state (in the case of Czechoslovakia, Poland, Yugoslavia) or to the fact that the other state--in this case the USSR--was not a party to the Hague Agreement. The satellite countries had no better position; political pressure was used there to enforce compliance with German requests which often went beyond what would have been legal in occupied enemy territory.

The primary economic objective of the Germans was to obtain the maximum of contributions for their economic war effort. The secondary objective was to perpetuate German economic influence abroad. Political considerations and the changing economic needs of Germany influenced decisively the character and volume of the contributions demanded from the occupied countries. The following remarks will make it possible to appreciate the impact of the political factors on the economic policies.

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For Germany occupation of a country was not necessarily a temporary measure for wartime only. In many cases German occupation was to become permanent and the country was to be attached to or incorporated into the Greater German Empire. A variety of organization patterns was developed by the Germans to implement their political objectives and to assure the maximum of economic contributions.

Administration of occupied countries was organized in one of the following ways.

Examples of countries:

- A. Countries under temporary occupation
 - 1. Military administration during operational phase
 - 2. Military administration in static phase in East
 - 3. Military administration in static phase in West
 - 4. Civil administration in static phase in West
- B. Permanent occupation
 - 1. Areas annexed and incorporated into Reich, or prepared for annexation
 - 2. Protectorates
 - 3. Colonial areas under civil administration in East

The status which a specific country had under German occupation was based on a hierarchy of nationalities and states in Europe which the Germans developed under the name of the New Order. This hierarchy was based on the German racial theory with the Germanic races on top as Master race, and the other nationalities having an inferior status, with the Poles and the Russians at the bottom of the ladder. These were to be colonial people completely without political rights and with a permanently inferior economic status. The Russians, for example, were to engage only in agriculture and were not to be permitted to develop industries except so far as necessary to process local produce. They were to supply Germany with foodstuffs and other agricultural products and with coal and ores, and they were also to supply cheap labor for Germany.

The occupied countries inhabited by a superior race (the Netherlands or Norway, for example) were not to be restricted in their economic activities as a matter of principle but their economic independence was to be weakened and their industries integrated into the German economic sphere by way of cartel agreements and ownership control. This was another aspect of the New Order ideology -- namely to transform Europe into a Large Space Economy directed towards the European continental aim as defined by the Germans. Even in the countries occupied only temporarily the Germans tried to establish themselves in a position of dominance to secure permanent economic influence.

The variety of administrative patterns employed by the Germans influenced the methods of economic administration used by them, but by and large these methods followed two basic patterns: that of direct and that of indirect administration of the country's economic affairs. This differentiation reflects fully the political future of the occupied countries. Where the Germans planned to stay forever they used the direct

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method, while in the countries which were to be reestablished after the war as independent states--perhaps only nominally--indirect methods were used.

The method of direct economic administration was of course used in Austria, the Sudeten territories, parts of Poland, and Alsace and Lorraine, Luxembourg and a few more areas incorporated into the Reich by annexation or slated for annexation. They were in all economic matters part of the Reich and fully incorporated into its administrative system. Certain parts of Czechoslovakia (namely, the so called Protectorate) and parts of Poland (the General Government) also were considered as conquered for permanent possession, but separate administrations were set up for them. In the Protectorate the native authorities retained some vestiges of self-government in economic matters operating under strict supervision of German officials. The Czech agencies in fact formed an integral part of the German Reich administration, fulfilling functions assigned to a regional administration. Czech business was not subject to a wholesale expropriation, but German firms penetrated into the basic industries and into banking. In Poland and in occupied Russia native self-administration was restricted to the local level, but a few Poles held higher posts in the German administration. The economic life of these territories was fully and directly controlled by German agencies. The Germans expropriated a large portion of all private properties in Poland and declared themselves owners of all industrial and landed property in Russia, acting as successors to the Soviet state. German administrators and firms operated all farms and enterprises for account of the Reich. In the Balkan countries, too economic affairs were directly administered to a considerable degree.

Indirect controls.

Economic exploitation of the Western European countries was carried out by basically different methods. There the Germans "purchased" all the supplies they wanted to acquire but succeeded in financing all purchases with local funds obtained as loans and contributions. They used indirect control as their chief method of economic administration. They relied on the native authorities, who were made ready to collaborate by extensive changes in the leading personnel, and who were reorganized in most cases to fit the German purposes. This reorganization consisted in an extension of controls exercised by native authorities over economic affairs and in the setting up of corporative organizations of agriculture, industry, and trade fashioned more or less after the German pattern. The German occupation authorities kept the native agencies under close supervision and directed the lines of their activities, placing officials in key points and reserving for them the right to pass on every important decision. An important element in the smooth functioning of these controls was collaboration of native individuals in important positions of industrialists, government officials, etc. This collaboration was secured with threats of confiscation of property and of deportation, and with promises of favors of various kinds. Furthermore, there was in many cases a community of interests if not of ideas between some native industrialists

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and businessmen and the German overlords; but in most cases the simple desire to preserve ownership of the plant and also to prevent the employed workers from losing their jobs and being deported to Germany explains the willingness to collaborate in the form of accepting German orders, etc. But these methods would still not have been so effective had Germany not been able to direct the supply of raw materials in accordance with its own interests and to pay for the work done. Control over distribution of raw materials and adequate financial means were decisive factors for the success of German exploitation methods.

The German organizations in charge of economic affairs.

The diversified categories of occupied territories and the divergent methods of economic control explain why the Germans used such a variety of organizations to direct the economic affairs of the conquered nations.

Planning of economic exploitation was of course centralized. Before the war had started the economic branch of the Supreme Command of the Armed Forces (OKW) under General Thomas, drafted economic plans covering the use of the resources of enemy territories, jointly with Goering's Office of the Four Year Plan the Foreign Office of the Nazi Party, headed by Rosenberg. The Ministries of Economics and of Agriculture and Food, and the Reichsbank, ordered officials to study the economic affairs of the European countries and later supplied economic experts for the military occupation authorities.

The numerous changes in the German administrative structure which took place during the war resulted in many subsequent shifts in the responsibility for economic affairs of occupied countries; it is therefore impossible to give more than a rough outline of the organizational scheme.

The central German agencies responsible for economic planning also formulated the economic occupation policies and integrated the occupied countries into the German war effort. These agencies were the Four Year Plan Office, Speer's Armament Ministry and attached agencies, the Ministry of Economics and the Reichsbank for financial affairs, and the Reich Food Estate and the Ministry for Agriculture and Food for matters of food supply.

The execution of the policies formulated in Berlin was the task of a multitude of agencies whose jurisdiction often overlapped. The Germans often extended the jurisdiction of functional authorities (say of the Ministry for Armaments) into occupied areas where the territorial authorities held supreme power. The functional authorities as a rule issued directives to the territorial authorities and established liaison by sending delegates to the staff of the military or civilian governor, but in many instances a local agent of the central agency would be placed in direct charge of specific economic matters in an occupied country.

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For example, the Four Year Plan Office delegated an official to direct Serbian economic affairs, or to exploit Rumanian oil fields.

The Ministry of Armaments had the largest foreign organization; armament inspectors and armament commanders operated in all occupied countries, organizing and supervising there the production of war materials for German account.

The Plenipotentiary for Ocean Shipping had delegates in half-a-dozen occupied countries; the Reich Food Estate, the Ministry of Economics and their affiliated economic control boards sent agents into occupied countries, and so did the industrial cartels and trade associations.

The famous Special Staff Rosenberg (Einsatzstab R.) engaged in organized looting of art objects in all occupied countries.

The number of agencies and agents who purchased industrial products of the Western occupied countries was so great that the Germans at various times tried to coordinate their activities by setting up central purchasing offices and similar organizations.

As far as the territorial administration was in the hands of the army the following organization scheme was used.

In the Supreme Command of the Armed Forces an Economic Branch acted as the center of economic occupation policies; its functions were progressively restricted as shown by changes in the name. Originally it was called War Economic and Armament Office and was in charge of procurement, economic policies in occupied countries, and organization of salvage operations. After procurement was taken over by Speer, its name was War Economic Office and at last Field Economic Office. This office operated through an Economic Staff West and an Economic Staff East. The Economic Staff West issued directives to the economic departments of the Administration staff of the Military Governors in France and Belgium. The economic departments of the territorial authorities were very elaborate; they duplicated the highest brackets of the French or Belgian administration and were able to control it very closely. In addition to the economic departments of the governor's staffs there were also economic officials in the staffs of the field commandants who operated on the lower levels.

In the East, in the territory constituted as army rear zone, the military agencies were in direct charge of economic administration. The Economic Staff East operated through economic inspectors who were in charge of whole provinces like White Russia, South, and economic commanders on the local level. The economic officers of the army were mostly civilians with assimilated military ranks; they were called army officials or war administration officials.

A number of special units attached to the German armies fulfilled specific economic tasks; the most important were the Field Economic

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Commands, the army salvage commands, and the technical battalions which seized raw material stocks for the German war effort, put industrial plants, public utilities, and transportation facilities into operation, and did similar work. In Italy, for example, they evacuated to Germany raw material stocks of Italian enterprises during the period of German retreat through the country. The military units were assisted by semi-military organizations such as the Organization Todt.

Of civilian administrative agencies the most elaborate was that of the Ministry for Occupied Eastern Territories. It was located in Berlin and directed from there the administration of Russian territories under civil administration through Reich Commissariats, General Commissariats, and local commissariats which acted as regional authorities. In each commissariat there were a number of economic offices but many economic government functions were delegated to semi-public monopolistic companies which the Germans set up to exploit more effectively the native resources of occupied Russia.

The economic administration of the General Government of Poland was organized in a similar way except for the participation of native officials in a limited number of higher posts.

The civil administrators who acted as occupation authorities in the Netherlands and Norway used the pattern of indirect economic control and their offices were organized similarly to those of the military governors of France and Belgium, duplicating the upper brackets of the native economic administration.

An organization of specific character was the German-French Armistice Commission. The Germans used this organization as an instrument to exercise economic control over unoccupied French territories including North Africa, and to secure economic contributions of these areas for the German war effort.

Financial administration.

Control over local finances was important because it made possible a smooth financing of the contributions exacted by the Germans and also because it enabled the Germans to incorporate the occupied country into the orbit of the Reichsmark. In all occupied countries a number of steps were taken in the financial field to achieve these objectives. The Germans seized all gold and foreign exchange reserves as war booty, forced deposit, or forced contribution; they appointed a Reichsbank official or German banker to act as commissioner for the native central bank and to coordinate its policies with German demands; they took over control over foreign exchange transactions through a special police organization; they set new exchange rates between the Reichsmark and the native currency overvaluing their own money so as to make exploitation easier; they abolished as a rule the native restrictions on exchange dealings with Germany.

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for the same purpose; they did not permit German currency to be used in occupied countries, except for the Netherlands which they probably wanted to incorporate into the German economic organization with a higher status than the other countries; they issued occupation money in form of the Reichskreditkassenschein--military bank notes which the local population had to accept of a forced rate of exchange; these notes became in some Eastern territories the only currency but in the West they were soon replaced as an instrument of financing of German purchases by local currency which the native banks of issue supplied; these payments to the Germans were accounted for as either payments for occupation costs, contributions for some fictitious title such as defense against foreign enemies (the Matrikulargebuehr collected in the Protectorate), or as loans and advances (in Denmark); in most of the occupied countries in eastern and southern Europe new currencies were introduced and new central banks set up under German control, while in the western occupied countries and in the German allied countries Germany financed her imports by accumulating enormous debts in international clearing accounts; in addition various countries were forced to purchase German government bonds and to deposit money with German banks. Permanent control over occupied countries was initiated by organized penetration of German firms into foreign industry and banking supported by confiscation of shares and enterprises held by Jews and other owners declared to be enemies of Germany.

To what extent Germany was able to shift the burden of war costs on the occupied nations is shown by the following figures. Up to the end of March 1945 about 120 billion RM were received in the form of contributions and loans from these countries, that is, about 25 percent of the German war expenditures. This figure includes only a part of the contributions of occupied Russian territories because methods of seizure and confiscation were used there to a considerable extent. It does not include the share of Austria and other incorporated countries in the war financing. The yearly foreign contributions reached in 1943 the maximum of 30 billion RM equal to 30 percent of the war costs. In that year France contributed 14 billion RM (3/4 occupation costs and 1/4 clearing advances); the Netherlands four billion RM, and so on. In all occupied countries German exploitation resulted in a substantial increase of the money circulation and a general reduction of supplies of raw materials and products. The resulting danger of inflation was combatted with varying success in all countries, but in some of them, like Greece, Croatia, and occupied Russia, inflation destroyed all controls. By undermining the economic structure of the occupied countries through excessive demands, the Germans endangered achievement of their own objectives inasmuch as the breakdown of the price controls which their irresponsible financing and purchasing methods caused in some countries made it impossible for them to continue receiving a sizeable contribution from the occupied country.

GENERAL MCKINLEY:

We are open for questions now.

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A STUDENT:

Doctor, during the planning stages, during the late 1920's, 1930's, and even up to as late as 1944, who was responsible within the German setup for determining what their policy would be in the economic plan? The reason I ask this question is because in digging into it, it seemed that the Oberkommandanturen, the SS, and also civilian agencies, all presented economic plans or studies. For instance, some of the institutes presented studies for the SS, and the SS had worked out their own studies, but it seems the Army was directly responsible for correlating economic information. Was there another head over these three, civilian, Army, and SS, in determining who would work in various fields?

DR. EISENBERG:

There would be only Hitler. I think the role of Hitler in all that planning was under-rated. He took official part in many matters of rather secondary importance.

A STUDENT:

Was this action of his Divine guidance or did he have some economist helping him make decisions?

DR. EISENBERG:

Of course, we don't know much about that, except what we heard from people who were interrogated. It seems if they could not come to an agreement of some kind in a coordinating body, such as the Supreme Economic Council, which they set up during the war, they would just throw the matter up to Hitler for decision. What he based his decision on, we don't know.

A STUDENT:

Would the Reichsminister of Economics get into that setup at all, or not?

DR. EISENBERG:

It was only a matter of personalities. This explains why Schacht left in 1938. He just didn't have the ear of the Fuehrer any more and he quit at that time. He was forced out by Goering, who proved to be the stronger man. Minister of Economics Funk was a weak character all the way through. That is why he could stick it out.

GENERAL MCKINLEY:

Any other questions?

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A STUDENT:

Doctor, there must have been a tremendous organization for the collection of economic intelligence, prewar. Would you care to comment on that organization, sir?

DR. EISENBERG:

Yes. Well, the organization was probably two--or threefold. There were the German consulates, which would send reports in; then there were German Chambers of Commerce abroad, such as the French-German Chamber of Commerce; then there were German big business enterprises, such as the I.G. Farben, which had branches all over the world and would send reports in to their home offices. These reports were always--if they were considered important--passed on to the Minister of Economics. You would find in the files of the I.G. Farben transcripts of reports made by the manager of the I.G. Farben during his trip to South America in 1935, or so, and his discussions with the German ambassador in Argentina, say.

These reports, were, of course, studied by the experts in the Ministry of Economics, or the Ministry of the Four-Year Plan, or the Ministry of Food and Agriculture, and incorporated into their plans as far as European countries were concerned.

COLONEL TAYLOR:

I just wanted to ask about this figure 120 billion marks. Is that a gross figure or a net figure? Were there any off-setting costs of the occupation?

DR. EISENBERG:

That figure is based on a financial calculation which is about the closest we can get without very elaborate investigation. It consists of two figures: First of all, the amount of German loans which the other countries owned; the amounts of the debts which the Germans ran up during the war in the form of international trading accounts or by selling directly German bonds, under pressure of course, to Dutch firms or Czech firms, or by forcing those various institutions to deposit their money in the Reichsbank in Berlin. That figure was about 48 billion marks, according to a rough estimate.

Then there was a figure of contributions which the Germans exacted from the occupied countries directly as payments for occupational costs, or under those various titles which I referred to, and that figure was calculated here to be about 72 billion marks. Now, inasmuch as the Germans didn't need that money for other purposes, they just spent it locally, and we have to assume that they received the equivalent in value of goods and services.

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This figure is then related to the total war expenditures as they appear from German budgets. It should be assumed, therefore, that this is a net figure and that nothing has to be deducted.

A STUDENT:

Doctor, do you have any comment to make of how the various countries untangled the financial web that the Germans evolved in controlling the economies of the occupied countries?

DR. EISENBERG:

Well, there was a twofold pattern, I would say. In some countries they didn't do anything but just let the inflation take its course, and applied some brakes, like the French, for example. In this way, the debts disappear; they become less of a burden. If prices rise 400 percent, the burden of a so-and-so-many billion debt is just one-fourth of that.

The other pattern which was used in Czechoslovakia, Belgium, and a few other countries, is that they put through a currency reform, exchanging the currency in circulation against some new currency, and giving everybody less money than he had before, blocking his deposits with banks until such time as these things could be offset by some capital tax or levy. That is now in process in Czechoslovakia and has been quite successful in Belgium. In the Netherlands they made a radical cut, reduced the circulation very much.

A STUDENT:

I had in mind more the securities of industrial firms.

DR. EISENBERG:

Well, that is a matter which was treated by international agreement, that all Allied countries could confiscate German property in their own territories, and, in this way, just make completely ineffective all effort of the Germans during the war to penetrate permanently into their domain. So in a country like Czechoslovakia, the Government would confiscate all property owned by Germans and either restore it to the old owners, if there was legal reason for it, or just assume public ownership.

A STUDENT:

The German Economic Intelligence apparently did excellent work in the countries which they intended to occupy, but very poor work on the capabilities of their potential enemies, such as the United States. Can you comment on the reason for the excellent economic intelligence in one part of the world and the poor intelligence in others?

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DR. EISENBERG:

Well, I think it was more a matter of estimating the moral forces of the opponent than the actual economic capabilities. They probably knew exactly what the economic capabilities of America were in 1939, but they did not believe that Roosevelt's plan to make so-and-so-many airplanes, tanks, and so on could ever be put into effect. As you may remember, there were many people in this country who didn't believe it either. They were just pessimists in the wrong place.

DR. MASSELMAN:

Have you any information as to the extent of the contribution made by the occupied territories in Russia to the German war economy?

DR. EISENBERG:

The contribution cannot be figured out the way I treated it for the other countries, as explained to you, because there was too much direct confiscation and seizure. Any calculation would have to be based on an estimate of the actual services rendered and the actual goods seized. These calculations were made by Soviet Russia and then presented to the Allies. It also may have been presented in detail at Nuremberg during the trials. I would like to refer you to the official Russian publication.

MR. MASSELMAN:

But what would be primarily the amount lost by the Russians and not entirely the amount gained by the Germans.

DR. EISENBERG:

That is correct, of course, the wastage caused by the enrichment of private persons, or of German officers as well as enlisted men would be included. Well, the German war accounts are not available in sufficient detail that you could really figure out how much they did get out of Russia. We could make an estimate on the basis of the number of soldiers fighting in Russia, the average cost to keep a soldier in the field. We know also how much industrial products they got out of Russia, by and large, as far as basic commodities, such as ores, oil, and grains are concerned, but I don't think any effort has been made so far to estimate that contribution.

A STUDENT:

Is there any indication from the point of view of the Germans of the effectiveness of our foreign economic warfare?

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DR. EISENBERG:

You mean whether we have found any evidence that the Germans did appreciate what our foreign economic warfare resulted in?

A STUDENT:

Yes, sir.

DR. EISENBERG:

I think that probably there would be some documentation, but I have never seen any. As far as the German Ambassadors in South America go, they would probably have quite a story to tell, and I think some of the interrogation reports should have reference to it.

A STUDENT:

Doctor, am I to understand that in general some local procurement in occupied countries was paid for by scrip or currency as so created? Did they have any requisitioning system like our GFA, and of balancing their bookkeeping in Berlin later, or was it in the currency?

DR. EISENBERG:

Well, I think they had quite an elaborate accounting system, probably comparable to ours, but whether these accounts were carried all the way up to Berlin, as far as local currency was concerned, I don't know. They had to at times. In France, for example, there was an argument going on between the French and German Governments as to whether or not the amount of the occupation costs exacted from France was too high. The French would claim that the Germans supplied troops which were in France because of the war with England and not because of the occupation. They tried to differentiate very strictly between the two. They said, "We are ready to pay as much as necessary to keep the army of occupation, but not an operational army against England." This would indicate the accounting was quite detailed in these countries at least.

A STUDENT:

Doctor, this is off the subject of your lecture just a bit, but can you tell us if the accounts with Sweden and Spain were manipulated, or was there a direct flow of goods between Germany or occupied countries and Spain and Switzerland for goods obtained from these countries?

DR. EISENBERG:

Well, there was foreign trade going on between occupied countries and neutral countries, but that foreign trade was under control of Germany, and

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direct control. As a matter of fact, they even controlled the trade between one occupied country and the other, and in many cases they would prevent an occupied country from getting the benefit of its own exports. For example, on merchandise exported from Belgium to Sweden, Germany would get the foreign exchange and use it for her own purposes.

GENERAL MCKINLEY:

Doctor, I want to thank you very much for coming down here and giving us this splendid talk.

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