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ECONOMIC CONTRIBUTIONS FROM OCCUPIED AND LIBERATED AREAS--COMBINED BRITISH-UNITED STATES EXPERIENCES

3 April 1947

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CAPTAIN WORTHINGTON: I take particular pleasure in welcoming back to The Industrial College Dr. Hajo Holborn. He lectured to us several times last year and gave us some very sound and constructive advice in the development of this year's curriculum.

Dr. Holborn has been a professor of history at Yale University since 1934. He has also been a consultant of the Department of State on matters relating to occupied areas. He has written a number of books and articles. The latest, "American Military Government: Its Organization and Policies," has just been printed. It is to be released for sale on the 11th of April and this edition is already sold out.

His subject is: Economic Contributions from Occupied and Liberated Areas--Combined British-United States Experiences.

Gentlemen, Dr. Holborn.

DR. HOLBORN: Captain and gentlemen: I am very glad to be back in The Industrial College today. At the same time, I am somewhat embarrassed about the subject. The subject is, in many respects, a very unreal one and an "iffy" one. As a historian, who likes to deal with what has actually happened, I feel some difficulty in dealing with the subject.

The use of the industrial capacity of a foreign country did, in a way, not exist as a serious need on our part during the war. That has been one of the chief advantages of our strategy-makers in defining the military strategy for the Second World War. Our strategy-makers, fortunately, were not bothered by thinking in terms of the capture of areas with strategic raw materials, on one hand, or with capturing industrial potential to be added to our own war economy.

Very different--or rather entirely opposite to ours--was the Japanese case, where the progress of military operations, ever since 1931, had to a large extent, to aim at the capture of war potential in industrial capacity, manpower and resources.

The same is true, perhaps to a somewhat lesser extent, in the case of Germany. The military strategists of both Japan and Germany had to think out the military operations to a large extent in terms of gaining additional economic and industrial strength.

Our situation was entirely different. What we had to do in the economic field was, on one hand, to do our best to maintain the industrial capacity of our allies; to help keep the British economy going and to a large extent--much lesser, of course, but still to a large extent--to maintain the Russian industrial capacity.

Also, again on a smaller level, we tried to maintain the industrial and economic resources of the French colonies in North Africa, and so on. In the colonial field let me single out perhaps the case of Belgium. The contributions which have come to our war economy from Belgium colonial sources have been not negligible. But, on the whole, we could have been satisfied with just helping to strengthen and help to underpin the existing industrial capacity of the countries at war against the Axis.

As a matter of fact, that industrial capacity was highly adequate. A great deal of study during the war was spent on the problem of how we could exploit the German industrial capacity in the war against Japan. It was then assumed, of course, that the war against Japan would at least last for another year following VE-Day. The problems were studied as to what use should and could be made in that situation of the German industrial capacity. But that question remained an academic one because with the breakdown of German resistance the industrial potential was gigantic. There was no real need to employ German industrial capacity and the resistance on this side against using German war potential would have been much too great. Not even in that situation did a real need exist for the exploitation of the industrial capacity of foreign countries.

Now then we had the opposite problem. Let me first make one remark in order to relate this economic problem to the over-all strategic picture. I would say this much: The decision to invade Europe from the northwest, that means the operation through France, and so on, instead of taking what Churchill and others probably very erroneously called "the soft underbelly approach from the Mediterranean," was based on very sound military and logistics arguments. But an additional advantage of the approach through the northwestern theater, from Normandy and through France, was, of course, the higher industrial development of Western Europe which would strengthen an army of invasion, particularly the mobility of that army once it got moving in the field.

Our major problem then, with regard to the economies of occupied or liberated areas, has been rather one of maintaining natural and halfway-normal economic conditions in these countries. I have here with me what could be called the minimum system used. It would not directly apply to the liberated areas. In the SHAEF Military Government Handbook on Germany, the economic objectives were expressed like this: The objectives are to assure, to the extent that is feasible, such production and maintenance of goods and services essential, first, to meet the needs of

Allied military forces; secondly, to prevent or alleviate epidemics of serious disease and serious civil unrest and disorder which would endanger the occupying forces in the accomplishment of the objectives of the occupation; to prevent the dissipation or sabotage of German resources and equipment.

These were, as I stated before, the minimum needs of an invading army in the economic field. They were to use available resources for the progress of military operations. I imagine, in the first place, that would apply to transportation, labor, and public utilities; those resources which could be put immediately to use for the Armed Forces. Beyond that, however, they were to use the resources of the country for the maintenance of civil order and public health. In other words, we never planned to exploit the resources of these countries for our own purposes--at least not beyond the most immediate military needs--but we tried to avoid being put in a position "to be exploited" by the disorder which might have arisen.

In modern mass-warfare the maintenance of public order and public health have become a military imperative.

That raises in my opinion a very curious historical question. One of the most cruel aspects of modern war is the disappearance of the distinction between the civilian and military element. I think it has been, in a way, the pride of soldiers during the last two centuries, or so, that the military field was one separate from the civilian; that the burden of war should fall less and less on the civilian population. Nowadays that distinction has disappeared very largely, particularly in air war and also in other circumstances. That distinction is nowadays of a very doubtful nature.

But, on the other hand, the nature of modern war has resulted in new, enormously expanded interests of armies in the state of the civilian population. In all cases it was found necessary that, together with the war material, like weapons, and so on, civilian supplies were landed usually in the early days of all invasion operations. In this respect the modern army, and particularly the Anglo-American armies of the Second World War, have assumed responsibility for charitable activities towards the civilian population which formerly was not found in military history. It has come about not necessarily out of charitable intentions (which I do not deny existed), but out of the need for the technical success of these operations. The maintenance of an orderly and organized civilian society has proved a necessity for the conduct of military operations.

I gave here first, and deliberately did so, the minimum of military necessity. In the case of the pre defeat period in Germany, no provisions were made for the importation of civilian goods into Germany. It was assumed--and, by the way, rightly so--that the state of the German

economy was such that Germany would be able to operate without the import of civilian relief goods much in contrast to the situation of the former German-occupied regions. There were adequate stocks in Germany. There was quite a fight going on over this principle. But the final decision was that in case local shortages would occur, and there would be a need for food, that it would be supplied from military sources.

In the case of Germany, no food-relief was planned beforehand. Since there is a lot of confusion about these events, I think it is fair to add once more that undoubtedly that was the right course of action. The food situation in Germany during 1945 was entirely adequate. The problems which we have nowadays started in Germany only with the Spring of 1946. But in 1945, Germany was undoubtedly a better-fed country than most any other country on the European Continent. And, in addition, it should be said that probably the German diet during the war was roughly equal to the British diet. That means the German dietary level was higher than in the rest of Europe in the years before and there had been no food privations, or anything of that sort, such as Germany experienced during the First World War. That was another reason why this decision was made with regard to civilian relief in Germany.

The situation was different, of course, with regard to the liberated areas. Essentially, our hope was that with the liberation of France, Belgium, Netherlands, Denmark, Norway, and so on, we would do our utmost to restore normal conditions to these countries. Specifically, in the case of France and Belgium, only to some extent in Norway, it was decided the civilian relief goods plan aimed at the early restoration of normal dietary conditions. Those programs were, in their execution, much belated, not because there was any lack of good-will but because the lack of shipping and port facilities delayed the execution of these programs for a considerable period of time. The limiting element in these relief operations always proved to be shipping and port facilities.

I think, on the whole, that entire relief program should be studied again. I can only give you my general impression. It was run on a relatively strict basis; it was simply inevitable, I think, considering the supply situation in the northwestern European theater. By December, January, February, 1944-1945, the time of the Bulge Battle and the build-up for the spring offensive, any additional importation of civilian goods could have only been made on the basis of cutting down on military supplies, and these military supplies were not any too ample. They proved adequate, but they were planned on a fairly-tight schedule, too. On the other hand, we definitely did not succeed to make the Winter of 1944-1945 a winter without severe privations for the French population. The improvement of the French situation only came about in the course of the spring and summer of 1945.

Then there is the question of the employment and exploitation of industrial resources. A certain amount of that has happened in France. The most important contribution of French industries to the war effort in 1944, was the production of duck-treads for tanks. You are certainly more competent than I to describe the situation, but as far as I understand it, the tanks were found not quite adapted to the mud situation. Consequently, I imagine treads with wider spreads--these duck-treads, I think they were called--were desired. French industry proved able to produce them. I think it is the only outstanding case of local production on a large scale that I know of. General Marshall, by the way, in his final report on the Army, mentions that fact. I am sure, of course, that a very good many services were provided in the servicing of ordnance, and so on. The French contribution was not negligible. But on the production side of it, this is the only outstanding case that is known to me. I am afraid there are not many others to name.

The question would have been different, it seems to me, in the case of a prolongation of the war. Assuming for a moment that the war had come to an operational standstill from September 1944, let us say, for two years or so. Then the exploitation of French industries might have been organized on a much larger scale. But as the war was planned, planning for the systematic exploitation of French industrial resources was not undertaken. As a matter of fact, the twelve French divisions which finally went into action were entirely supplied with American lend-lease. Hardly any of their supplies came from France. They were brought within the planning of our own armed strength.

Another aspect of that is to what extent the military operations themselves contribute to the recovery of an industrial economy. Undoubtedly the rebuilding of transportation, including both vehicles, roads, bridges and port facilities was undertaken by us on a very large scale because they were needed for the immediate achievement of the military objectives. On the other hand, they proved an immediate contribution to the industrial recovery of France. In this respect, military operations do not merely destroy; in this field they rebuild as well. That kind of rebuilding is a definite and positive contribution to the rebuilding of industrial capacity.

I have to wander and ramble a little bit today. Since this whole problem was never clearly undertaken, we have only some isolated points of experience which we can use here this morning for discussion.

One of the basic problems in this care for the civilian population, and one of the fundamental problems which, I think, should be studied, is whether it was wise on our part to concentrate upon civilian relief. I meant to say to concentrate, in the first place, on the importation of food. The experiences in this field are rather rich. They started, of course, right with Sicily, where a program of relief--some relief, at least--was planned. But Sicily was a rather rich agrarian country. It has been throughout history a granary for the Mediterranean.

Now the question proved soon to be not the existence or nonexistence of food, but to get the food to the market; the delivery from the country to the cities. The importation of shirts (I will just pick that one at random), for example, might have induced the farmers much more easily to part with their food. In other words, the importation of consumers' goods might prove a better incentive for the maintenance of an orderly economic life than the introduction of some kind of food relief. I think in that field we have been experimenting all the time. It would be most desirable to make a very systematic study of the best means by which these problems can be handled.

In general, it has been our policy to deny the importation of other than relief goods. But I am not convinced that that problem was really settled on any kind of scientific or scholarly basis. It was rather done on an experimental basis. There seems to me to be a wide field for future study.

I imagine I am supposed to say something about the organization in this field. The military organization was, at the end, at least, a relatively simple one. The functions of combined operations rested with the Combined Civil Affairs Committee, which had a supply subcommittee. With regard to the sources of materials, the Combined Food Board was the one to advise the Combined Civil Affairs Committee on the availability and sources of supply.

There was, on the London side, a kind of corresponding committee which had the poetic name CCACL, which was chiefly set up to act with the Supreme Commander and to advise him in matters of civilian supplies. That committee, however, has never assumed a really big role, as far as I can see, and might as well be forgotten, in spite of its name. The chief work was done in Washington by the Combined Civil Affairs Committee.

I would propose, perhaps, that I break off lecturing at this point and ask you for some questions.

A STUDENT OFFICER: I have two questions I would like to ask: One is, how did you propose to keep your consumer-goods out of the black market when you brought it in for trade in order to get your food into the market?

The second one is, what did you think of the proposition of importation of coal into, say France, as an example? It appeared that the lack of coal was one of the biggest reasons why they had no food. There were tremendous quantities of sugar-beets stacked up with dirt over them because there was no way to move them to the factory and no coal to operate the factory so as to get the sugar out of the sugar-beets.

I wonder what you think of those two points.

DR. HOLBORN: Black-market control is, of course, really a wide-open field. I think that all these problems actually have to be planned and thought out as part of the same picture. The whole question of inflation, black market, consumer-goods, and food is all part of the same story. Theoretically, it should be possible to keep consumer-goods out of the black market; or let me say there are means of keeping the black market fairly low. I might point out you will have a black market in food, too. You cannot hope to do too much about the situation.

It is simply amazing, on the other hand, how different the popular reactions are to that whole problem. On the whole, the situation in Germany with regard to price control and the black market is unusually good. There is a black market; there is also an amount of inflation. I think that is inevitable. But it is not of the same force we have experienced in Italy or even for a certain period in France.

A STUDENT OFFICER: That's because Germany has more consumer-goods.

DR. HOLBORN: Yes, probably. On the other hand, the population is apparently very well trained in accepting these rationing and price-control measures. By the way, it is thinning out, too. I do not know how long it will necessarily last.

A STUDENT OFFICER: The other was coal.

DR. HOLBORN: Well, the coal problem was quite serious in Italy. France, after all, had some coal of her own. Italy hardly produced any coal. The only mines were in Sardinia. I have a very unhappy memory of that. I had no responsibility there, but apparently our intelligence in that failed very miserably. They tried to find out how much these Sardinian mines could produce and very careful research was undertaken. French mining engineers, who could be found, were confronted with air-photos, and so on. But our guesses as to the productive capacity of the Sardinian mines failed very badly, I'm sorry to report. The importation of coal has been undertaken in a number of cases.

A STUDENT OFFICER: My thought was there should be immediate importation of coal and rehabilitation of transportation so that the consumer-goods industry could get on its own feet and furnish the farmer with something for trade so he would, in turn, furnish food. That was not done in France. They had a little coal but they did not get much of it to the markets where it could be used.

DR. HOLBORN: The difficulty with coal is, of course, that it needs a lot of shipping. Also at a time when your own war production is in high gear, coal is not too easily available. But I think in the case of France, for example, the really decisive element was shipping.

A STUDENT OFFICER: Do you have a comment that you can make on the assignment of the areas in France, particularly the southwest area, which was not the responsibility of the military? Can you trace the relationship to the Combined Boards?

DR. HOLBORN: The organization of civil affairs--well, let's take the French case, which is the best model for the "liberated" type.

Under the terms of this so-called Civil Affairs Agreement, the Supreme Commander had authority to take over governmental functions and exercise them through a French officer in terms of French law. The reason why this authority was absolute, at least in theory, was that many people were afraid about the future of the De Gaulle regime. I have always felt that it was entirely unnecessary to have these fears; but they existed nevertheless, and some very high-placed people entertained these fears. So that authority was given to Eisenhower.

On the other hand, there was always the idea not to use it if it could be avoided. For that reason, areas which were outside the battle areas (so-called Zone of the Interior) were immediately turned over to the De Gaulle government. Others were added in quick succession.

This planning for France was done partly in Washington with the French Economic Mission. Mr. Monet was chiefly responsible on the French side. There was, I might point out, a group of officers who planned, together with their French opposites, these matters. As soon as the French government went to Paris, that American Mission established itself with the French government in Paris. They executed this program. Originally, they had a political function, too, but in August the political function went to the re-established American Embassy and it retained only the economic functions which were liquidated by September 1945.

A STUDENT OFFICER: What I had in mind was that the indigenous supplies in France, in the Paris area (between the coast and Paris), were sent to southwestern France, apparently, from my studies on a unilateral action by the French government at that time without consultation with the Combined Boards or SHAEF Headquarters, making necessary the importation of supplies to Paris, which was a severe drain on the transportation system.

I was wondering if your studies indicated that that decision was confirmed by the Combined Boards or whether it was a unilateral action by the French government.

DR. HOLBORN: I would not know, I'm sorry to say. It is a very interesting case. As far as I remember, the French, at the beginning of these negotiations, had very large grain stocks in North Africa. Their idea was, if possible, to get something like food imports, let me say, up

to the level of, well, they would have liked 2,650 calories. Then the French government thought that this additional saving in the North African bank could be used as a supplementary distribution fund. That was not accepted. The French grain reserves were brought into that pool. But how that operated in any detail, I would not know.

COLONEL TAYLOR: This is a question entirely off the subject, but would you be willing to express an opinion as to why the Moscow Conference is having so much difficulty over the German question?

DR. HOLBORN: That is really an entirely new subject. I don't know. I think it is logical that the Moscow Conference is having a lot of trouble with the German problem; that is what the conference is for, in a way.

Let me perhaps put it in a somewhat different way. As far as I can judge, most problems could be compromised. We are in actually an identical, almost identical, position with the Russian position with regard to the future German constitution. It is really a struggle there about words--what "federation" means. The Russians suspect us to use the word "federation" more in the French sense, but actually we use it in the American sense, which comes close to their ideas.

However, I think the success or failure of the Moscow Conference will largely depend on the reparations issue and on the Ruhr control. I think those are really the crucial questions. As long as the parties have not come closer in that field, they will, of course, reserve all of their different interpretations in the other cases. The questions of reparations and control of the Ruhr may very well wreck the conference. I consider that quite possible. I don't know, at the present moment. My impressions, from the Conference reports so far, have been a little better than I thought they would be but this doesn't prove anything.

Since we are here among friends, I might perhaps say something that would not be so wise to state publicly at this moment, for obvious reasons. We are inclined to look at the whole problem of German economy and reparations very largely in terms of getting our money back and at least trying to place the occupation of Germany on a self-paying basis. It is on that count that we are denying the Russian proposal to receive additional reparations out of current production.

This raises a very difficult and a somewhat academic question. The Hoover Report on Germany makes the assumption, which I think is wrong: the recovery of German industries is not held up by the level-of-industry plan--you know, the one that tries to limit heavy industries which was agreed upon in March 1946.

Actually, as far as I can judge, the problem of German economy is almost entirely a problem of coal, at the present time at least. It is not true that our dismantling of industries and deliveries of capital goods to other countries has in any serious manner interfered with the recovery of German economy. The problem is entirely a problem of coal, together with all of its ramifications.

The problem of the Ruhr, which still has only a coal production of under fifty percent what it was in 1938, and a part of that production is going to France, the Netherlands, and so on, is among others a problem of manpower and of housing in that area. There are many, many angles to that.

But even under the level-of-industry plan of 1946, it is not likely that Germany will reach that level for another two years. However, we are discussing at this moment a review of the level-of-industry plan with a view to giving Russia a part of expected German production. Personally, I do not think that could happen before 1950 or 1951. The Russian need for consumer-goods is now, not in 1950 or 1951.

We have taken the attitude now of asking the Russians to solve it for us. "Tell us," we say, in effect, "do you think you could get reparations in this situation?" Apparently they are not coming forward with any concrete proposals, such as offering imports of raw materials, and so on. Maybe they could be induced to do something about the manpower problem in connection with the coal situation; for example, releasing the miners who are among the prisoners of war. There are still possibilities.

I have not heard what has happened in these last three days on this question. That seems to me to be the crucial one. I do not think you could expect me, in five minutes, to discuss the whole situation. I picked this one as coming closest to the interest of this group.

CAPTAIN WORTHINGTON: Thank you very much, Dr. Holborn, for a very interesting and informative lecture.

(23 May 1947--350)SP