CABINET.

POLICY TOWARDS GERMANY.

MEMORANDUM BY THE SECRETARY OF STATE FOR FOREIGN AFFAIRS.

The attached paper sets out some of the problems facing us in Germany, with particular reference to the question whether we should continue to work towards a unified (though federalised) Germany or whether, in view of the Russian attitude and the danger of Communist domination of Western Germany, we should regard this as dangerous and work towards a Western German State or States which would be more amenable to our influence. Our present policy in our own Zone is compatible with an eventual German federation with regional units having wide autonomous powers co-ordinated in certain restricted matters by a federal body at the centre. I shall be grateful for an expression of the views of my colleagues on the questions raised in this paper. My own feelings at present are that the general dangers of splitting Germany now are greater than those of continuing our present policy and that we can hope to avoid many of the dangers of centralisation by insisting on political development along federal lines.

It is very likely that I shall have to deal at the present Conference in Paris with some of these general German questions. The French Government are very keen on the idea of federalisation, while the United States Government have hitherto strongly advocated the immediate introduction of certain central administrations. I would propose that when it became necessary to discuss these questions here I should take roughly the following line:

"The objective to be aimed at by all four Occupying Powers in guiding constitutional and administration developments in Germany should be a decentralised federal structure based on regional units with considerable autonomous powers. When it is agreed between the Four Powers that the time has come to set up a central German Government, they will consult together again as to the means of doing this, but the central government will in no circumstances be given such powers as would restrict the autonomous status already given to the regional units. Meanwhile, there will be no objection of principle to the establishment of such German central administrations as may be found absolutely essential for the purpose of treating Germany as an economic whole. The central administrations should be restricted to co-ordinating the activities of the regional units. They should act through the local German governments and their activities in each Zone would be subject to the control of the respective Zone commanders. If the Four Powers agreed on principles of this nature the detailed application of them would be referred for study to the Allied Control Commission in Berlin."

It seems that a proposal on these lines might go some way towards reconciling the French and American points of view and would not altogether exclude the possibility of splitting Germany into two parts if, owing to Russian non-co-operation, this latter became inevitable.
Policy towards Germany.

1. I circulate as an Annex to this paper a survey of the present situation in Germany. Its salient features are the following:

(a) Conditions in Germany.

Though a beginning has been made with reconstruction, nevertheless practically every German town is still in ruins; communications are far from fully restored; industrial production in the western zones is at about 15 per cent. of pre-war; there is a grievous shortage of food and coal; the population is swollen by forced immigration from the east. Political parties and trade unions are emerging, after an initial period of political apathy. The Communists have captured the east. Though they are active and well organised in the west, they are, as yet, only a minority.

(b) Potsdam Agreement.

The Potsdam Agreement set out drastic principles for the destruction of German militarism and National Socialism. It removed from Germany an area in the east amounting to about a fifth of the pre-war territory. It provided for payment of reparation by the removal of Germany's industrial equipment to a point which would leave her standard of living not higher than the average European standard. The plan subsequently agreed for this purpose will reduce the general level of industry to about half that of 1938, and reduce the heavy industries to about a third. Potsdam postulated political decentralisation and economic unity. Germany was to be treated as an economic whole and central German administrations were to be established to deal with economic matters, but for the time being no central German government would be established. When accepting the level of industry plan subsequently drawn up by the Control Commission, the British representative made the reservation that it would need to be reconsidered if the assumptions on which it was based were not fulfilled. One of these assumptions was that Germany would be treated as an economic whole.

(c) Allied administration.

The central German economic administrations have not yet been set up, nor is Germany being treated as an economic whole. Four Power government at the centre is beginning to creak and the burden of government to flow to the zones which are tending to become quasi-independent.

(d) Russian attitude.

Three main elements may be seen in Soviet policy:

(i) to prevent at all costs the revival of a strong and independent Germany;
(ii) to prevent western Germany with the Ruhr, or even the Ruhr alone, being brought into any close grouping of the western democracies;
(iii) to ensure that Germany eventually looks east and remains under strong, and if possible exclusive, Russian influence.

The Russians have not yet come down in favour either of a unitary Germany or a zonal Germany. They are, at present, hedging and making the best of both worlds. They have established themselves securely in their own zone, are making a strong bid to capture Berlin for the Communists, and are preparing to launch out on a more forward policy in the west.

(e) The British zone.

The economic difficulties fall most hardly on the British zone which is mostly an industrial area and never self-supporting in food. The industries are broken and food imports hard to come by. The cost this year to the British Exchequer will amount to at least £80 millions net. We are creating German authorities to take over responsibility for the administration and endeavouring to build up democracy from the bottom. It is proposed to hold borough elections this autumn and plans have been laid for the holding of other elections up to the province level in the course of the next year. These developments would be compatible with the eventual introduction of a federal system for the whole of Germany. Whatever the speed of these constitutional developments may be, however, both our troops of occupation and our Military Government personnel will be greatly reduced by the end of this year.
2. Up till recent months we have thought of the German problem solely in terms of Germany itself, our purpose having been to devise the best means of preventing the revival of a strong aggressive Germany. At times the emphasis has been on re-education, though usually on controls and measures of security. This purpose can clearly not be discarded. It is one which we have in common with the Russians. But it can no longer be regarded as our sole purpose, or, indeed, perhaps as our primary one. For the danger of Russia has become certainly as great as, and possibly even greater than, that of a revived Germany. The worst situation of all would be a revived Germany in league with or dominated by Russia. This, of course, greatly complicates an already complicated problem. It involves avoiding measures which would permanently alienate the Germans and drive them into the arms of Russia. It involves again showing sufficient purpose not to let it appear that Russia, when it comes to the point, always gets her way in four-Power discussions about Germany. It involves showing ourselves to be no less constructive in our approach to the problems in our zone than the Russians loudly proclaim themselves to be in theirs. And, above all, it involves maintaining a sufficiently high standard of living in western Germany to prevent the Communists from exploiting to their advantage the economic hardships suffered by the population. All this calls not only for the highest qualities of resource and tenacity but also for a readiness to use the necessary man-power and resources to uphold our purpose.

3. The Chancellor of the Exchequer, in bis budget speech, pointed to our expenditure of £80 million this year on civil administration and on food for the Germans in our zone, and described this as in effect paying reparations to Germany. This revelation has caused considerable consternation to the public, and the first question for decision is therefore whether we are to go on using our man-power and resources to uphold our position in Germany or whether we are prepared to see Russia absorbing western Germany as she has already to all practical purposes absorbed the east. It should be borne in mind that Russia can absorb countries without spending money on them, but we cannot. The western way of life demands a minimum of material wellbeing.

4. As an occupying Power we maintain our claim to repayment and have better opportunity to enforce it. At the same time it is obviously essential to consider every possible means of reducing such expenditure to the minimum. We might, for example, invite our western Allies to contribute to the renovation of the Ruhr coal industry on which they so greatly depend. We can insist with the Russians that Germany must in reality be treated as an economic whole, and that the surpluses in the east are used for the benefit of the whole country. Nevertheless, however great our persuasive ability and our efforts to develop the production of our zone, there is no likelihood of its being self-supporting for some time, or of our being able to avoid the major part of the burden of meeting its deficiencies. Not even the modification of the reparation plan would ease the immediate liabilities, since for some years to come there is no possibility of industrial activity rising to the permitted level.

5. It is easy to over-simplify this issue and regard it as one between continuing our occupation and control with all the expense that is involved in that responsibility and withdrawing from Germany and so saving our pockets. But even if we were to evacuate Germany completely, we should hardly be prepared to see the country rotting in starvation. Disease knows no frontier. By withdrawing from Germany we could no doubt save ourselves some expense, but not the whole bill, and we should have little control over the manner in which the money was used or what type of authority in Germany, e.g., Nazi or Communist, had the use of it.

6. On the assumption that we are not prepared to leave the field to Russia, the question arises whether we should be best advised to maintain and develop the present policy of Potsdam or to throw it overboard and organise our own zone as an independent unit according to our own ideas, bringing in the other western zones as we can. The Potsdam Agreement provides for the decentralisation of the German political structure but also for the establishment of central German administrations for certain economic purposes. The Agreement provides that no central German government will be established for the time being, but it must be assumed that the establishment of central economic administrations would logically lead in due course to the establishment of a central Government.
though the powers of the latter might be considerably limited by reinforcing the autonomy of regional units in some kind of federal structure. Allied control may continue in some form for many years, but one cannot expect the indefinite prolongation of Allied government. The Control Machinery Agreement on which it is based was only designed for the initial period of occupation. Sooner or later the Germans will have to govern themselves, whether under a central government (albeit of a federal character) or state or zonal governments.

7. So far as our short-term interests are concerned there can be little doubt that they would be best served by the establishment of central administrations without further delay. They are essential to the treatment of Germany as an economic whole, and their absence gives the Russians a ready excuse for maintaining their zone as a closed area. As it is a larger food producing area than western Germany, the barrier makes for better economic conditions in the east than in the west, at any rate so long as food shortages continue. It is of course impossible to feel any assurance that, even if central administrations were set up, the Russians would work the system honestly and would not merely try to use them to infiltrate into western Germany, while taking good care that they were not used by the western Powers to infiltrate into the east. Constant vigilance would have to be exercised to see that there was complete reciprocity between the Russian and the western zones in carrying out the policy of a unitary Germany. But the existence of central administrations would at least fortify our claim, which we cannot at present assert, to penetrate the iron curtain economically, and to draw any surpluses from the east into the hard-stricken western zones. At present the Russians are using their zone not only to feed the Red Army but to send home food-stuffs and manufactured goods as reparation.

8. But one cannot think of the problem solely in terms of its immediate effects, seeing that central administrations would logically develop in due course into a central government. It is therefore of importance to estimate in which direction a central German government would be likely to turn, at the same time bearing in mind that even if western Germany were set up as a separate state, that state might itself succumb to the communist pressure which would certainly be directed against it. No firm answer can be given on the possible complexion of a central German government. The Russians are probably as doubtful about it as are we ourselves. If a central government were set up during the present period of Allied occupation and four-Power control, its composition would presumably depend on the result of nation-wide elections, conducted under four-Power supervision. It may be assumed that the Communists, or the new Socialist Unity Party, would gain the upper hand in the Soviet zone. The same is also probable, though not so certain, in Berlin. According to present indications in the United States zone and in regions of North Rhine and Westphalia of the British zone, the Christian Democratic Union would probably be the largest party. In Hanover Region and Hamburg the Social Democrats would probably be the strongest, with in Hamburg a substantial communist and in Hanover Region a substantial right-wing runner up. In Schleswig-Holstein the right-wing parties would probably prevail. If the German government in Berlin fairly reproduced the outlook of the country it would be neither wholly eastward looking nor wholly westward looking. The question would then turn on whether the western democracies or the Soviet Union would exercise the stronger pull. On the whole the balance of advantage seems to lie with the Russians. It is highly unlikely that the western democracies would be able to exercise any influence in the east, at any rate outside Berlin itself. On the other hand, Communism already has its addicts in western Germany, and the liberal attitude of the occupying authorities in the west would allow them a free hand. Added to this would be the constant pressure of propaganda and of agents from the east. And the prevailing material conditions would give them an excellent ground for their activities. They would find the position favourable both in the short-term and in the long-term. For the next year or so, no matter how great our efforts, one must expect hunger, cold and lack of shelter. Later on the level of industry plan will take effect, causing large-scale unemployment and preventing any rapid reconstruction. In such conditions Communism will have an obvious appeal and, with its emphasis on strong authoritarian government, can be plausibly represented as the only kind of system which can possibly cope with so desperate a situation. Even if the first national elections gave the democratic parties the advantage, one must feel greater doubt about the subsequent ones.
9. A federal system for Germany would minimise these dangers. It would be based on the grant of considerable autonomous powers to the provinces with a co-ordinating body at the centre whose powers would be strictly limited. It would be necessary to examine exactly what division of powers would be most suitable, with a general tendency to restrict the powers of the centre to the barest minimum necessary for its co-ordinating function. The powers reserved for the centre would be mainly those concerned with economics and finance, though there might be no objection to leaving even certain financial powers to the provinces, which might, for instance, be allowed to organise their own social security services. Under a scheme of this kind central administrations, whether set up now under the Allied Control machinery or later under a federal German government, would act through the local German governments and would be prevented so far as possible from organising a network of their own agencies throughout Germany. It may be objected that a federal structure of this kind would not be likely to offer serious resistance to communist influence at the centre, since the latter would be able, with even a small amount of military or para-military force (organised no doubt with Russian assistance) to swallow up the disarmed and divided regional units one by one. This danger exists, but on the whole it seems less serious than to provide the communists with a centralised machine ready to hand, such as Hitler found when he came to power as a result of the centralising tendencies which had operated in Germany since the time of Bismarck.

10. In seeking a solution of our dilemma the following considerations should be borne in mind. Though we could argue that the principles laid down at Potsdam were only designed for the initial control period and are therefore now due for reconsideration, nevertheless to throw the Potsdam policy overboard entirely and organise our zone as an independent unit would have very grave consequences:

(a) We should be unable to retain for long even the façade of four-Power co-operation in Germany and should soon find ourselves forced out of Berlin.

(b) The hopes we still entertain of breaking down the iron curtain would have to be abandoned. The whole of eastern Germany and indeed of eastern Europe would be irretrievably lost to Russia.

(c) We should also have to defend our zone (or western Germany) from the infection of political and economic influences from the east. For example, we should have to set up a separate currency and almost certainly a separate nationality.

(d) All this—which would in effect amount to bringing western Germany into a western anti-Soviet bloc—would mean an irreparable break with the Russians, who would go all out to destroy our policy in western Germany and turn the population against us. This task would not be difficult in an industrial area in a period of acute food shortage. They would, no doubt, also redouble their attacks on us in all other parts of the world, and the prospect of U.N.O. continuing in such circumstances would be slender.

(e) The Americans are probably not yet ready for this. Certainly their leading representatives in Germany would oppose it tooth and nail. In any case one could not count on continued American support even if they came to agree to it. But full American support would be essential.

(f) The French might or might not support us, depending on the strength of communism in France. In any case Communist influence would be strong enough to make their support an uncertain factor.

(g) The Belgians and Dutch (as indeed all minor Allies) would be distressed by any reduction of reparation which would be involved in organising western Germany for prosperity, but the prospect of restoring a prosperous trade with Germany might reconcile them to the loss to some extent. They would be less easily reconciled to the "forgive and forget" attitude towards the western Germans which our new policy would necessarily involve. Their love for German Socialists is no greater than their love for other Germans.

(h) We should find ourselves at the mercy of German blackmail—"We must be given this and that, or we shall be overwhelmed by the Communists." We should probably soon have to accept a German army.
The fear and contempt which Germans feel for Russia, coupled with their unforgiving resentment at the loss of the eastern provinces, might keep them content for a time with holding Russia at the Elbe. But, whether we like it or not, the conception of German unity is a basic fact which has survived many centuries and is unlikely to be destroyed by any artificial creation established today. Sooner or later the east and the west would join up again.

Meanwhile we should have lost the one factor which might hold us and the Russians together, viz., the existence of a single Germany which it would be to the interest of us both to hold down.

11. The foregoing are powerful arguments against abandoning the Potsdam policy and setting out to organise our own zone or western Germany as a separate unit. On the other hand a "western" policy, if developed with determination and subject to the conditions mentioned in paragraph 12 below, could have certain attractions:

(a) It would be clear both to the Russians and to the Germans that we were determined to resist the further westward expansion of Russian influence and of communism. In this we could expect the support of the great majority of Germans, whose assistance we should have in resisting the infiltration of agents from the east.

(b) By denouncing the level of industry plan and limiting reparation to more reasonable proportions we should give the western Germans a hope for the future even though it would in itself bring them little immediate material benefit.

(c) If the German population became more contented by seeing our determination to save them from the Russians and restore their economy, the tasks of our authorities would be lightened, as also would those of the German authorities as they take over responsibility for administration.

12. It must, however, be stressed that two conditions are essential to the success of a "western" policy. The first is that we should give an immediate fillip to the population by raising the food ration and maintaining it at a satisfactory level. Even if the level of industry plan was discarded, we must reckon with an interval of two or three years before German industries could be so far rehabilitated as to render western Germany self-supporting. Secondly, we must be assured of full and continued support from the United States.

13. Whatever decision be taken on this fundamental problem, there are certain matters which we should keep to the forefront of our policy. These are:

(a) to concentrate on constructive measures in our zone, both political and economic, and refuse to be deflected from our course by the Russians or such satellites as the World Federation of Trade Unions;

(b) to accelerate constitutional development in our zone and to develop the local autonomy of the provincial governments, giving them the widest practicable powers and organising them in such a way that they will fit into a federated structure either for the western zones or for Germany as a whole;

(c) to maintain and, if possible, increase the present food ration in the British zone and western Germany as a whole, and to use every pressure to extract food surpluses from the Russian zone for the benefit of the rest of Germany;

(d) to take every possible step to increase coal production and see that a sufficient proportion is devoted to the re-activation of German industry;

(e) to apply the economic principles of Potsdam to the western zones even if the Russians refuse to collaborate, and in any case to foster the solidarity of the western zones;

(f) to act in fullest collaboration with the Americans;

(g) to maintain our position in Berlin.

14. The measures suggested in the preceding paragraph are not a substitute for a permanent policy, but until we see more clearly what is likely to be the future of the Ruhr, the most important single problem affecting our position in Germany, it is difficult to come to a final decision. It must be recognised, however, that the question of central economic administrations, which the United
States Government still feel to be one of the most urgent requirements for Allied policy in Germany, raises the fundamental issue whether Germany is to be a single state or split into eastern and western Germany corresponding to the Russian Zone and the three Western Zones respectively. If agreement was reached between the four Powers that we should all gradually work towards a federal system in Germany, into which the proposed new Province of the Ruhr would fit, this might allow the decision to be somewhat postponed, but it cannot be indefinitely avoided. If it was felt that we had to abandon the idea of a unified Germany, even with a federal system, it would be most important to ensure that responsibility for the break was put squarely on the Russians.

E. B.

Foreign Office,
3rd May, 1946.
**ANNEX.**

**SURVEY OF PRESENT SITUATION IN GERMANY.**

I.—ALLIED GOVERNMENT AND POLICY.

*Declaration of Defeat.*

1. Germany surrendered on the 7th May, 1945. On the 5th June a Declaration regarding the Defeat of Germany was signed in Berlin by representatives of the United Kingdom, United States, U.S.S.R. and France, whose Governments thereby assumed supreme authority with respect to Germany. The general conditions in which they undertook this responsibility were that practically every large town in Germany was in ruins, the communications had been disrupted and the administration had disappeared. That immediate starvation and epidemics did not set in was due to the existence of considerable food reserves and to the efforts of the Allied military administration.

*Control Machinery.*

2. Plans had already been worked out for the Allied government of Germany. These provided for the exercise of the supreme authority by the Commanders-in-Chief of the four Powers, each of whom is supreme in his own zone of occupation, while in matters affecting Germany as a whole they constitute jointly a supreme organ of control called the Control Council. The whole of Germany is under military occupation and is for that purpose divided into four zones. Berlin is jointly occupied in four sections and is administered by a four-Power body known as the Komendatura.

*Potsdam Agreement.*

3. The first public statement of Allied policy was issued after the Crimea Conference in February 1945. This was supplemented by the Potsdam Agreement of August 1945. The Potsdam Agreement set out the purposes of the occupation as (i) complete disarmament and demilitarisation, (ii) to convince the German people of their total defeat and of their own responsibility for their present suffering, (iii) to destroy National Socialism, and (iv) “to prepare for the eventual reconstruction of German political life on a democratic basis and for eventual peaceful co-operation in international life by Germany.”

4. Among the political principles to govern the treatment of Germany in the initial control period were the following:—

(a) that so far as practicable there should be uniformity of treatment of the German population throughout Germany;

(b) that the administration in Germany should be directed towards the decentralisation of the political structure and the development of local responsibility. This would include the restoration of local self-government on democratic and elective principles, the permission and encouragement of all democratic parties, and the introduction of the representative and elective principle into regional and provincial administrations. For the time being no central German Government would be established, but certain essential central German administrative departments would be set up in the economic field, acting under the direction of the Control Council.

5. Economic principles were also set out, and agreement was reached on reparation. The main features of these two sections were that the production of war material would be prohibited, the production of war-important industries rigidly controlled and restricted to Germany’s peace-time needs, and surplus productive capacity removed as reparation or destroyed; but payment of reparations should leave enough resources to enable the German people to subsist without external assistance at a standard of living not exceeding the average standard of European countries excluding the United Kingdom and the U.S.S.R. The first charge on exports should be for approved imports. The reparation claims of Russia and Poland would be met by removals from the Soviet zone, and those of the other Allies from the western zones; but Russia would also receive 25 per cent. of the equipment removed from the western zones, part of
which she would exchange for raw materials of equivalent value. The amount of equipment to be removed from the western zones would be determined within six months, viz., by the 2nd February, 1946. It was also laid down that during the period of occupation Germany would be treated as a single economic unit and that primary emphasis would be given to the development of agriculture and peaceful domestic industries.

6. It was decided at Potsdam to transfer to Polish administration the former German territories east of the Oder-Western Neisse line (except for the area around Königsberg which would be handed over to Russia). It was agreed that the German populations of Poland, Czechoslovakia and Hungary, would be transferred to Germany in an orderly and humane manner in accordance with a plan to be drawn up by the Control Council. The Control Council agreed on a plan to this effect in November 1945.

II.—GENERAL SITUATION TO-DAY.

Four-Power co-operation.

7. The end of the war left Germany a vacuum. The question still to be decided is how this vacuum is to be filled, and the answer will be a touchstone of Great Power collaboration. The general conception at the planning stage was that the four Powers should fill the gap by jointly exercising the supreme authority until such time as Germany had been purged of her vices and could safely be permitted to resume her own independent place in the European structure. The first essential to the success of this policy is, of course, that the four Powers should maintain a united front and, so long as matters of high policy have not supervened, harmony has not been lacking. Personal relations are for the most part good, and in certain important matters the interests of the four Powers coincide. There is, for example, no disagreement in principle on the need to disarm Germany. Agreement has been reached on such big issues as denazification, the reform of the judicial system and the future level of German industry. Nevertheless, the spirit of co-operation has tended to weaken as fundamental issues arise involving national interests and ideologies. No Power is at present strong enough to capture Germany as a whole, nor is the organisation for so doing at present in existence. But in its own zone each Power is doing its best to sow its own beliefs which, in so far as the East and West are concerned, are diametrically opposed.

8. This fundamental antagonism between the totalitarian and the liberal creeds, both of which claim to represent the true democracy, has been somewhat overlaid by extraneous disputes. The French, not having been invited to the Potsdam Conference, were critical of its conclusions from the start and, in particular, of the decision to set up German central administrations. They argued that the existence of such administrations, if given authority over the whole of German territory, would inevitably prejudice their aim to detach the Ruhr and the Rhineland from Germany. For this reason they have used their veto on the Control Council to block the establishment of these administrations. Their intransigence has exasperated the Americans whose great purpose it is to get the main Potsdam objectives, such as disarmament and denazification, finished off as quickly as possible and then hand over the administration to the Germans. American exasperation has not been limited to criticism of the French. We, too, have had our fair share of it, owing to our slower and more cautious approach deriving from our long-term interest in the future of Germany. But the Americans in Berlin have usually been careful to keep on the right side of the Russians, with the unfortunate result that there has at times been almost a Russo-American bloc in the Control Commission. This, of course, has suited the Russians very well, and they have exercised much ingenuity in singling us out for criticism and, at the same time, flattering the Americans.

Central and zonal administration.

9. Quadripartite government is itself an unprecedented experiment. In this troubled atmosphere and unaided as it is by any central German administrative authority, it is bound to creak and the burden of government to flow to the zones which tend to become quasi-independent, each administered according to the views of the occupying Power. This tendency is furthest advanced in the Russian zone and, though their unit of administration still remains the "Land," they have gone so far in the process towards zonal
administration that they could set up a zonal government without difficulty at any time that suited them. We in our zone work on the province or "Land," but have established zonal advisory bodies and are contemplating the establishment of certain zonal executive bodies. The Americans work direct from their own element of the Control Commission to the three "Land" Governments in their zone and the only coordination between the three "Länder" lies in conferences between the "Land" Governments. The French, who are wedded to the idea of decentralisation, have not set up any zonal organisation in their zone but are rather following the American plan of building up the provinces.

10. The Potsdam Agreement postulated political decentralisation and economic unity. Political autonomy in the zones would therefore not be inherently contrary to Potsdam. At the same time the zonal boundaries were not drawn up for that purpose. In some cases, e.g., in Baden and Württemberg, they cut across the old state boundaries. In any event it is scarcely conceivable that they will be maintained indefinitely after the occupation has come to an end, if only for the reason that they will recall the period of German humiliation. There can be no permanent political future for an independent zone. In the economic sphere the division of the country into zones is of greater immediate consequence. Germany was developed as an economic unit, as was recognised at Potsdam. Each part inevitably suffers if the zonal frontiers are trade barriers; and the British zone, being the least self-supporting in foodstuffs, suffers worst of all. To-day there is a very limited interzonal trade and an interzonal postal, telegraph and telephone system has begun to operate. It has also been agreed that a four-Power commission shall proceed to all four zones to watch over the application of the reparation plan. But the zones are now, in large measure, artificially separated economic units and this, together with the absence of central economic administrations, is greatly impeding efforts at reconstruction. Above all, no sound financial system can be looked for without a financial administration at the centre.

Transfer of populations.

11. The foregoing difficulties arise because part of the Potsdam Agreement has not been carried out. There are no central German administrations and Germany is not being treated as a single economic unit. Other difficulties are due to the precisely opposite reason that the Potsdam Agreement is being carried out. Potsdam laid down that the German populations remaining in Poland, Czechoslovakia and Hungary should be transferred into Germany, which was itself greatly reduced in area by the loss of the eastern provinces. The exodus had already started on a considerable scale before the war ended. But the completion of the transfer involves, according to the plan subsequently worked out by the Control Council, no less than 60 to 70 million persons. The Control Council agreed that these should be transferred by the end of July 1946. Though this date will certainly not be kept and though the Potsdam Agreement laid down that the transfers should be carried out in an orderly and humane manner, nevertheless the operation cannot fail to constitute one of the major problems which the authorities in Germany will have to face. These people arrive with few belongings and little money and often in a poor state of health. An unduly high proportion of them are women, children and old men. The prospect of their finding either work or homes is meagre and they also create an additional drain on the already inadequate food supplies.

Reparation and level of industry.

12. A further decision taken at Potsdam which will have the gravest effect on Germany's economy is that relating to reparation and the level of German industry. It was already agreed at the Crimea Conference that Germany should make compensation in kind to the greatest extent possible for the damage she had caused. The principles according to which this should be carried out were agreed at Potsdam and have been summarised in paragraph 5 above. The next step was to determine what Germany's level of industry should be and, after long and at times embittered discussion, the Control Council eventually approved a plan on the 30th March, 1946. Under this plan certain industries of particular importance to war purposes are to be eliminated entirely, while others will be restricted to various percentages of the pre-war level. No restriction on the other hand is to be placed on peaceful industries, while the production of coal
is to be maximised. It is estimated that the general effect will be to reduce the level of industry as a whole to a figure of about 50-55 per cent. of the 1938 level. But the heavy industries are to be more drastically reduced than others, the productive capacity remaining to them being of the order of a third of pre-war. Steel capacity is reduced to 7.5 million tons a year, and the actual production is not to exceed 5.8 million tons without the specific approval of the Control Council.

13. This plan is far more drastic than His Majesty's Government had wished, but it was found impossible to stand out against the combined determination of the other three Powers. All that proved possible was to enter the reservation that the plan would call for revision in the event of any of the main assumptions on which it was based being altered. Such assumptions were that the western frontiers of Germany would not be changed, that Germany would be treated as a single economic unit, that the population would not exceed 66 1/2 million, and that it would be possible for exports to pay for imports to the extent contemplated in the plan.

14. The Russians had an understandable interest in insisting on a drastic solution. In the first place they are to receive 25 per cent. of the proceeds by way of reparation. Secondly, they are determined to eliminate any risk of the western Powers having a powerful German war potential at their disposal. Thirdly, a low standard of living in the western zones will facilitate the spread of communism into those areas. The attitude of the Americans is less easy to understand. They may perhaps have been influenced by the desire to be rid of a commercial competitor, or by the Morgenthau tradition of pastoralising Germany, but even so slum conditions in the heart of Europe are unlikely to be to their permanent advantage. The French can, of course, not be expected to resist any measure, however shortsighted, that will weaken Germany.

15. It is impossible to make any accurate forecast of the effect that this plan will have upon Germany. At the moment the level of industrial production is still far below the amount permitted by the plan. In the western zones it is running at about 15 per cent. of pre-war. What the plan does is to ensure that Germany's economy will not be allowed to rise above a very low standard for an indefinite period. Large-scale unemployment, increased still further by the influx of refugees, must therefore be expected as a more or less permanent state of affairs. Added to which there will be the psychological effect upon the population of seeing their sources of employment removed or destroyed. It is unfortunate that the British zone is the area which will suffer worst from these effects.

Food crisis.

16. The immediate impact of the level of industry plan will then be chiefly psychological. Food and coal on the other hand are vital problems to-day. The world food crisis is common knowledge. But there are a number of reasons why it falls particularly severely on Germany. Before the war Germany was up to about 90 per cent. self-supporting in foodstuffs, thanks to a highly-developed and protected agriculture and to the large-scale production of artificial fertilisers. The economy was centrally organised so that the surpluses from one area supplied the deficiencies of another. In particular there was a large flow of foodstuffs from the agricultural east to the western industrial districts. Large tracts of these producing areas have now been detached from Germany. The eastern territories were also depopulated and devastated by war. Furthermore the central planning has disappeared. Such surpluses as there may still be in the east—and their present volume or even existence is unknown—are retained by the Russians for their own purposes. Imports on a heavy scale are therefore needed to maintain a bare subsistence for the population of the western zones. When the war ended, these areas were still in possession of considerable stocks, largely drawn from the liberated countries. To-day those stocks have been used up, and this at the very moment when the whole world is faced with an unprecedented food shortage. It is only natural that Germany should come low on the list of claimants. The result has been that we have had to reduce the ration in the British zone to just over 1,000 calories for the ordinary consumer and the Americans have had to come down to 1,275. The ration in the French zone is theoretically at about 1,000 calories, but it is doubtful whether this is being maintained in practice. These levels are not sufficient for health. Yet there is no immediate prospect of raising them. Food has therefore become the major
problem of the man in the street in western Germany as well as of the Allied authorities. Upon the solution of this problem depends not only our good name as administrators but any hope we have of re-educating the Germans. Democracy as understood in the west cannot be built on starvation. For the Russians things are easier. In the first place they have the food producing land if they like to use it. Secondly, their way of life has less need of healthy economic conditions as a foundation.

Coal.

17. Equal in importance to food is the question of coal. Indeed, the two problems interlock. When we first entered Germany, coal production had virtually ceased. Thanks to the efforts of our authorities it was gradually built up again until by the beginning of March 1946 the hard coal output was 1.1 million tons per week or about 40 per cent. of the 1938 level. The cut in the food ration, which fell on the specially favoured miners as on everyone else, had an immediate repercussion and production quickly dropped by about 20 per cent. Nor is it likely to rise appreciably unless and until the ration is raised. It may indeed fall still lower. The effect of this cannot be overstated. There is practically no economic activity in Germany which does not depend on coal for its source of power. It affects food production as it affects everything else. Until more coal is forthcoming, economic activity will continue to stagnate, and even the level of industrial production permitted by the Control Council’s plan will not be reached. Nor is the coal now produced devoted solely to Germany’s domestic needs. On the contrary the present governmental directive is that the maximum possible should go to export and only so much be retained in Germany as is needed to meet the minimum requirements of the occupation. And even this does not satisfy the French who persistently demand that the percentage for export should be raised regardless of the effect of such a measure either on Germany itself or on the mining industry from which the coal is derived. Coal in fact is a crucial problem whether regarded from the point of view of our administration of Germany or from that of our relations with our Allies.

German political developments.

18. German political development is naturally affected by these day-to-day problems of existence. It would in any case have been unreasonable to expect a population which has been denied all political expression and contact with the outside world for so long to make at once much intelligent use of the liberty which foreign armies had bestowed upon it. And of course this liberty was itself circumscribed by the necessities of military government, not to mention such material impediments as the disruption of all communications and the destruction of all the big towns. It is not surprising therefore that all early reports from Germany spoke of the political apathy of the population. Nevertheless, political parties have started to revive. In the east the Communists with strong Russian backing have made the running and are well on the way towards eliminating or absorbing all other parties. The single party system is likely soon to be an accomplished fact in the Russian zone. In the western zones the most important political parties are the Social Democrats and the Christian Democratic Union, neither of which have any inclination to make a united front with the Communists. The latter are an active and well organised minority but have hitherto been unable to make much headway without the support of the Red Army. Their future prospects will depend on the effectiveness of the policy of the Western Allies and on the degree of material well-being which the latter succeed in maintaining. But there is one objective in which all parties are united, and that is the preservation of German unity. Opinions may differ on whether Germany should be a centralised or federal State, but any suggestion that she should be dismembered is anathema to all alike. In the campaign for German unity the Communists have cleverly taken the lead, cynically ignoring the immense truncations which their Russian backers have imposed in the east. The other parties cannot oppose them on this issue, which is perhaps the only one on which all Germans think alike.

Trade Unions.

19. Along with political development trade unions have started to form again. Here, too, there has been considerable apathy in the rank and file, but they have been encouraged by the interest shown by trade union organisations abroad. A T.U.C. delegation has visited the British zone, while a delegation of the World Federation has been to Berlin and toured the whole country. The manner in which trade union development should proceed is not yet settled.
The T.U.C. advised strongly in favour of the British system of a confederation of autonomous unions. For the most part German opinion seems to incline rather towards a single centralised union, and this is likely to be favoured by the World Federation, which seems to be largely an agent of Russian policy. As elsewhere, the Russians hope to capture the trade union movement in Germany and create out of it a powerful weapon for attaining their political ends.

**Denazification.**

20. After their visit to Germany the World Federation issued a report, and its recommendations were significant. Most of the immediate practical problems of reconstruction were ignored. No reference, for example, was made to the food crisis, unemployment, the need for reconstruction or production, or to the refugee problem. Chief emphasis was laid on denazification, on which the attitude of the officers of military government was strongly criticised. Denazification is, of course, a matter of the first importance. It is impossible to leave the development of Germany to the men who played leading parts under the Nazi régime. The difficulty is to find other people of experience and ability. A further problem is the danger of creating a large body of ruthless discontented persons who will have no outlet for their energies except to sabotage any orderly government that may emerge. Such difficulties are ignored alike by the World Federation and by the Russians, whose purpose seems to be to create the maximum dislocation in the western zones and be left free to organise their own zone in their own way. They have no compunction in using Nazis where it suits them, and, of course, the two have much in common. It is unfortunate that we so often find ourselves on the defensive on the question of denazification, which is used as a stick to beat us with by the Russians who themselves appear to be interested in exploiting denazification as a measure of class warfare.

**III.—Situation in the Zones.**

**A.—British Zone.**

21. When the British forces first took over in the zone most things had come to a standstill. The immediate job was to knock some sort of shape out of the chaos left behind by the collapse; to get the coal mines working, the railways running, canals and waterways cleared, bridges repaired, food distributed and displaced persons repatriated. It is everywhere agreed that our military authorities made a fine job of it. The zone has been regarded by many as the best run, and the behaviour of the British soldier, his common sense and fairness, made him the most popular of the foreign troops in Germany. How far the food crisis will change this remains to be seen.

22. In the early days direct military government was the only method of administration possible, if only because the local German administration had disappeared. The change is now being made to civilian control. The Army Corps Commanders, who have hitherto been military governors of their districts, will confine their duties to that of garrison commander. Civilian regional commissioners will be appointed to each of the five regions in the zone. Among the subordinate staffs civilians are replacing soldiers. The change serves two purposes. In the first place, it is necessitated by the shortage of service officers resulting from demobilisation. Secondly, it is part of our definite policy of placing responsibility on the Germans for their own administration. British control and supervision will take the place of direct government except in subjects which are necessarily reserved.

23. The German bodies to whom these responsibilities are being transferred are at present councils nominated by the British authorities. Such councils have already been established at almost all district levels and at certain of the higher levels. The intention is to replace them in due course by elected councils. The present provisional time-table for elections is—

- District elections, Autumn, 1946;
- Regional elections, Spring, 1947;
- Zonal elections, Summer or Autumn, 1947.

24. In addition to the provincial and local councils, a start has been made with establishing machinery to cover the whole zone. Early in March a zonal
advisory council was set up, composed of civil servants, technicians and representatives of the political parties, trade unions and the co-operative movement. There is also an economic advisory board and a zonal finance department, and in addition a central office for food and agriculture with executive powers. It is too early to say how effective these bodies will prove to be.

25. Our policy is to build democracy from the bottom upwards. Political parties were at first approved only on a local basis, but now they are permitted to organise on a zonal basis. Though there was at first widespread political apathy, a number of parties are now showing activity. The three main parties, the Social Democratic Party (S.D.P.), the Communist Party (K.P.D.) and the Christian Democratic Union (C.D.U.) conform to the prevalent continental pattern. There are in addition the Lower Saxon Party, the Free Democrat Party, both fairly Right wing and likely to amalgamate, and the Centre Party (Catholic). This has so far refused to merge with the C.D.U., which stands somewhat more to the Right than the Centre Party.

26. The Social Democrats are at present probably the strongest party numerically in the zone. Their leading figure, Schumacher, is an outstanding personality. Courage, personal integrity, a strong anti-Nazi record and even stronger Socialist convictions, have made him the spokesman, though not always unchallenged, of the Social Democrats in the three western zones and in a lesser way of the independent Socialists in Berlin. The main points of the party policy include nationalisation of industry and social reform, German territorial integrity and political unity, the independence of the party as against the Communists and the attraction of the middle-class and workers' vote in support of democracy on a western pattern.

27. The Communist Party follows the Berlin-Moscow line. Its main aims are German unity (the Ruhr for the worker), S.D.P./K.P.D. fusion in a Socialist Unity Party with a view to establishing a workers' republic on a single party basis, and the realisation of Marxism as opposed to western democracy. It is outspoken in its criticism of British policy, particularly in respect of denazification and food. This criticism is likely to find many sympathisers unless the food situation improves.

28. The Christian Democratic Union favours private enterprise and religious freedom. It attracts former property owners and can hope to obtain a large proportion of the Nazi vote, though the possibility that many nominal and other Nazis may vote on the Communist ticket should not be excluded. It could hardly hope to survive a prolonged depression. It is in touch with the Christian Socialist Union, its counterpart in the American zone, which was the most successful party in the only elections so far held.

29. The trade union movement in the British zone was slow to develop. This is hardly surprising as it is clearly difficult to reconcile the exigencies of military government with trade union activities. Recent development has been more rapid. No estimate of the total numbers for the zone is available. The following figures give some indication of the position at the end of March. North Rhine Province, 470,000; Hamburg 130,000; Cologne 32,000; Hanover 20,000; Duisburg 20,000; Wuppertal 20,000. Trade unions are not allowed to indulge in political activities, nor have they much say in hours of work or wages which have largely been fixed by Control Council legislation. This leaves little scope except for discussion on conditions of work and denazification of industry. The immediate major issue is organisational, whether unions should be organised centrally or on a basis of autonomous unions. The T.U.C. delegation which visited Germany in November recommended in favour of autonomous unions so as to give the rank and file their proper say and prevent them being run from above. The German workers on the whole, however, seem to favour centralisation as giving them increased strength. At the first zonal trade union conference held in Hanover on the 12th March it was decided to establish four provisional organising committees and also a zonal organising committee. This was roughly on the lines recommended by the World Federation of Trade Unions. The large-scale unemployment which is likely to result from the level of industry plan must be expected to have a powerful effect on trade union opinion.

Economic Background.

30. To meet occupational and minimum civilian requirements the following main industries were put into operation when the reorganisation of the essential
industries began: steel, mining supplies, agricultural machinery, textiles, building materials, chemicals (fertilisers, soap, pharmaceutical products, vaccines). A plan known as the Spartan plan was devised to co-ordinate essential supplies of coal, iron, steel, timber and power, all in short supply, to basic industries. The targets set under this plan are inevitably low. The quota of steel output planned for the second quarter of this year is no more than 400,000 tons, which is only a fraction of that permitted by the level of industry plan. Insufficient steel in its turn affects the coal output for which both the other German industries and the European countries are desperately competing. The general situation is bad. The overall industrial production of the zone at the end of February was estimated at 15 per cent of the pre-war level. Progress in restoring industrial output is limited by shortage of transport, steel, coal and other raw materials. Given the low industrial output, unemployment is at present surprisingly small. The latest figures show only 360,000 unemployed, with 275,000 unemployable. They may, however, conceal some hidden unemployment as workers still hold considerable savings and may not trouble to look for work while there is so little to buy for their wages.

31. The administration of the Ruhr mines is conducted by a British organisation named the North German Coal Control. The former owners have been expropriated and the ownership is held for the time being by British custodians. Before the recent cut in the food ration, production of coal had been raised to about 40 per cent of pre-war, or over a million tons a week. 225,000 men were working in the Ruhr mines in February, 1946, and great, though not very successful, efforts were being made to increase the man-power in the industry. The immediate prospect is not good for the following reasons: the miners and their families are underfed, there is shortage of trained man-power, many experienced managers and foremen have been removed on account of their Nazi sympathies, the machinery needs renovation, but this is rendered impossible by the governmental directive which gives the lion's share of the production to export.

32. Of even greater immediate importance than coal is the problem of food. Here the situation is nothing less than alarming. It has already been referred to in Section II of this Annex. The acuteness of this problem may be judged by the fact that our present efforts are directed not to increasing the 1,000 calorie ration, but to preventing its further reduction. But this scale of nourishment means slow starvation and, if it is not soon improved, the consequences, both physical and moral, will be incalculable.

33. A further problem that deserves mention is that of housing. Its seriousness needs no emphasis and will be increased by the further influx of refugees from Poland, of whom 1½ million are to be expected in the zone during the coming months.

Occupation Forces.

34. It is hoped that by the end of the year the numbers of the British forces of occupation, including the Air Force, will be reduced to about 137,000. They will be supplemented by two Belgian divisions, and it is possible that some of the other western Allies may make a contribution. The establishment of the British Element of the Control Council is to be reduced to 20,000 by the end of the year.

Occupation Costs.

35. In his budget speech the Chancellor of the Exchequer gave a figure of £80 million as the estimate for the cost of civil administration and food imports. This is a net figure after deducting the prospective proceeds of exports. Nor does it include the cost of the military establishment. The present figure for the pay and allowances of the troops of occupation is about £65 million a year. This will, of course, be reduced as the numbers of the occupying forces are brought down. The most serious expenditure is on food imports, as for the greater part they are paid for in dollars. The Potsdam Agreement provided that imports should constitute a first charge on exports, but it is unlikely that all imports will be covered in this way for a considerable time. Discussions are proceeding with our Allies with a view to modifying the present arrangements which weigh particularly heavily on the British zone.
B.—United States Zone.

Administration and Politics.

36. The Americans approached the problem from the standpoint of getting quick results. Their aim was twofold: first, to "liquidate" the war by drastic implementation of the Potsdam provisions in respect of denazification, disarmament, demilitarisation and de-industrialisation; secondly, to transfer to the Germans as quickly as practicable responsibility for administration both in the zone and at the centre. The Germans would be encouraged to work for recovery and to establish a democratic Germany with a peaceful economy, sufficient to ensure an average European standard of living.

37. The kind of timetable the Americans appear to have set themselves was as follows:

- Elections at the lowest level (January, 1946).
- Elections at rural and municipal district levels (March and May, 1946).
- "Land" elections for the three State legislatures: Bavaria, Hesse, Württemberg-Baden (October, 1946).
- Central German administrations for economic purposes to be established immediately after Potsdam.
- The second phase of control, that of "gradual recovery," to start from the 2nd February, 1946, the date on which the reparation plan was to be determined in accordance with the Potsdam Agreement.
- Transfer from military to civilian control to take place on the 1st June, 1946.
- Main tasks of occupation to be finished by the end of 1947. Zonal frontiers could be opened and a German administration set up. In 1948 the occupational forces could be withdrawn and by the end of that year the peace could be signed. The military phase would be over.
- Control would be exercised for a further ten to fifteen years. Germany would then join U.N.O.

38. This general approach, based on the principle of indirect control and a relatively short occupation, had numerous attractions. Germany's war potential would be drastically eliminated; the "boys" could be got home quickly; indirect control would permit of economy in American man-power; Germany would be self-supporting at an early date.

39. Things have not worked out altogether as the Americans hoped. At the centre their hope of transferring responsibility to the Germans for economic matters has been blocked by the refusal of the French to agree to central German administrations. In the zone the American administration, though not without merits—it has shown remarkable efficiency, for example, in restarting public services and repairing the transport system—has on the whole been disappointing. This is perhaps due fundamentally to the fact that the average American does not belong in Europe and is only anxious to get home. In this the American soldiers, whether of the forces of occupation or of military government, have been all too successful, and continuity of administration has been woefully hampered by perpetual changes in personnel due to demobilisation. The hoped-for transfer from military to civilian control has, moreover, been blocked at Washington by the refusal of the State Department to take over the responsibility.

40. There have been sensational stories of misbehaviour by the G.I.s (the sternest critics being the American home press) and, though these are no doubt much exaggerated, the fact remains that the G.I.s do not seem to have earned great respect from the population. Much trouble, too, has been caused by the rigid and ruthless manner in which denazification has been carried out. No care seems to have been exercised to avoid the creation of an unmanageable body of discontents.

41. But it would be a mistake to paint too black a picture. The Americans have, in fact, succeeded in their main purpose of setting up German authorities and handing over to them the responsibility for administration. In this they have gone further than any of their partners, for the three States in the American zone have now Governments of their own. These are, so far, nominated bodies and, in respect of the population, have almost dictatorial powers. In due course they will be replaced by elected representatives.
42. As regards elections, the Americans have been making the pace. Those at the lowest level were held in January, despite German requests for delay. The results followed very closely the prevalent central European trend. The Christian Socialists and non-party members took the lead. The Social Democrats came next, and the Communists were a poor third.

43. The political parties in the American zone are less influenced by what happens in Berlin. Local loyalties and traditions find their extreme expression in Bavarian separatist and monarchist movements, alleged to receive some French support. The three main parties, however, all favour political unity. Herr Hoegner, the S.P.D. Prime Minister of Bavaria, does not take so strong an anti-union line as Herr Schumacher in our zone. He would accept fusion with the Communists if there was a secret ballot. Kaiser, Chairman of the Berlin Committee of the Christian Democratic Union, stated, after a recent visit to the United States and British zones, that many Christian Socialists there seemed to regard the Soviet zone and Berlin as lost to communism, and that they were adopting too reactionary a line. The Church influence in Bavaria and in South Germany is also an important political factor.

Economic Background.

44. The American zone is far less industrialised than the British. Nevertheless, it contains some important industries, including the headquarters of I.G. Farben. The breaking up of large industrial complexes is everywhere a major American objective and, after this had been consecrated by the Potsdam Agreement, the American authorities took over direct control of I.G. Farben, whose assets were vested in the Control Council.

45. Industrial activity in the zone is at a low ebb, for the same reasons as impede its restoration in the British zone. Industrial output has recently been estimated at only fifteen per cent. of the pre-war level, the same percentage as in the British zone. Little coal is produced in the American zone, which depends on imports from the Ruhr.

46. The food situation can be judged by the fact that the normal ration has just been reduced to 1,275 calories. But food off the ration is more easily obtained in the American zone, which for this reason is probably the best fed of all. Before the war the zone was said to be eighty per cent. self-supporting. But food production has suffered as a result of the lack of fertilisers and agricultural machinery and of the transfer from arable to pasture land. The zone, moreover, has to support its quota of refugees, a problem which will increase as the transfer plan is implemented. One and three-quarter million are to be transferred into the zone from Czechoslovakia as well as 300,000 from Hungary.

Occupation Forces.

47. A recent United States press report gave an estimate of 306,000 troops in Germany and Austria in June, to be reduced to 100,000 in Germany alone by the end of the year. The first figure would fit in with other statements made. The end of the year figure does not, however, agree with a statement made by General McNarney, the United States Commander-in-Chief, who put it at 300,000. What is certain is that, all going well, large-scale withdrawals at an early date are planned. These forces would be replaced by a specially recruited American mobile “occupational constabulary.” The location in Germany of a super-Bomber Fortress Force has also been suggested. It is probable that the United States Government have no firm plans for the length of time they will continue to maintain an army of occupation in Germany. At the start they certainly contemplated a short occupation of about a couple of years. But lately they seem to be becoming impressed with the need to maintain their forces if they wish to exercise their proper influence in European policy. In a recent speech the Assistant Secretary of State at the State Department declared that America was determined to retain enough troops in Germany to see that Germany was reduced to a predominantly agricultural State.

C.—The French Zone.

Administration and politics.

48. The French position in Germany is a difficult one. Their defeat in 1940, their small contribution to the final victory, their own internal perplexities and
their exclusion from the international conferences in which policy towards Germany has been decided, have inevitably placed them in an inferior position. Their zone of occupation bears all the traces of having been an afterthought. It was carved out of the British and United States zones and is shaped like a figure of eight. The boundary goes through the provinces of Württemberg and Baden, leaving the capitals of both in the American zone. Desultory negotiations have for some time been in progress with the Americans for its rectification. Except for the Saar the zone is largely poor, agricultural territory.

49. Despite their weak international position the French have made strenuous efforts to impress upon the Germans under their control the glory and magnanimity of France, to reconcile them to French control by offering them the co-operation of France and to attach them to the ideas of western and French civilisation. But these efforts have been prejudiced by a certain inefficiency of administration, a certain insecurity induced by requisitioning of food and property, and a general tendency to exploit the resources of the French zone for the benefit of France. These derive from the natural desire of the French troops to compensate themselves and to get their own back for the long sufferings inflicted by the Germans on France. In this there is a marked difference of outlook between the forces of occupation and the paternalism of military government officers.

50. The headquarters of the French military government and of the forces of occupation are located in Baden-Baden. Military government, which has been extensively civilianised, consists of a central administration which receives its directives from Paris rather than Berlin. In Paris a special control office has been set up, as in London, to deal with the affairs of Germany and Austria. The zone is divided into five districts, each under a "délegé supérieur." Administration in the districts is based largely on the principle of indirect control, and military government works through a reconstituted German civil service. The intention is to set up German civil directorates in each district and, when these find their feet, to withdraw military government. There is no central German administration for the zone.

51. The three main political parties have been authorised and the French intend to start holding elections next September. Hitherto political activities, as also trade union development, seem to have been fairly rigidly restricted to a local character and the re-establishment of political contacts on an all-German basis is discouraged. The French hold strongly to the conception of decentralisation.

52. The administration of the French zone has frequently been criticised as inefficient by the Germans. But it has come under even stronger criticism from left-wing circles in France who complain that the French personnel are largely drawn from Vichy elements. There have also been some rather seathing comments on the number of personnel employed.

Economic Background.

53. The French attach very great importance to the Saar which they wish to keep under permanent occupation and to incorporate in the French customs and monetary unit. They also wish for the ownership of the mines to revert to France. As an immediate measure they have asked that the territory should, like the areas transferred at Potsdam to Polish administration, be transferred to French administration and removed from the competence of the Allied Control Authority in Berlin. Meanwhile they seem to have taken energetic steps to re-activate the mines which are now producing at about fifty per cent of the pre-war output. In 1938 annual production was running at nearly 14 million tons.

54. Before the war the zone was said to be eighty per cent self-sufficient. The food situation to-day is however very bad. The official "normal consumer's" ration in March was 1,075 calories, but a quadripartite commission recently reported that in certain areas it was not much above 800 calories. There are special reasons for this in addition to those which have caused the deterioration in the British and American zones. In the first place the French occupation forces live largely off the land. Secondly, large exports were made to France, particularly in the early phase of the occupation.
Occupation Forces.

55. It is believed that French occupation forces in Germany have recently been drastically reduced. They are now estimated at between 90,000 and 100,000. At one time the figure was put as high as 250,000. French officers, officials and N.C.O.s are entitled to bring their wives and families with them to the French zone. This they appear to have done on a large scale.

D.—Soviet Zone.

Administration and politics.

56. The first reports from the Soviet zone were black: famine, disease, disorder, mass removals of equipment, machinery, livestock, rails and even of people. The German population was terrified, and everything seemed to have turned out just as Dr. Goebbels had predicted. War had come home to roost with a vengeance. Conditions in the zone during the first period, with the exception perhaps of Saxony and Thuringia, were, in fact, appalling. In Frankfurt on the Oder the Soviet-installed burgomaster told members of the first conducted press tour that 12,000 people, one-sixth of the population, had died in the first six months from sheer hunger. This statement was later officially amended to 12,000 deaths by all causes. In the first flush of victory and after the reconquest of their own devastated areas, the Red Army were not in the mood to respect persons or property. To have held them back would probably in any case have been impossible. But it was above all the Soviet "iron curtain" policy which gave plausibility to the wildest rumours. It was felt that there must be something to hide.

57. When, therefore, in January, the first carefully conducted journalists were allowed to visit the zone, it came as a general surprise that conditions in Saxony and Thuringia, if not in Brandenburg, though far from good, were much the same as in the other zones. There were several reports of a "maze of smoking chimney stacks," of conditions that compared very favourably with those in the Polish administered territories over the border. There can be little doubt that they were on the whole correct, and that behind the "iron curtain," lifted on occasion to suit Russian convenience, a positive policy was being pursued. Admittedly, reorganisation was accompanied by some confusion and inconsistencies. In their closed zone the Russians were evidently digging themselves in. They were not merely ruthlessly eradicating a Fascist order, but also energetically creating a new order to put in its place, the new order being based on a single class, a single party and a controlled economic pattern.

58. If the new order was to become lasting and real, it had to be built up wherever possible on convinced and indoctrinated German Communists, though time-servers from other German parties could provisionally be utilised. Full use was accordingly made of those Germans who had been trained in Moscow, and it has been claimed that some 7,500 picked ex-Wehrmacht men from the U.S.S.R. were returned to Germany for this purpose. The members of the Free German Committee in Moscow were allegedly flown back to Berlin. Wide powers and privileges were at an early stage given to these Germans, though ultimate Soviet control was absolute. Orders had to be followed implicitly. Political discipline and obedience were the highest qualifications. The strength of this approach, backed as it was by intensified propaganda, land reform and appeals to national sentiment, lay in the fact that it gave purpose and direction to forces which had for long been repressed. What had been done in "Brown" was now being done in "Red."

59. All Soviet actions in Germany are based on Potsdam, but, as General Sokolovsky, now Commander-in-Chief, once pointed out, the really essential feature in Potsdam from his point of view is "democratisation." Other problems such as reparation and the standard of living are by comparison relatively unimportant. The first task was to save Germany's political soul. Once this had been thoroughly done in the Soviet zone, it could perhaps be extended to the western zones, where social and economic disintegration would probably help to expedite the process.

60. The administration of government in the zone is carried out by Germans. Strict control is exercised and the initiation of all policy rests solely with the Soviet authorities. German administrations have been set up on a "Land" basis. Central departments have also been in existence for some time, and the progress
towards a zonal administration is further advanced than in our zone. The German administrative personnel is nominally drawn from members of the anti-Fascist United Front (Communists, Social Democrats, Christian Socialists and Liberal Democrats). Most of the key posts are in fact held by Communists. German administrators have both executive and legislative powers, but their authority is based on Soviet rather than popular support and no elections have yet been held.

61. Anti-Fascist parties were set up immediately after the collapse, and later the four main parties of the United Front referred to above were allowed to develop. The idea of Berlin as the capital of Germany and the headquarters of German parties in all zones was encouraged. The traffic of ideas was, however, to be one way. Berlin views and Marxism were to be exported and dumped on the western political market, but bourgeois democratic sentiments were not to be imported in exchange. When elections are held it is likely that the United Front will go to the poles as a single list, though the Liberal parties will perhaps be allowed to participate separately in order to create the illusion of democracy and to keep the door into the western zones open. But the Social Democrats have already been practically eliminated and forced into fusion with the Communists as a Socialist Unity Party. That there was no genuine and spontaneous wish for fusion can be seen from the resistance with which it has met in Berlin where the Social Democrats can hope for support from the Western Allies. But in the Soviet zone itself the Social Democrats have succumbed to the mixture of bribery and intimidation to which they have been intensively subjected.

62. In addition to the political parties, the Soviet authorities make great use of trade unions to further their ideas. Trade union activity on a strictly Soviet model is sedulously fostered. The co-operative movement is also put to use and will no doubt be developed, as elsewhere, as a means of eliminating all opposition through the use of the ration card.

63. Meanwhile propaganda to Germans is being intensified. Repeated rumours are heard that once the Socialist Unity Party is set up Soviet occupation forces will be withdrawn. There have been inspired rumours that German reparation plant will not be removed. There is also talk of a possible revision of Germany’s eastern frontier. The issue of German political unity has been exploited to the full. The Communists (and all the Berlin parties) have spoken strongly in favour of the Ruhr for the German worker. Separatist movements have been attacked. Berlin Communists have also to some extent encouraged the public to compare the relative order and prosperity in the east with the chaos and famine in the west.

Economic Background.

64. At an early stage of their occupation the Soviet authorities carried out sweeping reforms of the banking and insurance system. The existing firms were closed down and new public institutions set up in their place. There is less evidence that they have taken any steps to nationalise industries, though no doubt many of the old captains of industry have been eliminated as have the large landowners. These are said to have been deported to the island of Rügen where they are set to menial work. In industry there have been very extensive removals of plant which will probably continue, but it is doubtful whether they have been on the vast scale originally imagined. There are in fact indications that reconstruction is contemplated on the lines of a planned economy to be put to the use of a Soviet five-year plan. Industrial activity in Saxony has been estimated at 35 per cent. of normal. British journalists who visited Dresden were told that some 12,000 factories, largely producing consumer goods, were back in production. There is said to be sufficient brown coal to enable the factories to operate, coal being the main bottleneck both in the British and United States zones. At an industrial exhibition in the Zeiss Ikon building in Dresden in February of this year, some 3,000 exhibitors were said to have been represented. The Leipzig Fair is to be started again; it is significant that the order to this effect was signed by Marshal Zhukov and that business men from other zones are to be invited to attend. Trade with the western zones is practically non-existent, but on occasion special deals have been allowed. Textiles to the value of £38,000 were sent to the British zone in exchange for fifteen lorries and 600 tyres. Some exchange on a similar barter basis has taken place with the American zone. Most finished products are, however, likely to be sent east. A recent report
was given over the Berlin Radio that 30,000 tons of cotton and flax had been sent from the U.S.S.R. for processing in the zone. Another report suggests that rails running east and west are not to be removed. It is perhaps too early to judge from such unco-ordinated pieces of information what Soviet industrial policy is or to what extent the German industrial capacity can be put to the use of the Soviet five-year plan. But it may well be that the Soviet authorities are anxious to see a far more drastic de-industrialisation in western Germany than they are themselves prepared to accept in the east. A clearer estimate of their policy may become possible when, as is now contemplated, liaison missions are exchanged between the zones.

65. The land reform is the most sweeping economic measure so far carried out. It was completed quickly and ruthlessly. The immediate effect of the splitting up of the large estates has probably led to a reduction of food output, but it was almost certainly conceived primarily as a political measure. It eliminated the Junker class and it also provided small holdings for a considerable number of refugees and formerly landless peasants. All the estates over 100 hectares were broken up and redistributed in 5-hectare holdings. The redistribution of farm machinery, horses and cattle was obviously far more difficult. The measure is probably, on the whole, popular. It implies a fundamental change in the social and economic structure of eastern Germany. Whether it will prove, or, indeed, is designed to be, lasting is another matter. The new holdings are regarded by experts as too small to be economic and the collective farm may be the final solution.

66. Food rations are at present estimated at 1,580 calories in Berlin, Dresden and Leipzig, 1,260 in the larger towns, and 1,020 in the remaining areas. There is little reason to think that food conditions are better than in the west or that they will be so for some time to come. In some districts there are reports of famine. It has, however, been said that the present ration scale will be maintained until the new harvest. No food has yet been sent from these normally surplus areas to the western zones, though there have been reports of some going to Russia and Poland. Large quantities are also required for the Red Army, which lives off the land.

**Occupational forces.**

67. The total number of Soviet forces in Germany is not known. Press reports have put the figure at 1 million. It is, however, surprising that most reports on the zone state that Soviet troops are not much in evidence. There have been fairly widespread rumours that Soviet occupation forces would be withdrawn once a Socialist Unity Party had been set up and that they would be replaced by a special police force. But there are no signs that the Soviet Government has set any limit to the period of occupation. Marshal Zhukov has been quoted as saying “We will never leave Germany.”

**E.—Berlin.**

**The City's importance.**

68. Berlin politically to-day is three things: the capital of defeated Germany, the seat of the Allied Control Council and the centre of the Soviet zone and headquarters of the Soviet Military Government.

69. As the old capital Berlin has importance in the following ways: the association and tradition of government remain—once a capital, always a capital. Again, all German political parties and many Germans who do not belong to parties still regard German political unity as the one thing which must be saved out of the national wreck; the suprazonal status of Berlin is, in a way, a guarantee of that unity, for the presence of four Powers in Berlin acts as a guarantee against absolute domination by any single Power.

70. As the seat of the Allied Control Council and its subordinate committees and directorates Berlin is the place where the four zones, as well as the four Powers, meet. Its four sectors are British, American, Soviet and French respectively. They are the zones of Berlin. Its Control Council in miniature is the Komendatura. It is a sort of fifth zone—an international island in the Soviet zone of occupation. At Potsdam it was decided to treat Germany as an economic whole and to establish certain German central administrations.
Berlin is, inevitably, the place where such administrations would be set up and the only logical centre of such an economic whole.

71. As to Berlin's position as the centre of the Soviet zone and the headquarters of the Soviet occupation forces, it should be remembered that the city was captured by Soviet troops and, on the principle that takings are keepings, it is not surprising that they should regard it as more theirs than anybody else's. Also, while they were in sole charge they were able to do the initial cleaning up. Soviet nominees were appointed to many posts in the city administration and police. This influence remains. An island in the Soviet zone, Berlin is largely dependent on Soviet goodwill. The three western Allies are responsible for the feeding of their respective sectors, but the food, the trains, the roads, must all pass through Soviet territory. For the Soviet Element it is the home ground. The western Allies are playing away.

The K.P.D.-S.P.D. struggle.

72. On the German internal political level the most important issue at the moment is the K.P.D.-S.P.D. fusion struggle. In its briefest outline the position is that the Soviet authorities are anxious to see the S.P.D. and the K.P.D. merged into a single Socialist Unity Party at the earliest date, as they have already merged in the Soviet zone itself. Such a party would essentially be dominated by its communist element and the Social Democrats would, in fact, lose both their independence and character.

73. The Social Democrats in Berlin at first tried to postpone the decision on fusion pending an all-German Social Democrat conference. Pressure was however, brought to bear on both the central executive committee and the Berlin executive committee with the result that the leaders of the party eventually came out in favour of fusion. They were not, however, able to carry all their party with them in this decision with the result that the party split into anti- and pro-fusion groups. The anti-fusion, or independent, Social Democrats succeeded in organising a referendum in the three western sectors of Berlin on the 31st March, and 80 per cent. of those who voted were against fusion, although 62 per cent. were prepared to co-operate with the Communist Party. The Soviet authorities did not allow voting to take place in their sector and subsequently did all they could to show that the results of the referendum were indecisive and meaningless. Meanwhile they organised conferences both of the S.P.D. and the Communists. The two parties held separate conferences on the 10th and 20th April, followed by a combined conference on Easter Sunday and Monday. These conferences were regarded as Reichsparty rallies, delegates from the western zone being invited and elected to the central committees of both parties and also of the Social Unity Party. The fusion of the S.P.D. and K.P.D. in the Soviet zone was announced on Easter Monday. At the time of writing the new Socialist Unity Party has not yet applied to the Allied Komendatura for permission to exist in Berlin. In practice it exists in the Soviet sector, while in the western sectors it has been made known that no meetings of the new party or the opening of offices will be allowed until the Komendatura has agreed to the statutes and programme of the party. There appears to be no reasonable doubt that the independent Social Democrat Party can maintain itself in the western sectors, but inevitably greatly increased pressure will be brought to bear on it by the Russians and the German Communists.

The importance of keeping a foothold in Berlin.

74. The conflict of national interests in policy towards Germany is reflected in miniature in the quadripartite control of Berlin. It might at first sight be argued that it would avoid friction all round if Berlin were left to the Russians, and that in remaining there we are only going out of our way to invite Allied quarrels in what seems essentially a German cause. This would, however, appear to be a shortsighted view. The importance of Berlin has already been emphasised. If our foothold were lost, eastern Germany would be completely sealed off from the west. Such division would be purely one-sided, since the western Allies would find that they could not effectively seal off western Germany from the east—just as to-day Soviet views and news are exported to the world but little world news is imported into the U.S.S.R. In addition our withdrawal from Berlin, and the loss of prestige it must involve, would go far to convince many Germans in the west that unity and security could only be achieved by accepting communism in their turn. They would surely feel that Soviet domination in the east had come to stay and they would wonder how long the western Powers would continue to hold on in western Germany.
IV.—ESTIMATE OF RUSSIAN INTENTIONS.

75. It is perhaps a mistake to exaggerate the clearness of purpose of Russian policy in Germany. The Soviet Government may well be as perplexed as we are ourselves. Nevertheless certain broad conclusions may safely be drawn. It is fair to assume in the first place that the Soviet Government have retained an abiding impression of the offensive and defensive power of Germany as shown in the war. They have no wish to take any risks with Germany which, at any rate if aided in her recovery by other Powers, could once again prove a very formidable enemy. She must therefore be kept weak and safely contained. Equally formidable in Soviet eyes is a combination of the western democracies, of whose potential offensive power the late war bears eloquent witness. This combination, strong in itself, would become still stronger if harnessed to that of a Germany restored with western support and guidance. It also possesses, in Soviet eyes, a great power of political attraction for Germany. If, relying on their material power and moral influence, the western Powers could see their way to draw western Germany into their orbit, the Soviet Government would think it natural that they should proceed to do so; and they are keenly on the watch for signs of such a development.

76. There may be said therefore to be three main elements present in Soviet policy towards Germany:

(a) preventing at all costs the revival of a strong and independent Germany;
(b) preventing western Germany with the Ruhr, or even the Ruhr alone, being brought into any close grouping of the western democracies; and
(c) ensuring that Germany eventually looks east and remains under strong, and if possible exclusive, Russian influence.

Meanwhile, the Soviet Government are faced with the problem of pursuing their aims in, at any rate outward, association with a group of Powers for whose material resources they have a healthy respect and for whose ulterior intentions they have a deep mistrust.

77. The manner in which they have used the Potsdam Agreement as an aid to their policy is worthy of note and, indeed, of respect. So far as the destructive measures prescribed at Potsdam are concerned they have insistently stood out for the strictest application and interpretation of the relevant clauses—e.g., those relating to disarmament, demilitarisation, denazification, destruction and restriction of war potential, reparations, the scaling-down of Germany’s peace-time level of industry and standard of living. On the other hand, they have been less interested in those positive or constructive provisions of the Potsdam Agreement which call for four-Power action. Germany is not yet treated as an economic whole. Interzonal trade is of negligible volume. There is no pooling of food and other resources. The Russians appear to be maintaining that in present circumstances imports and exports shall be balanced on a zonal basis. In their own zone they carry out their own political and economic policy behind an iron curtain, which has as yet been lifted only to carefully conducted visitors. This policy has a constructive as well as a repressive aspect. On the repressive side they are eliminating the bourgeois classes as part of the process of denazification and land reform. But a worker, even if formerly an active member of the Nazi party, may be admitted into the ruling communist fold. On this class basis they are evidently seeking to propitiate the population, by letting the Germans in large measure conduct their own affairs and even encouraging them to beat the nationalist drum. On the economic side they are reactivating German light industries for the production of consumer goods, and they may before long be able to justify their claim that material conditions in their own zone are better than elsewhere in Germany.

78. These developments prompt the question, do the Soviet Government desire to see a unitary Germany administered from Berlin as foreshadowed at Potsdam? Or do they wish to perpetuate the zonal system of administration? Some of their acts and expressions of view speak in favour of the first hypothesis, and some in favour of the second. The truth probably is that they have not yet made up their minds; that they are at present hedging, as the French delegation conveniently enables them to do by blocking the establishment of central German administrations; and that meanwhile they are making the best of both worlds, establishing themselves securely in their own zone, to which they will add Berlin if they can, while at the same time asserting and maintaining to the maximum
degree their interest in, and right of access to, the western zones and their demand for the integral application throughout Germany of those provisions of Potsdam which suit them.

79. They are unlikely to be in any hurry to modify this situation of their own accord, more particularly as both the unitary Germany and the zonal Germany have possible disadvantages from their point of view. They may also wish to avoid any fundamental decisions until after the French elections and perhaps until they can estimate the prospects of the Socialist Unity Party catching on in western Germany or, alternatively, of the western democracies successfully organising a reasonably prosperous existence in the western zones. They are probably less certain than some western thinkers that a unitary Germany governed from Berlin would necessarily be under decisive Soviet influence. Even a Communist Germany would be unlikely to forget or forgive the amputation of the eastern provinces; for all the efforts the Russians could use to divert its hostility towards the west; nor are the traditions and doctrines of Russian and German communism identical. On the other hand they may well see grave dangers in the zonal solution, lest it result in the permanent establishment of western and capitalist influence in the western zones, the incorporation of western Germany in the western bloc, and the integration of a revived German industry in the western economic system. An acute observer in Berlin recently summed up his view of Russian intentions as follows. The developments of the past few weeks had now convinced him that the Soviet authorities had no intention of permitting effective four-Power control over the affairs of their zone. They might conform to certain formal four-Power rules, but they would run their zone politically and economically as a matter of their own exclusive concern. They would not allow it to be effectively treated as part of a German economic whole. On the other hand they would no doubt be anxious for Germany to be treated as a unit for purposes of political activity, since this would promote the spread of the new Socialist Unity Party throughout Germany. Their hope was, from a secure and inviolable base in their own zone, to extend their influence westwards. Only when Germany was unified politically in the way they wished would they allow Germany to be unified economically and by that time they would think that Germany should be run by Germans and not by the Allies.

80. Of one thing we may be sure. They will not rest content with organising their own zone. Already they are actively supporting the Communists in the western zones and, as soon as they feel their organisation sufficiently complete, they may be counted on to launch out on a more forward policy in the west. Herr Grotewohl, the Social Democrat leader in Berlin, who has espoused the cause of fusion with the Communists, put the matter in a nutshell in a speech celebrating the decision of the party conference in favour of fusion. "The new party" he said "will not halt at the Elbe."

24th April, 1946.