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052178204X - Money and Security: Troops, Monetary Policy, and West Germany's
Relations with the United States and Britain, 1950-1971

Hubert Zimmermann

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Introduction

THE ISSUE

On a cloudy, late summer day in Berlin, at a time when the research for this book was already well under way, its subject was officially declared history. After almost fifty years of uninterrupted presence, American, British, and French soldiers left their garrisons in the formerly divided city on September 8, 1994. A solemn ceremony at the Brandenburg Gate, featuring German Chancellor Helmut Kohl, French President François Mitterrand, British Prime Minister John Major, and U.S. Secretary of State Warren Christopher, concluded one of the last chapters of the Cold War. The highly symbolic event had many less spectacular precursors. After the epochal year 1989 similar ceremonies were held in many German cities as Allied troops moved out of the bases that had been maintained since the end of World War II. Rousing farewell speeches emphasized the bravery of the troops, the success they had with their mission of safeguarding the freedom of (West) Germany, and the magnanimity of the countries that had sent them. The return of the soldiers to their home countries signaled the end of an era.

Yet, despite the fact that the Cold War is generally declared over, NATO troops are still present in many places in Germany. Their continuing presence suggests that the significance of these troops always stretched beyond the obvious, that is, the protection of West Germany against the threat from the East. The large-scale Allied stationing of troops in Germany was among the most conspicuous and peculiar phenomena of the Cold War period in Europe. Such a long peacetime presence of foreign troops in an Allied country is without precedent. The British and American troops, on whom this study concentrates, were a major factor in the political relations between these countries and the Federal

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Republic of Germany (FRG), in the military balance between East and West, and in the construction of a stable peace in postwar Western Europe. Less well known is the fact that these troops also held great importance for the international monetary relations of the Western world. It is this surprising fact that lies at the heart of the two fundamental themes of this book: the connection between monetary and security policies in transatlantic relations during the Cold War and the way in which this money–security link informed and shaped American, British, and German foreign policy.

The empirical foundation of this study is provided by a multidimensional analysis of an issue that bedeviled Bonn's relations with the stationing countries from the 1950s until well into the 1970s: Who should carry the foreign exchange costs caused by the troops' enormous need for German currency? Like tourists, Allied troops had to convert their own currencies into the local currency to pay for goods and services. The sheer number of soldiers and the costly nature of their task made this foreign exchange cost a major factor in international economic relations. The history of the so-called offset- or support-cost negotiations, in which the United States and the United Kingdom tried to recover their foreign exchange losses from the government in Bonn, is marked by some of the most acrimonious exchanges between the Federal Republic and its allies of the past fifty years.¹ What seems at first sight to be an almost ceaseless bickering about often minor sums of money was in reality an expression of fundamental political and economic conflict. At stake was not only money and military security but also the political position of the Federal Republic vis-à-vis its allies. The United States and Great Britain saw in the negotiations an important means of employing German resources for the defense of the West, a core objective of their postwar policy. What drove the conflict to an even higher level was that both also came to regard troop costs as a cause of the monetary crises that plagued the Western world during the 1950s and 1960s. This interpretation was plainly rejected by the Federal Republic. Owing to these multiple implications, the troop-cost negotiations became a fundamental issue in the international political economy of transatlantic relations during the Cold War.

1 "Support-cost payments" were direct, budgetary payments made by the West German government toward the cost of maintaining allied troops on its territory. "Offset payments" were indirect measures that were meant to offset the stationing country's loss of foreign exchange. For example, West Germany would place orders for weapons in that country or would invest in its capital markets. "Occupation costs" were West German contributions toward covering the expenses of the occupation forces from 1946 to 1955. The term *troop costs* covers all West German payments for the support of allied troops.

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This study pursues three interrelated objectives: (1) to provide a history of the troop-cost negotiations and to link those negotiations to the economic and political relations among Germany, the United Kingdom, and the United States; (2) to show how economic, particularly monetary, factors in German-American and German-British relations influenced political-military relations and vice versa, as well as to address the question of what exactly was the connection between the developments in the international monetary system and Allied troop maintenance in Germany; and (3) to highlight trends in American, British, and, in particular, West German foreign policy regarding the role of economic diplomacy during the Cold War. Special attention will be given to tensions arising from the simultaneous integration of Germany into European institutions, into the Atlantic Alliance, and into the international monetary system.

Reconstructing the history of offset- and support-cost negotiations is necessary because of the scarcity of archive-based historical research in this field and the gaps in the few existing published works. However, I have not concentrated on the technicalities and the day-to-day conduct of these negotiations. Neither is it my intention to speculate on how a fair arrangement might have been made. Estimating the value of the troops is a political, not a financial matter; their overall cost is almost impossible to quantify.² It is therefore crucial to place the negotiations within the context of numerous related issues, such as the debates about troop levels, international monetary relations, armaments trade, military strategy, "European" questions, and domestic political and economic factors. All these issues were present in the negotiations. They provide an ideal starting point for taking a fresh look at many questions of international history during the Cold War.

The claim that security and economic issues are closely linked in international relations is certainly not new. During a Congressional hearing on the future of U.S. troop maintenance in Europe in 1971, for example, Martin Hillenbrand, assistant secretary of state for European affairs, remarked that the deployment of U.S. troops had been conducive to a "climate of receptivity toward American economic activity in Europe. I

2 In times of crisis, e.g., during the Berlin crisis of 1958–61, the troops were naturally regarded as more "valuable" than in times of détente. These fluctuations render it hardly surprising that NATO never found a formula for institutionalizing the distribution of the costs. Attempts by political scientists to calculate fair burden sharing miss this point completely. See, e.g., Mancur Olson and Richard Zeckhauser, "An Economic Theory of Alliances," *Review of Economics and Statistics* 48 (1966): 266–79; Jacques van Ypersele de Strihou, "Sharing the Defense Burden Among Western Allies," *Review of Economics and Statistics* 49 (1967): 527–36.

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don't like to imply that our troops in effect are hostage to European good behavior in the economic area, but obviously it would be foolish to deny at a psychological level that there is a certain relationship here."³ Such statements have been repeated in elaborated form in a great number of very diverse scholarly works on the economic and political relations between European countries and the United States, particularly in connection with monetary affairs.⁴ The links between political-military and economic-monetary factors have sparked increased interest by many political scientists dealing with international relations or international political economy since the 1970s.⁵ However, empirical studies that thoroughly and systematically analyze how these links were formed, how they worked, and what exactly their consequences were, especially studies that take a historical perspective and are based on extensive archival research, are almost nonexistent.⁶ This book aims to be a first step toward closing that gap. Broadly speaking, the goal is to reintegrate monetary history into the historiography of the Cold War, which typically is dominated by security issues.

The main problem in the international monetary system from the 1950s to the 1970s was the increasing pressure on the currencies of the United Kingdom and the United States, culminating in the breakdown of the postwar monetary system in the early 1970s. Simultaneously, the Federal Republic became one of the strongest monetary powers in the world. Despite the strength of its currency, however, its monetary policy was restrained in many ways by its commitment to the Western alliance. The reality of foreign troop presence in Germany was an important factor in this respect. As the strength of the deutschmark (DM) symbolized the re-emergence of Germany as a major player in world politics, the monetary problems of the United States and Great Britain came to be widely interpreted as portents of decline. Washington and London were unwilling to abandon the central role that their currencies played in the world

3 U.S. Congress, House of Representatives, Committee on Armed Services: Special Subcommittee on NATO Commitments, 92d cong., 2d sess., Oct. 1971–Mar. 1972, 12574.

4 See, e.g., David Calleo and Benjamin Rowland, *America and the World Political Economy: Atlantic Dreams and National Realities* (Bloomington, Ind., 1974); Susan Strange, *International Economic Relations of the Western World, 1959–1971* (Oxford, 1976), 270–5; the articles by Frank Costigliola and William S. Borden, in Thomas G. Paterson, ed., *Kennedy's Quest for Victory: American Foreign Policy, 1961–1963* (Oxford, 1989), 24–85; Diane B. Kunz, *Butter and Guns: America's Cold War Economic Diplomacy* (New York, 1997).

5 For an assessment of recent work in this field, see Michael Mastanduno, "Economics and Security in Statecraft and Scholarship," *International Organization* 4 (1998): 825–54.

6 Susan Strange, "Political Economy and International Relations," in Alan Booth and Steve Smith, eds., *International Relations Theory Today* (University Park, Pa., 1995), 154–74.

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economy. The ultimate measure of the success of their effort was the balance of payments, which records all payments of a given country to foreign countries and determines the strength of its own currency. Military expenditures abroad, of which troop stationing was a major component, were a conspicuous negative factor in the British and the American balances of payments during this era. Evidently, overseas military expenditures were not the only or even the main cause of the monetary disequilibria of the 1960s and 1970s, but they were an easy and popular target for governments struggling with balance-of-payments deficits. The simplest solution would have been to redeploy the troops to the home country. The catch in such a move was that the American and British troops in Europe had acquired an enormous political and military importance within the framework of Cold War politics. Thus, the United States and Britain saw themselves confronted with the dilemma of having to assign more relative value either to their central economic goal of strengthening the balance of payments or to vital security considerations. How this choice was resolved is a major theme of this study.

An issue that embodies such important political and economic issues also illuminates structural changes in West Germany's position in the international system from 1950 to 1971. The "German Question," understood as the problem of how a re-emerging, powerful West Germany would fit into the European structure of power, is a fundamental problem that informs most research on German foreign policy.⁷ It lay (and still lies) at the heart of many political issues in postwar Europe. It was often argued that the danger of a German hegemonic position in Central Europe would arise only if and when reunification actually took place. In reality the problem never disappeared from the minds of West European and American politicians after the war. How does the troop-cost issue figure within this broad context? The significance of Anglo-American troop stationing was twofold: control of the Soviet Union and control of Germany, that is, "double containment."⁸ This double control function was tacitly but widely acknowledged, and changes in troop levels inevitably affected its credibility. Could the United States and Great Britain risk unleashing

7 Dirk Verheyen, *The German Question: A Cultural, Historical, and Geopolitical Exploration* (Boulder, Colo., 1991), 2–3, highlights four principal dimensions of the German question: (1) German identity, (2) the reunification issue, (3) Germany's place in the international environment, and (4) German political and economic power in a narrower regional context.

8 This interpretive framework is lucidly outlined in Wolfram F. Hanrieder, *Germany, America, Europe: Forty Years of German Foreign Policy* (New Haven, Conn., 1989). See also Norbert Wiggershaus, "The Other 'German Question': The Foundation of the Atlantic Pact and the Problem of Security Against Germany," in Ennio di Nolfo, ed., *The Atlantic Pact 40 Years Later: A Historical Appraisal* (Berlin, 1991), 111–26.

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the haunting specter of an uncontrolled Germany so shortly after the demise of Nazism just to save an admittedly large sum of money?

Even more important to this research is the extent to which the German Question became an economic one after 1955, when the Federal Republic was politically and militarily bound to the Western camp. Twice in the twentieth century, Germany used impressive economic gains to launch assertive, ultimately militarily aggressive foreign policies. The most significant development in the Federal Republic during and after its integration into the Western alliance system was its spectacular economic success in the 1950s and 1960s. This provoked concern that the Federal Republic might use its economic weight to pursue irresponsible policies. In its relations with its Western allies Germany – or the German question – therefore figured not only in the debates about nuclear participation but also increasingly in an economic context. This is a historical process that can be followed to the present, when the looming economic hegemony of Germany is a major issue in European policy.

Surprisingly, the role of economic diplomacy has only recently attracted increased attention in accounts of postwar West German foreign policy. The traditional concentration on “classical” attributes of foreign policy (military and alliance politics) has led historians and political scientists to neglect the more subtle instruments of foreign economic policy.⁹ And yet it is economic diplomacy that has been and still is the most important and effective instrument of German foreign policy.¹⁰ This is particularly conspicuous in the field of monetary policy. During the 1950s the DM became one of the strongest currencies in the world. It would indeed be curious if this spectacular development had not had a deep influence on issues of foreign policy. Many of the arguments dealt with in this book reappear in one form or another in contemporary discussions of the – real or imagined – consequences of Germany's economic power. It is impossible to understand past and present German foreign policy without attempting to trace the impact of economic power; within this framework, the troop-cost conflict offers extremely instructive examples. The same is true for American and British policies.

While researching these issues it became clear to me that the significance of the results goes well beyond the confines of the topic and relates

9 Hans-Jürgen Schröder, “Wirtschaftliche Aspekte deutscher Aussenpolitik in der Adenauer-Ära,” in Franz Knipping and Klaus Jürgen Müller, eds., *Aus der Ohnmacht zur Bündnismacht: Das Machtproblem in der Bundesrepublik 1945–60* (Paderborn, 1995), 121–38.

10 For a concise argument along these lines, see Gottfried Niedhart, “Deutsche Aussenpolitik: Vom Teilstaat mit begrenzter Souveränität zum postmodernen Nationalstaat,” *APUZG* 2 (1997): 15–23.

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to a whole series of academic debates that deal with the way foreign policy is formulated and executed. First, the troop-cost conflict shows how modern states interact in alliances characterized by a pattern of simultaneous competition and cooperation. Second, the conflicts analyzed in this study are an instructive demonstration of the way domestic politics influence the formulation of foreign policy. Despite the often arcane nature of the negotiations, domestic considerations weighed heavily in all decisions and on all sides, and I illuminate this domestic background wherever possible. Third, the troop-cost conflict contributed to the debate on the relative nature of American hegemony and on British economic and military decline after 1945. All these issues were considered when I wrote this book, and although I could not pursue them in any systematic way, I hope that the results of my research will be helpful to scholars working on those questions.

LITERATURE AND SOURCES

Although Allied troop maintenance in Germany was one of the most conspicuous manifestations of the postwar military-political settlement in Europe, it has not been studied extensively. Most scholarly work on this subject situates it within the framework of general strategic and political questions.¹¹ A tentative consensus has been reached in this respect, which explains the long-term presence of the troops in Europe as a necessary complement to nuclear weapons and argues that the value of their presence depends on nuclear strategy. However, strategy explains only a small part of the continuity of Allied troop maintenance in West Germany. Political factors were far more important. These also have been extensively researched, and the concept of double containment is a useful framework for explaining how the American Seventh Army and the British Army on the Rhine (BAOR) became such essential parts of the

11 Most influential is John Lewis Gaddis, *Strategies of Containment: A Critical Appraisal of Postwar American National Security Policy* (New York, 1982). See also David N. Schwartz, *NATO's Nuclear Dilemmas* (Washington, D.C., 1983); Jane E. Stromseth, *The Origins of Flexible Response: NATO's Debate over Strategy in the 1960s* (New York, 1988); John S. Duffield, *Power Rules: The Evolution of NATO's Conventional Force Posture* (Stanford, Calif., 1996). For an assessment of the strategic debate in the Alliance, see Marc Trachtenberg, *History and Strategy* (Princeton, N.J., 1991). For details of troop location, structure, and for changes over the years, see Simon Duke, ed., *U.S. Military Forces and Installations in Europe* (Oxford, 1989); Simon Duke and Wolfgang Krieger, eds., *U.S. Military Forces in Europe* (Boulder, Colo., 1993); Lee Gordon, "The Half-Forgotten Army: A Survey of British Forces in Germany," *The Economist*, Nov. 28, 1970; Dieter Mahncke, ed., *Amerikaner in Deutschland: Grundlagen und Bedingungen der transatlantischen Sicherheit* (Bonn, 1991); Daniel J. Nelson, *A History of U.S. Military Forces in Germany* (Boulder, Colo., 1987).

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Western security structure that emerged during the 1950s. However, remarkably little research has been done on the troop-cost problem and its impact on political-strategic questions as well as on the economic relations of the countries involved. Historical research based on archival sources is especially rare.¹² This is surprising given that the history of Allied troop maintenance is marked by an uninterrupted series of conflicts over this issue. Disagreements about financial questions were much more frequent in the Western alliance than strategic or political divergences. When the latter arose, they were often closely linked with the cost issue.

The period up to 1968 is extensively documented by both published primary sources and archival material. Biographies, journals, and newspapers were a necessary complement in my research to understand the crucial domestic context of many issues. Even so, primary sources are the foundation on which my research rests. Some of them are available in edited form. For U.S. policy, the Foreign Relations of the United States (FRUS) edition and the microfiche collection of newly declassified documents, the Declassified Documents Reference System, were the most useful. These editions provide good documentation of major issues but unavoidably lack detailed material on the subject. Material in American archives filled in the gaps in the record. I carried out research at the John

12 In the Anglo-German context, see Wolfram Kaiser, "Money, Money, Money," in Gustav Schmidt, ed., *Zwischen Bündnissicherung und privilegierter Partnerschaft* (Bochum, 1995), 1–31; Harald Rosenbach, "Die Schattenseiten der 'Stillen Allianz': Der deutsch-britische Devisenausgleich, 1958–1967," *Vierteljahrschrift für Sozial- und Wirtschaftsgeschichte* 2 (1998): 196–231. A few paragraphs based on archival evidence can be found in Olaf Mager, *Die Stationierung der britischen Rheinarmee: Grossbritanniens EVG-Alternative* (Baden-Baden, 1990); Werner Abelshauser, *Wirtschaft und Rüstung in den Fünfziger Jahren*, vol. 4 of *MGFA* (Munich, 1996); Daniel Hoffmann, *Truppenstationierung in der Bundesrepublik Deutschland: Die Vertragsverhandlungen mit den Westmächten* (Munich, 1997).

The history of German-American offset payments was the subject of a number of early political science studies: Elke Thiel's *Dollar-Dominanz, Lastenteilung und Amerikanische Truppenpräsenz in Europa* (Baden-Baden, 1979) extensively discusses the economic background but suffers from the complete absence of archival material; in *Troop-Stationing in Germany: Value and Cost* (Santa Monica, Calif., 1968) Horst Mendelshausen provides a brief but well-informed analysis; and Gregory F. Trevelton's *The Dollar Drain and American Forces in Germany: Managing the Political Economics of Alliance* (Athens, Ohio, 1978) is based on interviews with participants in the events and on privileged access to government documents, and is particularly strong on the 1966–7 crisis. The use of archival material is confined to David P. Wightman, "Money and Security: Financing American Troops in Germany and the Trilateral Negotiations 1966/67," *Rivista di Storia Economica* 1 (1988): 26–77; he adopted a similar approach to the one I take here; in *Kernwaffen und die Glaubwürdigkeit der Allianz: Die NATO-Krise von 1966/67* (Baden-Baden, 1994) Helga Haftendorn places the issue within the broader context of the strategic discussions in NATO during the mid-1960s; and Harald Rosenbach's "Der Preis der Freiheit: Die deutsch-amerikanischen Verhandlungen über den Devisenausgleich 1960–1967," *IJZ* 4 (1998): 709–46, concentrates on Ludwig Erhard's visit to Washington, D.C., in 1966.

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F. Kennedy Library in Boston, Massachusetts, at the Lyndon Baines Johnson Library in Austin, Texas, and at the National Archives in Washington, D.C. I also consulted important smaller collections, such as the George C. McGhee papers at Georgetown University and the National Security Archive.

Extensive published documentation is lacking in the case of the United Kingdom. The Public Record Office, however, provides an immense amount of compelling and comprehensive material for all questions related to troop costs and monetary policy. The material is concentrated in the files of the Prime Minister's Office, the cabinet, the Foreign Office, the Treasury, and the Ministry of Defence. These files were consulted and evaluated for the years up to and including 1967. Unfortunately, documentation on British policy after 1967 was not available at the time of publication, and the analysis of the British position during these years thus remains preliminary.

Published sources on the German side are limited. The recently initiated publication of German diplomatic documents covers the years 1963–70.¹³ Archives with relevant material are spread all over Germany. The Political Archives of the German Foreign Office (Politisches Archiv des Auswärtigen Amtes) in Berlin holds material on the details of negotiations, although many high-level documents are still classified. The sources in the German Federal Archives (Bundesarchiv) in Koblenz fill in some of the gaps. Highly rewarding are the papers of politicians involved in the negotiations (Herbert Blankenhorn, Heinrich von Brentano, Franz Etzel, Fritz Schäffer, and Karl Theodor Freiherr von und zu Guttenberg), as are the files of the Federal Chancellery (B136). The central files of the Finance and Economics Ministries (B126/B107) also were very helpful. Regarding sources on German monetary policy, some documentation in the archives of the German Federal Bank (Bundesbank) in Frankfurt am Main was useful. Smaller collections, such as the Defense Ministry sources, which have been declassified for the Nuclear History Project, the Ludwig Erhard Foundation in Bonn, and the Institute for Contemporary History in Munich, were also consulted. Very important, particularly for the crucial year 1966, is the military diary of former Defense Minister Kai-Uwe von Hassel. The files of the Defense Ministry in the German Federal Military Archives (Bundesarchiv–Militärarchiv) in Freiburg, however, were less useful for the period of this research, owing in large measure to the lamentable state of declassification.

13 See Institut für Zeitgeschichte, on behalf of the Auswärtiges Amt, ed., *Akten zur Auswärtigen Politik der Bundesrepublik Deutschland 1963–1970* (Munich, 1994–2001).

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The statistical material presented particular difficulties. Relevant official statistics are scarcely available and often unreliable. The influence of troop maintenance on the balance of payments, for example, is a question that depends very much on interpretation. Balance-of-payments statistics are subject to numerous revisions by governments, and the accounting method varies from country to country. Additionally, they were often manipulated for political reasons. Reservations regarding the reliability of the statistical material cited are mentioned whenever necessary.