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"Soviet Reparations Policy at the Yalta and
Potsdam Conferences of 1945"

by

Brian Padair Farrell, B.A.

A thesis submitted to
the Faculty of Graduate Studies and Research
in partial fulfilment of
the requirements for the degree of
Master of Arts

Department of History

Carleton University

Ottawa, Ontario

April, 1986

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Thesis Supervisor

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Abstract

The most crucial issue in Great Power diplomacy at the end of the Second World War was the future of Germany. A new bipolar power structure in the international system, centered on the Soviet Union and the United States of America, had already supplanted the multi-power structure destroyed by the war. But before the two new superpowers could establish the nature of their relationship in the leadership role, they had to determine how to co-operate in the control of their defeated enemy. This German problem was especially critical for the Soviet Union.

German power had nearly destroyed the Soviet state and the Communist regime. It had also proved so great that only a coalition of powers was able to overcome it. These two factors combined with an ideologically and traditionally motivated mistrust of the world to produce a very pessimistic perception of the future in the Kremlin and a conviction that only through the eradication of German power could the future of the Soviet state be secured. Germany was the key to Europe and in Soviet policy reparations became the key to the control of Germany.

This study will examine how the Soviet leadership adopted the dual policy of ensuring the destruction of German power and testing the willingness of the Western Allies to co-operate in the post-war world on Soviet terms by attempting economically to disarm Germany by heavy reparations extractions. It will analyze why the reparations issue could only have been resolved at the summit conferences of the Grand Alliance and why it was not. Finally, it will interpret Soviet reparations policy as the catalyst in the evolution of the German problem as a cornerstone of the Cold War.

To my favourite historian,
Alexander Patrick Seward Farrell

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Shortly after midnight on the second of August, 1945, Generalissimo Joseph Stalin of the Soviet Union signed a political accord with his Anglo-American partners, at the Conference of Berlin, that meant, to him, the probable end of their wartime alliance. One of the most critical provisions of the accord established the terms of an Allied agreement on the extraction of reparations from their defeated enemy, Germany. The complex issue of reparations was, for Stalin and his government, the crucial practical test of the Western Allies intentions towards the Germans and their interest in concrete co-operation with the Soviet Union. Reparations, literally, was an indication of the role they envisaged for the Soviets in the postwar world. It is perhaps not surprising that the Soviets were grimly disappointed with the message they felt they had received from their Western Allies, on their future place in the international system, at this conference. What is startling is the extent to which the Soviet leadership derived its interpretation of Western aims from the reparations provision, the almost obsessive concern they displayed over their attempts to improve it, and the catastrophic political effect the reparations settlement had on the future of international relations. Soviet reparations policy¹ had a fundamental effect on the development of the German

1 "Soviet reparations policy" refers, except where otherwise specified, to reparation from Germany.

problem as a cornerstone of the Cold War.

Reparation is a financial transaction of critical political importance, which reached extremes of vindictiveness as a result of the emotional havoc wrought by modern total war. The Soviet-German war, fought largely on Soviet soil, was the most destructive example yet seen of total war. No other regime in the world had undergone a series of crises as continuous and severe as the Soviet government that fought the war, and this experience shaped its view of the world they lived in. Ever since the establishment of the Soviet state, Germany had been recognized as the key to Europe, and the future of the Communist regime, by this Soviet leadership.² The culminating effect of the German invasion and decades of crisis created a grave feeling of insecurity and suspicion, and a fear of German power, in the Kremlin. Soviet reparations policy was dictated by this fear of Germany and their general insecurity in the international system. For Stalin, the key to peace was almost absurdly simple: keep Russia strong and Germany weak.³

The major inhibiting factor in the Soviet attempt to implement a Carthaginian peace was the inescapable fact that German power had proved so great that only a coalition of

² Slusser, R. (edit.) Soviet Economic Policy in Postwar Germany, New York, 1953, vii.

³ Gaddis, J. L. The United States and the Origins of the Cold War, New York, 1972, 354.

3

powers was able to overcome it. The Soviets realized that their powerful Western Allies, Great Britain and the United States, would, by the simple logic of power, play an essential role in the imposition of the peace on Germany. While there were many issues the Soviets could, in the last resort, resolve unilaterally - particularly the creation of a sphere of influence in Eastern Europe - the future of Germany, and thus of Europe itself, they felt to be beyond their capacity to dictate. It was essential, therefore, to come to some sort of a modus vivendi with their allies, preferably a balance of power arrangement coupled with a concerted punitive settlement with Germany. The Kremlin's view of the future was so negative that only a settlement which committed the West to the destruction of German power and the establishment of a continuing alliance on basically Soviet terms would produce any sort of Soviet commitment to continued co-operation.

The Anglo-American view of the future and Germany was very different. Great Britain, under Winston Churchill, fully reciprocated Soviet suspicion:

It was by no means clear that we could count on Russia as a beneficent influence in Europe, or as a willing partner in maintaining the peace of the world. Yet, at the end of the war, Russia would be left in a position of preponderant power and influence throughout the whole of Europe. 4

British visions of the future already envisaged a potentially hostile Soviet Union and they had no desire to weaken beaten Germany more than was politically necessary. But while the British did exert some influence on the German settlement, the real power in the Western section of the Grand Alliance lay with the United States of America. While the Soviets were fearful, negative and suspicious, the Americans were confident, secure, and determined to enforce their will for change in the postwar international system. The German settlement was, to American eyes, not a crucial life or death matter but rather a means to an end, and a potentially troublesome one. American policy involved nothing less than a final European settlement and the abandonment of power politics for the creation of a new international system, led by the Great Powers. In their plans, the German settlement was to be moderate and controlled, not devastating.

The greatly differing perceptions and aims of the Alliance partners made German reparations a critical element in the evolution of Soviet-American relations at the end of the war. There were three major reasons for this: 1) the nature of the German problem 2) the legacy of reparations and 3) Soviet perceptions of Germany. The Soviet leadership, which in effect meant Stalin, was dominated by its fear of German power and recuperative ability. Reparations was, to them, life and death. The Western Allies respected

5.

but did not fear German resurgence. They were more affected by their memories and perceptions of the fiasco of the reparations settlement after the First World War, a precedent they were determined to avoid repeating. The Soviets, however, had no direct memories of this previous experiment, and viewed any Western hesitancy, on practical economic grounds, as politically hostile.⁵ Their war with Germany destroyed their confidence in the international system itself.

The assumptions and perceptions which the Allies brought to Potsdam were in fact the essential lessons they gleaned from their wartime experiences. As Germany had been their central focus in war, so would it prove the practical test of their efforts at constructing a peace. All settled Allied policy toward Germany was the product of the international conferences generated by the war.⁶ It was both originated and settled at the diplomatic table. The nature of the alliance and, more importantly, of the Soviet regime itself, necessitated this procedure. But the aims and motives of the proposals brought to the table originated on the battlefield. This dual process characterized not only the reparations settlement but the entire spectrum of Soviet foreign policy. The essential formulative element of their

⁵ Backer, J. The Decision to Divide Germany, Durham, NC, 1978, 16; my emphasis.

⁶ Clay, L. Decision in Germany, Toronto, 1950, 10.

reparations policy was the tremendous devastation wrought by the German war machine. The most essential prerequisite for the successful implementation of the policy was the co-operation of the Western Allies, which had to be secured at the conference table. For the Soviets, the road to the future could only pass through an eradicated Germany. Nevertheless, for both the Kremlin and the West, reparations was to be the focus of the most sensitive security problem of all, the future of German power.⁷

⁷ Kolko, G. Politics of War, New York, 1968, 333.

Chapter Two - War and Development

As early as the fall of 1941, German power had inflicted such devastation in the USSR that reparations became a prime Soviet war aim. This process was neither conscious or deliberate, but rather was generated by the white hot emotions produced by total war. The German invasion very nearly destroyed that which the Kremlin prized above all, the power of the Communist regime. The physical impact of war also aggravated the traditional enmity of the Russian people to the Germans, and Stalin was not slow to exploit this factor. A strange duality in official Soviet statements on Germany, almost a carrot to the people - stick to the Nazis approach, did manifest itself throughout the war. But the official and overwhelmingly popular Soviet line appeared daily in Stalin's orders: "Death to the German invader." From the start, there was no duality as regarded reparations. This was clearly stated in Pravda on 23 June 1941, the day after the German invasion, and in the Decree of 2 November 1942:

Since the Second World War was unleashed by the fascist invaders, and was, as far as they were concerned, an aggressive, predatory war...the responsibility for all material damages inflicted by the war fell on the fascist powers...⁸

⁸ Issraeljan, V.I. The Anti-Hitler Coalition, Moscow, 1971, 198.

It is easy to understand the fact that heavy reparations were accepted as a must by the Soviet people as well as by their leaders, when it is understood that the scope of wartime destruction in the Soviet Union really defies description. The numbers have been calculated: 20 million dead, and a staggering 557 billion dollars⁹ material damage.¹⁰ Yet by themselves the figures are almost meaningless. The real impact of the war made itself felt in the Soviet psyche. Material damage was a good excuse to make reparations palatable to the Soviet people and the Western Allies, but the real lesson the Germans taught the Kremlin was the mortal threat posed to their very existence by a technically advanced aggressive capitalist enemy. The German army reminded Stalin and his remaining "Old Bolsheviks", in the most brutal fashion, of the pivotal role of Germany in the future survival of Communism itself.

The way in which the war came to Russia affected Stalin's policy as much as the struggle itself. Miscalculation where Germany was concerned was a common flaw of the early Soviet leadership. It is quite true that Soviet foreign policy under Stalin was remarkably pragmatic and assessed many issues on their own merits.¹¹ However, Stalin and his senior advisers were never quite ready to jettison

⁹ All monetary figures in 1945 US dollars unless otherwise specified.

¹⁰ Zaleski, E. Stalinist Planning for Economic Growth 1933-1952, Chapel Hill, NC, 1980, 346.

¹¹ Kolko, 165.

their Marxist concept of the world and their role in it. Germany, to them, was the advanced capitalist state where the Revolution should have occurred. The Bolsheviks' first serious mistake was their incorrect assessment of Germany's readiness for revolution in the early 1920's. Their second and more serious error of underestimating the menace of the Nazis in the early 1930's was a major factor in the destruction of the German Communist Party. But the most costly error of all was the Kremlin's blind adherence to their 1939 Pact with Hitler.¹² Stalin's dialectic view of Germany and his disastrous experience with it convinced him of two things: 1) for Communist power to survive it must neutralize Germany and 2) if at all possible, other powers, particularly capitalist powers, must be made to harmonize their German policy with Moscow's.

To understand the thrust of Soviet reparations policy, it must be understood that it was a function of these perceptions of Germany held by the men in the Kremlin. Of course Stalin despaired of the ever increasing cost of reconstruction that would face the state, and thought of potential reparations as a source of wealth. But more importantly, he absorbed the lesson of what happened when Germany was allowed to rebuild her war machine and turned control of it over to men who sought world power through

12 Mastny, V. Russia's Road to the Cold War, New York, 1979, 43.

conquest in the East. This was the crucial absolute that underwrote Soviet policy - reconstruction was important, but security came first, and security could only be assured by the neutralization of the German industrial war machine. The best way to accomplish this was to defeat the German army, occupy Germany, and economically disarm her. Reparations, ever more surely, came to be seen as the spearhead of Soviet security.

For the first two terrible years of war, Soviet diplomacy had only two aims: 1) win the war and 2) ensure German weakness and, thus, Soviet security.¹³ Events on the battlefield produced a gradually coherent and deliberate Soviet foreign and reparations policy. The great victories at Stalingrad and Kursk restored Stalin's confidence in eventual victory, and turned the Kremlin's attention to Soviet prospects in postwar Europe. The development of Soviet postwar policy was dictated by the power relationships at the upper levels of leadership, and the reparations question was no exception. No truly definitive answer is available to the vital question of how much input or influence and on what issues the other members of the controlling Defense Committee exercised on Stalin. It is quite probable that Malenkov, Mikoyan and especially Foreign Commissar Vyacheslav Molotov did exercise some influence in policy

13 Tolmachev, P. "Teheran, Yalta, Potsdam and Our Day", International Affairs, Moscow, Volume 12, 1966, 74.

making, and that Soviet policy was more than just Stalin's whim. But it is certainly true that real and final power rested right at the top. Charles Bohlen, then a US State Department expert on Soviet affairs, strongly believed that "there is no reason to believe that Stalin was persuaded by one group as against another. He made the decisions..."¹⁴ Stalin, and only Stalin, made final decisions on any aspect of Soviet policy involving foreigners.¹⁵

This excessively centralized system not only hindered Allied diplomacy,* it also rendered Stalin's perceptions the determinant factor in the formulation and execution of Soviet policy. After Kursk, as Stalin raised his sights to the future, his view of reparations centered on the critical importance of the Western Allies in the handling of Germany. His selection of Ivan Maisky in August 1943 to head the newly formed Reparations Commission in Moscow¹⁶ emphasized this perspective of the issue. Maisky was no expert on reparations. He was given the post because he was, apart from Litvinov, the senior Soviet diplomat most experienced in dealing with the capitalist West. Maisky was recalled from his post as Ambassador in London to handle this new priority assignment. His priority was obvious: formulate a reparations program that would be acceptable to

¹⁴ Bohlen, C. Witness to History, New York, 1973, 217.

¹⁵ Deane, J.R. The Strange Alliance, New York, 1947, 20.

¹⁶ Maisky, J. Memoirs of a Soviet Ambassador, London, 1967, 380.

* See below, page 17.

the Western Allies and fulfill Soviet security requirements.

Maisky's mental route to his answer traced both the motives of Soviet reparations policy and the tactics chosen to ensure its success. The starting point for any study on possible German reparations was the previous experience of the 1920's. Maisky realized that the Anglo-Americans would take this precedent into account in their own deliberations. He had to devise a plan that would avoid the pitfalls of this previous effort. Maisky himself admits that his ideas stemmed from close study of the precedent, which almost certainly means the works of John Maynard Keynes.¹⁷ Maisky believed that the previous reparations policy failed because of the transfer problems associated with cash payment and the unsound formulation of the amount of liability, subsequently successfully exploited by the Germans. The economic realities of transfer and capacity were, he felt, the key to Western acquiescence.

What most concerned Maisky was not the needs of the Soviet Union or the capacity of Germany, but the best way to

17 Keynes' two classic works: "The Economic Consequences of the Peace" and "A Revision of the Treaty" are credited with decisively influencing both the actual outcome of the reparations provision of 1919 and the subsequent debate. Whether Keynes was right or wrong is not as important as the fact that, in 1945, all those involved in this next attempt at reparations believed that he was correct.

commit the Anglo-Americans to the greatest possible dismantling of the German industrial machine. Eugene Varga, a leading Soviet economist detailed to his staff, produced a plan that Maisky seized upon as the solution. Varga was an expert on reparations and the international economy. After Maisky put him in the political picture, he drafted an extremely sound technical program. Varga made two crucial arguments: 1) stress the need and right of the USSR to heavy reparations and 2) demand reparations payments in physical assets, to avoid capitalist sensibilities on the transfer question.¹⁸ These two concepts became the foundation of the finished Soviet reparations plan and deserve closer scrutiny.

Varga's first point was political. By emphasizing Soviet need and justifying their demands, the program would either be more palatable or shift the moral onus on to the West if it was rejected. Depicting reparations as a genuine Soviet need would obscure the true motive of the policy and serve as a solid test of Western goodwill in regards to Soviet aims. Varga's second point was also political, because of the true motive behind the Soviet desire for heavy reparations. Varga advised that taking reparations in kind, in physical assets not cash payments, would avoid the disruption the transfer problem created in the international economy. Indeed it would, and it also seemed more likely to

satisfy the West. Its real appeal to Maisky and Stalin, however, was the potentially permanent effect it would have on German power. Varga said, in effect, that the way to disarm Germany was simply to take away her tools by force: steel, coal, iron, chemicals, plants, rolling stock, arms factories, blueprints, technical expertise - all the material and mental wealth of an advanced industrial society. Such a plan had real possibilities, foremost of which was the fact that it called for precisely the type of action that Stalin felt most comfortable with, actual physical control.

How well Varga knew Stalin is impossible to say, but his reparations plan certainly played right up to the dictator's weak spot. Milovan Djilas, then a leading Yugoslav Communist, noted of Stalin that:

Thanks to both ideology and methods, experience and historical heritage, he regarded as sure only whatever he held in his fist, and everyone beyond the control of his police was a potential enemy...¹⁹

Varga's plan advised Stalin to ensure Germany's destruction by physically returning her to the pre-Industrial Revolution era and suggested a way to ensure Western acquiescence.

Stalin preferred concrete plans, and he must have loved this one. Maisky was quickly promoted to Deputy Foreign Commissar and Varga was charged with formulating the plan.

¹⁹ Djilas, M. Conversations with Stalin, New York, 1962, 82.

for initial publication.²⁰ In October 1943, Varga came up with "Reparation of the damage by Hitlerite Germany and Her Accomplices", the first public Soviet comment on reparations.²¹

The paper more clearly elaborated Varga's thesis and indicated Soviet desire to secure Western adherence. Varga argued that damage sustained by the Soviet Union had now surpassed 100 billion dollars, and that the Soviets were carrying the brunt of the fighting. That meant that they had the right to receive first access to heavy reparations. He proposed three methods of exaction: 1) German foreign assets 2) Germany's national wealth and plant 3) German postwar income. Finally, he stressed that damage to property should have first lien on reparations assets.²² Acceptance of this plan would, by all criteria, make the Soviets the prime recipient of the payments. Provision number three would commit the exacting powers to a long term, and thus more secure, program. Most of all, it would commit the Anglo-Americans, whom the Soviets believed would overrun most of the heavy industry that really made Germany powerful, to depriving Germany of that industry. Varga had produced the basic plan. Now Maisky had to perfect it and sell it to the Anglo-Americans.

The crucial third provision in the Varga plan reflected

20 Maisky, 381.

21 Mastny, 111.

22 Backer, 66.

the general transition in Soviet foreign policy aims that took place at the end of 1943. Stalin now wanted and was determined to achieve long-term advances in all aspects of Soviet security, without suffering the enmity of his Western Allies. Varga's scheme would commit the occupying powers to controlling German production, and thus Germany, well after the war. Thus he had to argue that the Soviets needed the reparations for reconstruction in order to lull the Allies.

The problem was actually rather straightforward:

The Soviets feared Germany and despaired of ever controlling the Reich in the postwar period; but they were determined that Allied policy should be the harshest on which the Big 3 could agree...²³

To put it another way:

Although Stalin wanted a weak Germany, he did not know how best to achieve it; while encouraging his partners to be tough, he was testing their willingness to be his hatchet men.²⁴

The question of the future of Eastern Europe paled before that of Germany as far as Soviet security was concerned. The destruction of German power was the crucial aim, about which the Kremlin bluntly called for "the creation of conditions preventing new aggression by Germany."²⁵ This came right behind winning the war and well above

²³ Kuklick, American Policy and the Division of Germany, New York, 1972, 42.

²⁴ Mastny, 128.

²⁵ Issraeljan, 96.

reconstruction, and was coupled with calls for "severe punishment."²⁶ It was probably about this time that Stalin settled on reparations as his diplomatic test case.

The same success on the battlefield which sparked policy-making activity in Moscow accelerated inter-Allied diplomatic contacts and discussion of post-war business. The Anglo-Americans were already well aware of the importance the Soviets placed on reparations. As early as September of 1941 Stalin had informed Lord Beaverbrook and Averell Harriman that the Soviets felt reparations would be essential in any peace settlement.²⁷ Maisky reiterated this theme to Eden in December of that year, and added that the Kremlin was skeptical of its Allies' resolve to punish Germany.²⁸ From this beginning, the Anglo-Americans absorbed two vital lessons regarding their new ally: 1) there remained an almost total mistrust of the West in Moscow and 2) Stalin was the man to deal with on every issue. These simple constants rendered Allied diplomacy more difficult and oriented more towards the highest levels of authority than it otherwise might have been. The Anglo-Americans certainly reciprocated Soviet mistrust, but they were also more flexible than every Soviet diplomat

²⁶ Ibid.; 96.

²⁷ Shell, J.L., Wartime Origins of the East-West Dilemma Over Germany, New Orleans, 1959, 21.

²⁸ Ibid., 21.

under Stalin.²⁹ Consequently, they took their business right to the top.

This early phase of the war found the Western Allies as unprepared to discuss post-war problems as the Soviets were, and talks centered on generalities. The greatest problem the Anglo-Americans faced in their diplomacy in 1941-42 was the fact that the Soviets were indeed carrying the brunt of the war against the Germans. This forced the British especially to go further than they wished and make commitments in principle to appease their hard-pressed ally. As far as reparations were concerned, their policy was simple: they wanted no part of them. If Maisky was influenced by Keynes, the British government was hypnotized by him. The real powers in British foreign policy making were Churchill and Eden, and the former had personal experience with the reparations precedent. They were both convinced that the 1919 reparations clause had decisively contributed to the weakening of Europe and the rise of the Nazis. This conviction was so firm that, coupled with their long-standing mistrust of the Soviets, it overshadowed their enmity for the Germans. Churchill and Eden were determined to revive the ancient British policy of preventing any one power from dominating the continent. Thus they felt that a reasonably strong but controlled Germany would prove an essential

²⁹ Feis, H. Churchill, Roosevelt, Stalin, Princeton, 1957, 79.

counterweight to Soviet power. Therefore they decided that anything but a very moderate short-term reparations policy would harm; not improve, British interests.³⁰

Nevertheless, Eden was authorized by the War Cabinet to stress British readiness to impose a harsh peace at his first wartime meeting with Stalin in December 1941.³¹ The British really had very little choice, because and only because of the drastic situation on the Eastern Front. They could not offer soldiers, so they offered incentives. Eden and Stalin agreed at that same meeting on the principle of exacting some sort of reparations from Germany.³² The best Churchill could do was adopt a policy of delay as far as post-war issues were concerned, but it could only postpone the debate. Stalin and Eden made their respective positions quite clear. Eden felt that Stalin wanted, above all else, "to secure the most tangible physical guarantees for Russia's future security" and that this aim "changed little". Stalin certainly understood Eden's stress on the precedent as a moderating factor in any reparations settlement. In return, he left Eden in no doubt that the Soviets considered reparations and "post-war peace and order" as inextricably linked.³³ In the circumstances, the

30 Woodward, L. British Foreign Policy During the Second World War, London, 1962, 466.

31 Eden, A. The Reckoning, Boston, 1969, 328.

32 Maisky, 231.

33 Eden, 335.

British adopted the wisest course open to them. They stayed their hand, and let the Americans take the initiative.

The Anglo-American sections of the Grand Alliance shared many common aims as far as particular issues involving the Soviets were concerned, but they differed decisively on both general approach and attitude. The administration of Franklin Delano Roosevelt did not share either Churchill's faith in traditional balance of power politics or his skepticism on the efficacy of co-operation with the Soviets in the postwar world. Roosevelt was just beginning to appreciate the influence that the American colossus could exert when her great potential was realized. He felt that this time, if the power of the US was not withheld, a new internationalist Wilsonian system could be constructed and made to work. For Roosevelt, the one essential precondition to the success of this policy was a functional co-operation between the two real powers of what he knew would be the victorious Grand Alliance, the US and the USSR. He was enough of a realist to appreciate that Germany would be the practical proving ground of this great experiment.³⁴ Unfortunately, he was also too much of an optimist to realize that his goal could only be achieved on Soviet terms.

Roosevelt sincerely believed that if accorded enough trust and respect the Soviets would eventually come to see

³⁴ Murphy, R. Diplomat Among Warriors, New York, 1964, 227.

real co-operation in a new system as the most effective of all security guarantees. He and his virtual alter ego, Harry Hopkins, felt that the Kremlin could be made to believe in a new "United Nations", run by a benevolent consortium of Great Powers. FDR subordinated all American postwar policy to this central goal of a direct settlement with the Soviets, which would pave the way for the new system. This goal decisively influenced American strategy, from the Lend-Lease program to the planning of the invasion of Europe. It also accelerated the process already begun by the simple balance of power, the demotion of Churchill and Britain to junior partner status.³⁵ More and more, Roosevelt came to view direct contact with Stalin as the best way to advance his aims.

As far as reparations were concerned, however, Roosevelt shared the British desire to avoid them as much as possible. The American view of the precedent was that the US had stupidly footed the bill for reparations and the rebuilding of Europe, and that this was to be avoided at all costs.³⁶ This argument - avoid unremunerative American involvement in Germany - was absolutely decisive in American attitudes towards this next round of reparations. Soviet stress on the issue was extremely unwelcome. Reparations, to FDR, was a potential obstacle to his plans, not a

³⁵ Kimball, W.F. (Edit) Churchill and Roosevelt - The Complete Correspondence, Princeton, 1984, Volume I, 12.
³⁶ Backer, 35.

priority in itself. So also were British and Soviet concerns on postwar frontiers, the future of Poland, and indeed everything connected with the traditional exercise of balance-of-power diplomacy. Because he was above all else a politician, Roosevelt adopted the same course as Churchill, which had worked so well for him in domestic politics: he settled on no policy at all.

Roosevelt exerted his power to keep Allied post-war planning in a state of limbo by insisting on avoiding commitments and maintaining a "free hand". Then he combined this with the gradual absorption of all American diplomatic initiatives into his own hands. In effect, FDR staked the future on his own personal approach, and his policy of systematic procrastination. Instead of offering the Soviets incentives to offset events, he decided to wait them out. There was some point to this reasoning, as American power simply multiplied through 1942 and might very well have given FDR the power he was to need to get his way, but he himself carried it too far. He left Stalin completely in the dark; until mid 1943 not a single item in their correspondence dealt with post-war political issues.³⁷ He left Churchill and the British in the dark and, worst of all, he left his own people without direction.

Such a non-policy was not conducive to ameliorating the chronic suspiciousness of the Kremlin. To Stalin, silence

³⁷ Jados, D.S., Documents on Russian-American Relations, Washington, 1965, 115.

meant opposition. Pretty words about a United Nations meant next to nothing; to men locked in a life and death struggle, compared to the importance they placed on the opening of the Second Front. Success on the battlefield came at such cost that Soviet demands for military assistance increased, not abated, in late 1943. Tension reached a peak at this point, as the Kremlin demanded real satisfaction from its Allies on the crucial questions of hastening victory and drafting the outline of the post-war world. Stalin was impressed enough with the clear growth of American power to determine that a start must be made on ascertaining the real thrust of future American policy. Russian success on the battlefield, as noted, generated precisely the same feeling in reverse in London and Washington. Stalin seemed to believe a general hardening of attitude to Germany was visible by late 1943, and ventured forth to test the atmosphere.³⁸ The Varga plan was published in October, it was agreed that the Big Three would meet, and, that same month, the first Conference of Foreign Ministers was convened in Moscow. The complex diplomatic struggle over the shape of the post-war world was finally at hand.

The real business of the Moscow Conference was to establish everybody's basic positions in order to allow the

Big Three to come to grips. Molotov's task was simple - find out exactly what the Anglo-Americans planned to do about the Kremlin's priorities and what they expected in return. The answer must have staggered Stalin. The truth was that his partners did not share the same East-West concept of the alliance prevalent in the Kremlin, and each maintained disparate ambitions. The British were ready, in fact eager, to push their partners into serious discussion of concrete issues (diplomacy is always the first substitute for power). The Americans, led by FDR, wanted to let the issues settle themselves. Washington's plan was to settle the general outline of the new world order as a fixed aim, and resolve all issues under the new framework. FDR sent to Moscow the perfect man to perpetuate his stall and utterly confuse the allies, his idealistic and now powerless Secretary of State Cordell Hull.

Hull was the most ardent Wilsonian in Washington, but near the end of his career. His assignment served the dual purpose of furthering FDR's non-policy and allowing himself a graceful exit. Hull wanted only one thing in Moscow - British and Soviet adherence to a highly principled Four Power Declaration which promised to jettison the old power diplomacy in the post-war world. Churchill and Stalin must have had a very hard time deciphering this. As far as the latter was concerned:

Stalin preferred the "arithmetic" of specific agreements to the "algebra" of declarations of principle, and he also believed that international relations were grounded in self-interest and the balance of power rather than in expressions of good faith or the authority of international organizations...Stalin primarily focused on the bottom line in great power politics...³⁹

After whatever mysterious deliberations, the decision Stalin made reflected the only thing it could reflect, the visibly growing physical power of America, and not Hull's platitudes. From this point on, Molotov worked to stay as close as possible to expressed American desires without abandoning any basic Soviet tenets. Despite finally agreeing to Hull's declaration, Molotov and Stalin obviously decided that the time was not yet ripe to press for post-war ambitions. They concentrated instead on ascertaining American intentions, especially in regard to German policy, and trying to keep in step with them.⁴⁰

In spite of this, the Moscow conference did produce some useful work. Views were exchanged on many aspects of the possible post-war treatment of Germany. An agreement was reached on Germany's liability in principle to reparations, to be exacted in kind.⁴¹ Each side absorbed some insight of the others intentions for the future, enough to make all agree that further talks were urgently necessary.

³⁹ Levering, R. The Cold War 1945 - 1972, Arlington Heights, 1982, 40.

⁴⁰ Feis, 222.

⁴¹ Snell, 43.

Regular foreign ministers meetings were scheduled, a permanent technical level body, the European Advisory Commission, was established to study policy towards Germany, and a Big Three meeting was at last scheduled. Stalin had no real reason to be displeased with the start made on reparations and German policy as it seemed that Maisky's reading of Western views was reasonably correct. But he did have ample cause to be very nervous over what, if any, practical action would ever come from his allies. The crucial next step had to be to win a firm commitment to a Second Front. That would take care of winning the war without Soviet power being totally dissipated in the process. Then real progress might finally be made on the post-war issues. So, Stalin left Maisky to work out a more detailed practical plan for reparations, and went off to Teheran personally to secure visible proof of his allies willingness to take direct action.

Although the Teheran Conference of 28 November - 1 December 1943 reached no major agreements on reparations or Germany policy, its importance to the development of Soviet policy towards both Germany and their allies cannot be overstated. The meeting established a personal relationship among the three most powerful men in the world, continued through correspondence and at Yalta, that decisively shaped the course of history. Churchill displayed superb diplomatic skill and secured Britain a voice far in excess of her

power to support it, and virtually willed confirmation of the EAC and discussions of post-war issues. Roosevelt established his valued personal contacts and used all his fabled charm to further the course of drastic change in the international system. But only Stalin truly and bluntly displayed the real thrust of his policy for his partners' consumption.

Neither Churchill or Roosevelt needed to be told how concerned Stalin was to secure the Second Front. Roosevelt actually used Stalin to help force Churchill into the long delayed final commitment, which in itself made the meeting a success in Soviet eyes.⁴² But Churchill exacted a price, he forced Stalin seriously to discuss Soviet plans for Germany and Eastern Europe in a manner that not even the great patrician procrastinator of Hyde Park could completely ignore. In addition, FDR had brought advisers of a somewhat more perceptive nature than Hull to Teheran, who ensured that he was at least aware of the importance of what Stalin was saying. Foremost among these were Averell Harriman, now Ambassador in Moscow, and Bohlen, detailed as the President's adviser-interpreter. Harriman, who was to prove himself a superb diplomat, warned FDR in a brief written shortly before the conference that the Kremlin had now adopted a very hard line indeed towards Germany.⁴³ He

⁴² Issraeljan, 232.

⁴³ Foreign Relations of the United States - The Conference of Teheran, Washington, 1961, 154.

argued that this was particularly obvious in their reparations proposals, which he felt were based on extracting an amount sufficient to eradicate both the German menace and their prosperity, and advised FDR to be prepared.⁴⁴

Bohlen, who kept minutes of all the discussions for the President, supported Harriman's interpretation and warned FDR that Stalin was probing him and Churchill in an attempt to bring their views out into the open.⁴⁵ Bohlen was also a very astute observer, and he went to great lengths to inject his perceptions in the record. His minutes of the very first dinner meeting of 28 November precisely captured Stalin's tactics:

In the detailed discussion between the President, the Prime Minister and Marshal Stalin, that followed Marshal Stalin took the lead, constantly emphasizing that the measures for the control of Germany and her disarmament were insufficient to prevent the rebirth of German militarism and appeared to favor even stronger measures. He, however, did not specify what he actually had in mind...He said, in his opinion, the Germans were a very able and talented people and could easily revive within fifteen or twenty years and again become a threat...⁴⁶

Although Bohlen later felt that Stalin was somewhat "single-minded" over the Second Front at Teheran,⁴⁷ his own record

⁴⁴ Ibid., 154.

⁴⁵ Ibid., 510.

⁴⁶ Ibid., 510..

⁴⁷ Bohlen, 140.

clearly elaborates this startlingly open posture that Stalin adopted on the post-war question. Stalin raised the issue of the dismemberment of Germany, voiced his first demand for its de-industrialization, and even specifically expressed interest in Germany machinery and labour as reparations.⁴⁸ He also responded to Churchill's inquiries on the future of Poland, and gave FDR a very clear indication of his views on the efficacy of the proposed new "United Nations".

What Stalin said was really clear enough. In the case of Poland, even though the Red Army was still deep inside the USSR it would eventually liberate Poland, and a territorial and political settlement based on Moscow's final position would await the Poles. As for the new order, Stalin told FDR that it would, by itself, be insufficient guarantee of Moscow's security, because of the real threat of a German recovery within twenty years.⁴⁹ In case the point wasn't clear enough:

Stalin showed that his chief interest was in making sure that the new organization would be able and willing to prevent a revival of German strength...⁵⁰

This was Stalin's major point. There would be no replay of the cordon sanitaire, appeasement and the League of Nations. Instead, Moscow would exact a price in return for

48 Snell, 48.
49 FRUS, Teheran, 532.
50 Feis, 270.

its participation in the new system: Western aid and public acquiescence in tangible physical destruction of the German threat and the establishment of a Soviet security sphere in Eastern Europe.

Roosevelt may well have been disappointed, but the message did sink in: to get his new world; he would have to allay Soviet insecurity with something tangible. The Second Front was one way to begin. FDR followed it up by coming out at Teheran in favour of a generally tough policy on Germany, to further convince Stalin of his good faith. He also agreed to let the EAC get to work. But he did not abandon his faith in either the personal touch or procrastination, and his screen did not fool Stalin. Before he left, Stalin made one more attempt. At the last dinner of the conference, he told Harriman that he was skeptical that the Germans could ever change and was convinced they would have to be controlled. Harriman noted:

He had spoken to me on several occasions of his concern that history would repeat itself, that there would be a revival of German militarism after the war unless we took steps to prevent it...Stalin never lost his respect for German superiority in organization and production...I am satisfied that his concern was real, not an expression of his negotiating tactics...⁵¹

Perhaps this last discussion was one too many - somehow, somewhere, almost before the participants had returned home,

⁵¹ Harriman, A.H. Special Envoy, New York, 1975, 273.

the American and British advisers lost the essential thrust of Stalin's message, and produced a fatally incorrect interpretation of Soviet aims that was to grow into a great wedge in the Grand Alliance.

Stalin returned from Teheran more clearly aware of the nature of his alliance partners and with definite views on what to do next. Churchill had now definitively proven himself to be a probable adversary. Roosevelt, on the other hand, was more subtle and might actually prove helpful.⁵² It was certainly obvious that Roosevelt preferred to postpone definitive settlements until the war neared its end, but Stalin found this acceptable. There were two reasons for this: 1) the Red Army was obviously going to embark on a powerful westward advance which would itself greatly bolster Soviet security aims and 2) Stalin had delivered his message on Germany to an audience that at least understood and was ready to deliberate. Stalin's first assumption was borne out, but his second proved disastrously mistaken.

What happened, in fact, was that Stalin's attempt to balance a dual track policy convinced his Allies that he was dealing from strength, not fear, and was bent on expansion, not merely security. Just as Stalin had shaped his policy

⁵² Mastny, 48.

under the influence of his acquired views of the world, the governmental elites of London and Washington could not abandon their traditional suspicion of the Communist enigma when debating their own courses of action. In spite of the tremendous propaganda effort these leaders subjected their people to in an attempt to foster Allied goodwill, and the cordial feelings generated at Teheran, the nagging doubt remained - would the Soviet Union abandon an opportunity to spread the Revolution by force in order to co-exist with the capitalist West? Many British and American diplomats came to the conclusion that they could not. Bohlen spelled it out for the President in a memorandum he drafted at the end of December 1943. He argued that the Soviets now intended to fight a politically motivated war in order to wind up as the dominant power in Europe. Bohlen stressed that Stalin's attitude to Germany and his clear intent to exert physical control of her, over and above the primacy of any international organization, was proof positive of this intent.⁵³

This was a sincere but also cleverly worded plea. It hit FDR right where it counted, on his dream of a real internationalist system. It also articulated a train of thought that was to attract much support in the coming year in Washington and London - the view that Soviet policy was dedicated to winning the old balance of power game at the

⁵³ FRUS, Teheran, 846-847.

expense of their allies. But it did not win over the President. FDR was not naïve, or blind to the realities of power. He too had hopes that the impending Allied invasion would enhance Western political goals. But he was a politician, from the depths of his soul, and determined to achieve his prime objective. In a sense, FDR and Hopkins did grasp a point that the "realists" overlooked. Any international organization would, merely by gravity, wind up being dominated by the United States as a sort of "primus inter pares." But that organization, to work, would require the active participation of the only real center of power which, outside of Washington, would survive the war - the Soviet Union. This goal was worth a heavy price, but that price could still be negotiated. That process would obviously necessitate the softening of Soviet intentions and the bolstering of her trust in the West. This could only result from winning the confidence of Stalin. And only one man, Roosevelt, could do that. So FDR filed the warnings of his advisers and returned to the policy of procrastination, in hopes of creating a more agreeable climate for a direct settlement with Stalin.

Unfortunately for the world, this policy, promising enough in the abstract, was simply unworkable in practice. One reason for this was that FDR did not win over all his advisers, or his British allies either. Many in Washington, while agreed that expansion of American power was the goal,

disputed the soundness of the policy of drift. Churchill and the British were even more convinced that practical diplomacy, not visionary ambitions, was the course to adopt. FDR's detachment exacerbated, as opposed to muting, the debate over the real intentions of the Kremlin. This was important because, in overall relations and German policy, including reparations, it contributed to confusion in Allied policy and misinterpretation of Soviet actions. But it must be clearly understood that the ultimate blame for this confusion lies not with Roosevelt or anybody else but with the Soviet government itself. Despite the divided views in their diplomatic staffs the Western Allies, especially the Americans, were willing to take that extra step in an attempt to forge a durable East-West relationship. Every major action the Kremlin took from 1944 on strengthened the argument of the realists in the West, because the Soviets, especially Stalin, did not dare even contemplate taking that extra step. Stalin certainly wanted an alliance, but was unwilling to risk one on any but his own terms. He defined these terms - the essentials for Soviet security - so expansively - control of Eastern Europe and the destruction of Germany - that it became very difficult to construe Soviet policy as anything but hostile. Expansionist Soviet ideological dictates, previous actions, public suspicion, and subsequent actions in Eastern Europe, all combined to create an image of a growing titan bent on realizing many

ancient desiderata with or without their allies approval.

The truth of the matter was that the strange combination of assumptions held by the men in the Kremlin - traditional Russian expansionism, balance-of-power dicta, and Marxist dialectic - produced a pattern of thought and action that was negative, forceful and paranoid. Stalin just could not trust anything or anyone beyond his own power.⁵⁴ Even the Grand Alliance was, to him, an essentially competitive relationship. Herbert Feis has best described this tragic dilemma of Soviet policy, which was:

...always to keep itself in a position to impose its own will in matters deemed vital to Soviet security or prestige, even while wanting and seeking continued co-operation. Balance in this duality was easily lost.⁵⁵

Thus, even though Stalin was more concerned to destroy German power out of fear, not ambition, he felt unable to make the extra effort necessary to convince his allies of this by deeds. Soviet actions distorted the blunt truth of Stalin's words in Western perceptions. As the war advanced the Kremlin behaved like a schoolyard bully, always in the right, always wanting more, always suspicious of anything less than utter submission. By acting like he expected the worst from the world, Stalin himself created the conditions that produced a self-fulfilling prophecy.

⁵⁴ Djilas, '73.

⁵⁵ Feis, 433.

This fundamental dichotomy was, so severe that FDR's non-policy merely aggravated, not determined, the eventual parting of the ways. This happened because procrastination produced division, lack of direction, and false optimism in Allied councils. This is not to say that, early in 1944, American, British and even Soviet leaders did not see the approaching point of no return. Even Cordell Hull noted, in February:

Matters are rapidly approaching the point where the Soviet Government will have to choose between the development and extension of the foundation of international co-operation as the guiding principle of the post-war world as against the continuance of a unilateral and arbitrary method of dealing with its special problems... 56

But the real point is that, for the Kremlin, there was no such choice even open to consideration. The Stalin regime would not have adopted any other course than it did, ie Hull's latter alternative, after their ordeal of 1941-1942. Their worst suspicions of the power and duplicity of the capitalist world had been confirmed, and that was that. In the face of this inflexibility, FDR's delay merely postponed the day of reckoning. East was East and West was West and the war destroyed the political confidence that would have been necessary, in the Kremlin, to seal the breach.

The events and non-events of 1944 moved the alliance

steadily towards this breach as success brought closer the vital question of what to do with Germany. The EAC began deliberations in January. Right from the start, Germany was the main topic. The EAC did produce some valuable basic research and agreements on drafts of such issues as zones of occupation, principles of political and economic policy toward Germany and the treatment of war criminals. But the two most important results it produced were what it didn't do and why. FDR absolutely stymied the EAC. By rendering his representative powerless to do anything but debate, so as to further his policy of delay. This same defect, a powerless representative, was institutionalized in the Soviet regime and reinforced the process. The British, who had hoped to use the EAC to produce concrete political accords before the war ended, were left paralyzed and frustrated. This frustration was increased by the fact that the Soviets used the EAC as a platform to push their German policy, and the Americans remained seemingly inert. As early as February 18, Gusev, Maisky's successor in London and the Soviet representative on the EAC, presented a draft that called for 1) the imposition of zones of occupation in order to disarm Germany and 2) the unconditional and unrestricted submission of the German economy to Allied control.⁵⁷ The Soviet aims revealed at Teheran were restated in full force. Stalin rated reparations a higher priority than the zones of

⁵⁷ FRUS, 1944, Volume I, Washington, 1966, 178.

occupation, and Gusev soon called for a "war-guilt" clause to go with them.⁵⁸ Events on the battlefield again intervened in the process of diplomacy. The tremendous Soviet victories in Belorussia, the advance into Poland, and the opening of the Second Front at last raised the sight of victory in the Kremlin. Stalin now began to hope that the war could indeed be won without the total dissipation of Soviet power, and turned up the diplomatic pressure. In June Andrei Vyshinsky, another Deputy Foreign Commissar, told Harriman that the Soviet government "promised to treat the Germans the same way it had the kulaks."⁵⁹ That same month, the EAC was finally able to agree on a Surrender Document that would give the Allies total control of the German economy (articles 5 and 12).⁶⁰ On the 20th of July, Maisky told Harriman that "100% of the Soviet people expected large reparations, and trouble was foreseen as the West was felt to be more lenient."⁶¹ By now the Western Allies gradually began to realize the imminence of the post-war question, drawn ever closer by success in Europe, and considered the message of Stalin's lieutenants. Even FDR could see that:

The Big Three shared an obvious interest in keeping Germany under control; but unless they could agree before the end

⁵⁸ Mastny, 150.

⁵⁹ FRUS, 1944, IV, 889.

⁶⁰ FRUS, 1944, I, 256-60.

⁶¹ FRUS, 1944, IV, 894.

of the fighting on how to do this, disputes among the victors would almost certainly arise...⁶²

As serious disputes could and would ruin his new order, FDR started to move. He asked his advisers what Stalin wanted, why, and what the US felt about it and why. The answer he received was mainly the mistaken interpretation people like Harriman had formed after Teheran, and reparations formed a large part of it. Harriman said that the Kremlin was only after territorial and physical gain. This was clear because they had now begun to focus on Poland, which was the key to Stalin's sphere-of-influence ambition. Harriman saw a strong and aggressive Kremlin and thus he interpreted their focus on reparations in light of their greatest weakness - the need for reconstruction.⁶³

The argument, once voiced, gained great momentum in Washington. The view that the thrust behind Soviet reparations policy was positive, that is to rebuild the Soviet Union, not negative, ie to destroy Germany, simply seemed to make sense. It fit in with what the Soviets had said publicly ever since the Varga Plan, it explained their obsession with the issue, and the destruction in Russia made it easy to believe. It also appeared to be the perfect way to surmount a weakness that the Soviets must face in order to expand, as the Western realists felt they desired to do. But it was wrong... A crucial piece of the puzzle - Soviet

⁶² Gaddis, 95.

⁶³ Harriman, 317, 385.

stress on Western co-operation - was simply missed. The truth, that Stalin still felt unable to control Germany without his allies, escaped even Harriman. In response to FDR's queries, he thus made two suggestions: 1) formulate the American policy on reparations and 2) use economic leverage, such as a loan, to force Soviet diplomatic concessions.

This advice, because it was based on a mistaken appreciation of Soviet policy, helped steer American diplomacy down a blind alley. Harriman was not alone in his views or all powerful, but he was influential and he kept at it. At the end of June he told Hull that the EAC could do no more with the Soviets, and that discussion should now be raised above the technical level. In August, Winant, the US representative, concurred and advised that reparations talks be held in Moscow, close to Stalin.⁶⁴ FDR received a brief from the State Department which tied in perceived Soviet aims on reparations with a suggested American policy. The experts argued that US goals should be 1) total control of the German economy 2) a viable United Nations, not punitive reparations, as the bulwark of security 3) a minimized reparations program, with short term payments "in kind" and 4) the integration of Germany into the "global economy".⁶⁵ The crucial point was: "The direct interest of the US

⁶⁴ FRUS, 1944, I, 275.

⁶⁵ Ibid., 278-298.

government in German reparations is that the program aid in the attainment of, or interfere as little as possible with, its economic, social and political objectives." This was a fairly clear statement of how to insert reparations into the plan to achieve American pre-eminence through economic power. The view that the Soviets needed reparations for themselves was seen as opportunity knocking. Minimize reparations, which, because of the precedent, is a good idea anyway, and you leave the Kremlin no choice but to go begging to Washington.⁶⁶

Even accepting this policy, flawed as it was, would have been better than what FDR did. In spite of the fact that he accepted much of the logic, he filed the paper and resumed his policy of delay. In fact, this answer to his query merely seems to have reinforced his belief that delay was working. This renewed delay allowed Henry Morgenthau Jr., Secretary of the Treasury, to exploit Anglo-American differences at the Quebec Conference in September of 1944 and get FDR and Churchill's approval of the infamous "Morgenthau Plan." This plan was very close to Soviet ideas. It argued that de-industrializing Germany and leaving her a pastoral state was the key to future security.⁶⁷ Morgenthau's ploy further confused Allied policy, sparked an uproar in the State Department, and

⁶⁶ Kolko, 263.

⁶⁷ FRUS, 1945, Volume III, Washington, 1968, 377.

finally leaked out in the press. The resulting domestic outcry pushed FDR into repudiating it and retreating back into his waiting game. More importantly, it confused the Kremlin as to the real basis of America's policy towards Germany and left Washington without any policy at all.⁶⁸ But the Kremlin missed the most important accidental revelation that the Plan implied - that Washington saw reparations, of whatever form, as only a part of general economic policy in Germany.

The Soviets, of course, saw reparations as the key to German policy but, because they missed the sign, made no special notice to this effect. Because of this, the American bureaucrats continued to believe that the thrust of Soviet policy was positive and tried to force action out of FDR. By this time the Red Army had overrun half of Eastern Europe. As an omen of the future, the Kremlin had imposed reparations demands based on payments in kind of an essentially military nature on Finland and Romania and justified them as indemnities.⁶⁹ Inspired by this, Hull, as one of his last official acts, agreed, late in October, to propose reparations talks in Moscow.⁷⁰ FDR rejected this. Hull's successor, Stettinius, renewed the battle with Morgenthau, and told FDR that US policy should be moderate.

68 FRUS, 1944, I, 387.

69 Kimball, 192.

70 FRUS, 1944, I, 357.

He also said that the Soviets wanted reparations for reconstruction and would thus depend on control of German production and oppose deindustrialization!!⁷¹ FDR actually agreed but then filed the paper for a "draft" and finally told Stettinius, on 4 December, "we are against reparations."⁷²

FDR thus halted the development of US policy, with only a vague idea of Soviet aims, in order to keep his "free hand". By the 27th of December Stettinius noted that the Soviets had never replied to the proposal for reparations talks but it no longer mattered.⁷³ He said this not only because FDR had halted American planning but also because of why he had done so. Churchill, pushed to desperation by Morgenthau and the onrushing Red Army, had again intervened to try and force a face-off on the post-war questions at the highest level. Ever since July of that year, the veteran British leader had been proposing a second Big Three conference.⁷⁴ Morgenthau's pressure and FDR's procrastination spurred him to Moscow in October to try and arrange a practical sphere-of-influence deal with the advancing Soviets. At the meeting, both Churchill and Stalin discussed Germany and called for a hard peace.⁷⁵ Faced with this and the famous "percentage agreement" settled at the same meeting,

⁷¹ Ibid., 401.

⁷² Ibid., 409, 414.

⁷³ Ibid., 426.

⁷⁴ Kimball, III, 249.

⁷⁵ Ibid., 364.

Roosevelt quickly stated that nothing could be settled without another general conference and halted all American planning. Churchill's tactics succeeded brilliantly, but left the US depending largely on FDR's "free hand" in reparations and indeed everything else.

The agreement to hold another Big Three conference came at the height of battlefield success and this time fixed Allied focus on post-war questions for good. But it caught the West with no more than vague or general aims on reparations and German policy as a whole. The Soviets, on the other hand, were ready. As a matter of fact, the desperate death struggle of the German armed forces in 1944 had only entrenched Soviet desires for heavy reparations as the crucial security measure. Stalin and Maisky knew exactly what they wanted and why. However, because Stalin had already convinced himself that his prime objective of complete Western co-operation was improbable, he had already taken steps which would eventually ruin what chance there was of securing a general reparations agreement that satisfied the Kremlin. This astounding contradiction was a result of the bizarre and distorted vision of the world that the war helped solidify in Stalin's assumptions. Stalin had serious doubts about the durability of any buffer zone his armies could establish in Eastern Europe. So he insisted on an attempt to forge a common policy with the West in regard

to Germany, to guarantee Soviet security.⁷⁶ Yet he felt that in the end the West would not, for their own political reasons, match his German policy. So he took the only course almost guaranteed to bring this very failure about - he instigated a policy designed to provide as much protection for Soviet interests as possible if diplomacy failed, which however could only be executed in such a manner as to directly influence the diplomatic process.

This policy was the ultimate expression of the fearful and negative motivation of Soviet reparations aims, the unilateral physical dismantling of the German homeland. Although Stalin was uniquely well placed to ignore the domestic situation in formulating his foreign policy, this decision on its expression was probably at least influenced by the internal atmosphere in the Soviet Union. Simply put, the savagery of the Germans, coupled with the outspoken diatribes of men like Ilya Ehrenburg, produced a longing for vengeance and concrete proof of security among the Russian people that Stalin could not ignore. The internal situation in the Soviet Union did not produce its reparations policy, but it set a minimum standard which it must attain. This situation was aggravated by the fact that for the sake of survival Stalin had been forced to downplay the role of the Communist Party and exhort the people to fight for eternal

76. Starobin, J.R. "Origins of the Cold War" in Foreign Affairs, Washington, July 1969, 687.

Mother Russia. Stalin also now faced the task of re-establishing the primacy of the Party as well as ensuring security from Germany.⁷⁷ Stalin, better than anyone, realized that excessive familiarity with the West would endanger the important first goal. Yet he could not ignore the second. So, he hedged his bets and agreed to take steps to mitigate against a diplomatic failure by taking care of what part of Germany the Red Army could reach, which, of course, would also help the Party on the domestic front.

At the end of 1944 Stalin appointed Georgi Malenkov, then the member of the Politburo and Defense Committee overseeing political affairs, to head a "Special Committee under the Council of Peoples Commissars" which was charged with a special task and reported directly to him.⁷⁸

Its task had been revealed to the Defence Committee on 6 November, 1944, in Stalin's report:

After her defeat Germany will of course be disarmed in the economic and the military-political sense. It would however be naïve to think that she will not attempt to restore her might and launch new aggression...History reveals that a short period of time, perhaps 20 or 30 years, is enough for Germany to recover from defeat and re-establish her might...⁷⁹

77 Knight, J. "Russia's Search for Peace: The London CFM 1945", in Journal of Contemporary History, Volume 13, 1, 1978, 138.

78 Rudolph, V. "The Administrative Organization of Soviet Control in Germany 1945-1948" in Slusser, 18-19.

79 FRUS, 1944, IV, 930.

Its reasons for existence, however, stemmed from Soviet perceptions of both Germany and their allies:

At the time the Special Committee was formed the Politburo [Stalin] had no confidence in the possibility of successfully sovietizing even those parts of Germany occupied by Soviet troops. It was considered probable that the United States and Great Britain would insist on conditions of peace under which the sovietization of Germany would be impossible. Some members of the Soviet government feared a repetition of the rapid German recovery after the First World War. Accordingly the idea was developed of the "economic disarmament of Germany", ie, the dismantling of the German economy to a point where Germans would be unable for years, if not forever, to stage a comeback as a powerful state and a potential enemy...⁸⁰

This, not an overriding need for aid in reconstruction, was the real thrust of Soviet reparations policy. It had been implicit from the very beginning but this fateful decision changed only the nature, not the aim, of Maisky and Varga's task.

There was simply no way around the fact that a careful policy could not assume eventual Western co-operation. By finally opting for Malenkov's Committee and the economic disarmament of Germany, Stalin obviously decided that Soviet reparations policy would not depend only on Maisky's success at the table. However, it must be understood that this decision increased the urgency of Maisky's task. At that

same meeting of the Defense Committee, Stalin overtly admitted that a continued Big Three alliance was the best - not the only - guarantee of post-war security.⁸¹ Therefore, Maisky now obviously had to win as much agreement as he possibly could from the Anglo-Americans for Soviet reparations plans before the activities of Malenkov's Committee too clearly revealed the negative grounding of Soviet policy. Stalin, because of his own fears, suspicions, and assumptions put his government in a situation it could well have avoided. The impending Big Three meeting had now become, for the Soviets, possibly the last opportunity to gain by diplomatic deceit what they felt they could not secure by open honesty. In a sense, Stalin risked throwing away all the hard won advantages about to be secured by the Red Army by placing himself under the same pressure of supplication and time as his Western counterparts. It was this factor that made the top level diplomatic conferences of 1945 so crucial - they represented the last chance for diplomacy to put out the fuse lit by the fear of the Kremlin.

⁸¹ FRUS, 1944, IV, 930.

Chapter Three -- Yalta

The political and military situation of the Grand Alliance in early 1945 did not, on the surface, reflect the new urgency of Soviet diplomacy. As a matter of fact, the shoe seemed rather on the other foot. While, as noted, the Western Alliance had not settled on any definite or common aims re Germany and other post-war issues, the Red Army had overrun most of Eastern Europe and stood a short fifty miles from Berlin. It appeared to many in London and Washington that the Soviets' confidence was multiplying and their aggressiveness and inflexibility increasing accordingly. The fact that Stalin had adamantly refused to meet anywhere but in the Soviet Union seemed to reflect this rigidity. Also, in contrast to the supposed preparedness of the Soviets, the Anglo-Americans were still mired in internal policy disputes. They compounded these disputes by persisting in the belief that the thrust of Soviet reparations policy was positive and that there was an economic lever that could be used to pressure the Soviets. In addition, their own armies were still occupied with the recent German counter-offensive in the Ardennes and had barely touched the frontiers of Germany. The pressure very definitely seemed to be on the Anglo-Americans to salvage a common pivot for the continuation of the alliance after the cessation of hostilities.

At certain points in history, the most amazing

miscalculations and blunders have, by their very commission, actually saved men from the consequences of their own actions. The diplomatic preparation of the Anglo-Americans for the crucial conference at Yalta stands out as one such time. The serious misinterpretation of the intentions and power of the Soviet Union actually induced the West to focus on what the Soviets felt was a secondary issue, the fate of Eastern Europe, particularly Poland, as the crucial test case of the future of the alliance. This, and this alone, salvaged disaster from FDR's policy of delay, as it wrecked Stalin's plan to use Maisky's reparations proposal as a screen for the Kremlin's real policy. This was because Poland became so important to the Western Allies that they actually made it, not Germany, the central issue of the Yalta conference.

It was not merely Poland itself but what Poland symbolized that made it the crucial issue in Allied diplomacy. Great public passion was aroused over the fate of "gallant Poland" in the Western countries, especially after the split between the Kremlin and the Polish government-in-exile. Millions of Poles and East Europeans, especially in the United States, joined many in the media in expressing great concern over the fate of the lands now behind the lines of the Red Army. But although this concerned the Western governments, what mattered more to them was the fact that Poland and Eastern Europe would be their "test case" of

Soviet intentions. Was the Kremlin determined to expand even at the cost of destroying the Alliance? The man who knew was Stalin, and they came to Yalta to get his answer.

This was not what Stalin wanted. Stalin clearly felt that his deal with Churchill in October* had expressed the willingness of the Western Allies to recognize a Soviet sphere-of-influence in Eastern Europe. It was a settled issue in his eyes, with only the mechanics of power transfers and political sensibilities remaining to be settled. Of course, it cannot be argued that Poland and Eastern Europe were not important to the Soviet government. The imposition of friendly regimes in the area and the establishment of a buffer zone was a prime Soviet war aim that they were prepared to insist upon. After all, Poland was the corridor for German invasion twice in one generation. But here is the key point - Poland was a corridor, but the Germans did the invading! The fate of Eastern Europe was inextricably linked in Soviet plans to the more important issue of security from Germany. What Stalin wanted from his allies in regard to Poland was definite recognition of Soviet hegemony. He sincerely believed that security, not expansion, was clearly the motive behind this obvious Soviet need. In other words, he wanted them to recognize the fact that the Red Army was there to stay.

* . See above p 43.

Stalin was experienced enough to realize the delicacy of this request, and was prepared to discuss it. But the basic issue was not open to debate. What Stalin wanted to discuss was of course Germany, and what he wanted there was a political commitment from his allies to Soviet plans for its control. These plans, of course, centered on reparations. Three weeks before the conference, Maisky emerged from his back room to serve notice of this intent. By no accident, he went to the Americans. Maisky visited Harriman on 20 January 1945, and told him that he had been spending "all his time" on reparations and wished to inform Washington of Soviet proposals to be raised at the conference.⁸² Maisky began with:

In connection with reparations, the Soviet government had security in mind first...⁸³

Harriman asked for specifics, and Maisky opined that the dismantling of 75% of German heavy industry would suffice. Then, in case Harriman hadn't fully understood, Maisky reiterated:

...he emphasized that the principal objective of the Soviet government was security...This aspect would be taken into account in connection with the size of reparations...⁸⁴.

⁸² FRUS, The Conferences at Malta and Yalta, Washington, 1955, 177-178 (hereafter termed "Yalta").

⁸³ Ibid.

⁸⁴ Ibid., my emphasis.

Maisky finished by explaining that the Soviets would regard the amount of damage suffered and the size of the war effort as the major criteria to be used in assessing the priority for receipt of any reparations.

Harriman got the message all right, but only the figures came as any surprise. Washington already knew that the Soviets were going to push for a hard policy on Germany at the upcoming conference.⁸⁵ What Maisky did was put on record that reparations were to be the spearhead of this Soviet pressure. Maisky obviously had been careful to inject a note of urgency into this briefing, for this of course was now the crucial element in Soviet plans. Stalin felt that because the Red Army had recently met an Allied request for help in easing German pressure from the Ardennes the Soviets had gained a moral edge, which must be quickly exploited to further Soviet plans.⁸⁶ Stalin used Maisky to signal that he was ready to trade. As far as he was concerned, the trade had to include an Allied commitment to Soviet security policy, which of course meant reparations. But what he was really after was a trade that would trap the Western Allies into a political commitment to post-war plans, based on Soviet criteria, that would be difficult to break if future events caused any deterioration in Allied relations.

⁸⁵ Snell, 125.

⁸⁶ Issraeltjan, 328.

Stalin's counterparts had very different ideas about the issues and what they wanted to achieve at the conference. As noted, Poland was to be their major issue. To Churchill, Poland symbolized the fate of Britain's traditional realpolitik approach to power in Europe. Of all the Western leaders, he was earliest and most concerned over Soviet post-war plans for unilateral expansion. Churchill's view of the international system was very traditional and very British. New international organizations were nice dreams, but power and spheres-of-influence were the hard realities in his foreign policy. Poland was the technical British casus belli and the traditional darling of Western Europe, always caught between the German hammer and the Russian anvil. Churchill felt that ascertaining Soviet views on Poland's future government, social system and frontiers would be the best way to gauge the Kremlin's intentions for the post-war period. In other words, he wanted to go right after Stalin in his own backyard.

As far as Germany was concerned, Churchill had not then adopted a fixed general policy. British attitudes towards reparations remained unchanged, and grounded on their fears of the precedent. There was no intimate Anglo-Soviet discussion on reparations before Yalta, but the Soviets knew of Churchill's intent to minimize any settlement.⁸⁷

⁸⁷ CAB 65/52, 31.

Actually, Churchill now had no intention of deciding any issues relative to Germany's future, especially dismemberment and reparations, until his probe on Poland bore fruit.⁸⁸ His plan at Yalta was to settle the zones of occupation in Germany and then postpone a general German settlement and await two things: 1) military victory 2) Roosevelt's awakening. The latter was by far the more important and the key to Churchill's policy.

On 8 January, Churchill had wired to Roosevelt:

At the present time I think that the end of this war may well prove to be more disappointing than was the last...⁸⁹

The point he was making was that Soviet plans would wreck the Grand Alliance and FDR's hope for a new start. In truth, Churchill already felt certain of the answer he was to receive to his probe over Poland. He had construed "expansion", wherever Stalin saw "security", all along. Therefore Churchill wanted to bring Stalin out in the open over Poland, and delay hasty action on Germany, in order to bring FDR around to his interpretation of the proper way to deal with the Soviets. Ironically, for the wrong reasons Churchill was about to adopt the very course on reparations that directly contradicted the pose Stalin was after. Whether this would matter, however, depended on FDR.

88 Churchill, W.S. Triumph and Tragedy, Boston, 1953, 350; Eden, 584.

89 Churchill, 341.

By now the US was very clearly the great power of the future. Churchill knew that to secure British power on the continent and balance that of the Soviets, he had to win over the President, and he had to do it by piercing Stalin's diplomatic screen. But FDR, as noted, had not yet adopted any firm views at all. He brought his "free hand" to Yalta with the clear aim of exploiting it to win Stalin's confidence in and commitment to active participation in the new United Nations. Poland meant a great deal to FDR as well, because to him it symbolized Soviet willingness to trust the new internationalist and co-operative approach and abandon their exclusive search for security. FDR felt, as Churchill did, that other post-war issues hinged on deciphering Soviet intentions and behaviour in Poland. So he too intended further to delay a final settlement on German policy in hopes of finally getting through to Stalin. The Polish settlement would help FDR assess Soviet readiness to make the United Nations a functioning reality in the international system.

FDR's other objective at Yalta was to get a Soviet commitment to join the war with Japan, in order to save American lives. He felt that Soviet reaction to American positions on Poland, the UN and the Pacific War would demonstrate the depth of their commitment to future working co-operation with the US. Germany, to him, was still an obstacle to higher aims. However, FDR realized both the

importance of Germany and of Soviet perceptions of it, and did attempt to prepare some American reaction to Stalin's demands in order to protect his priority aims. Back in Washington, Roosevelt's underlings still bickered over what Moscow's aims were and they were still wrong. Morgenthau still wanted to crucify Germany, and advised that the best way to pressure the Soviets was to offer them a loan for reconstruction and use it as leverage. The State Department liked the second idea, and inserted in FDR's Briefing Book:

post war credits can serve as a useful instrument in our overall relations with the USSR...⁹⁰

But they hated the first idea, and for the same old reasons, as they also argued in the Briefing Book:

...the guiding principle of US policy in regard to reparations should be that the reparations claims of our Allies should be supported only if, and to the extent that, such claims do not conflict with the other elements of the settlement with Germany...In order to avoid difficulties with public opinion in the Allied countries, which is likely to regard any given amount of reparations as inadequate to compensate for the damage and suffering inflicted by Germany, as well as for other reasons, the statement of the reparations obligation in terms of a specific monetary amount should be avoided...⁹¹

State really gave FDR the same old message: reparations were a disaster last time so be careful America doesn't

⁹⁰ FRUS, Yalta, 324.

⁹¹ Ibid, 194-195, my emphasis.

again get stuck with the bill. This was precisely the sort of advice FDR liked, as it required him to continue doing nothing. FDR's decision to avoid a final reparations decision was thus made before Yalta, and it was as accidentally fortuitous as that made by Churchill. Not only did it knock Morgenthau out of the picture, it also prevented the forging of exactly the commitment that Stalin was about to demand. This was very fortunate, because Washington's continued misperception of the relationship of reconstruction to reparations in Soviet eyes produced a willingness to discuss actual mechanics on the part of the Americans that, with a firm political commitment, would have played into Stalin's hands. The Americans had not yet realized the primacy of political over economic goals in Soviet policy. FDR's focus on other issues actually staved off potential disaster in spite of itself.

The three leaders came together in the Crimea in early February with the intention of securing their own special interests while, somehow, keeping the Alliance together, at least long enough to finish Germany off. As noted, the issue of Poland almost immediately became the real mutual test of intentions and ambitions. But the issue of Germany and her post-war treatment was discussed long and earnestly at Yalta, and a major turning point in policy making was

reached. Yalta actually produced decisions that became the basis for all joint post-war German policy that was eventually settled, and it also laid the foundations for the critical disputes over these same policies.⁹² The Big Three did come to Yalta in agreement on several points of policy on Germany. All were agreed that the basic aim of their German policy must be to prevent another hostile German resurrection.⁹³ But as far as degree and method were concerned, their agreement ended. Yalta was perhaps the last chance for the Soviets to structure post-war Allied German policy on their terms and was for that reason, for them, a point of no return. The reason was simple:

On its side, the Soviet Union perhaps wanted a plan [reparations] that was impossible to achieve, but would probably not support any position the US adopted...⁹⁴

As Herbert Feis noted:

The Russians were ready to subordinate all questions of general welfare to a determination to erase the German economic capacity to make war...⁹⁵

This aim was precisely the promise that the Soviets tried to exact from their allies at the fateful conference. The conference itself lasted from 4 to 11 February of 1945.

⁹² Clay, 13.

⁹³ Feis, 530.

⁹⁴ Kuklick, 73.

⁹⁵ Feis, 534.

It's delegates discussed military matters relating to both Germany and Japan and touched on virtually every aspect of post-war plans. Discussions took place at three levels - 1) technical, expert committees 2) the Foreign Ministers 3) the Big Three in plenary session. Serious debate took place at eight plenary sessions, three dinners and many lower level meetings.⁹⁶ It produced agreements on major and minor issues, tentative or principled agreements, and agreements to disagree. Astonishingly, it created probably the most cordial state of relations and highest degree of optimism the Grand Alliance was ever to experience. It can only be concluded that this phenomenon resulted from the participants' surprise at their skill in papering over disputes on practical issues and personally getting along with each other. This is because the conference produced only a possibility, not a commitment, that the Allies would eventually settle a common policy on Germany that could bind their post-war relationship in practice and in amity.

Whoever in the Kremlin chose Yalta as the conference site chose well. While it is quite true that Stalin's personal paranoia, inability to delegate authority, and the excessively centralized Soviet system's total dependence on him were all factors that influenced his insistence on the

⁹⁶ FRUS, Yalta, 552-561, The President's Log.

Soviet Union as the site, the psychological edge gained by forcing Churchill and Roosevelt to come to him was not lost on Stalin. Yalta provided a backdrop of very recent and very severe war damage which offered a daily reminder of the German threat.⁹⁷ In addition, it provided an almost surrealistic image of old traditional Russia. The plenary meetings were all held in the Livadia Palace, an old summer resort of the Tsars, which, not accidentally, housed the American Delegation. Stalin was, in effect, staging dramatic theatre. While their voyages might seem to underscore the impression that the Anglo-Americans needed him, his need was equally great. German destruction provided the atmosphere, old Russia the clue. Stalin wanted to play power politics.

Yalta was one of Stalin's finest hours. In spite of everything, he very nearly pulled it off. The conference got off to a flying start, as far as he was concerned, when, at their first tete-à-tete on 4 February around 4 PM, Roosevelt assured him that his attitude towards Germany had now grown even harsher.⁹⁸ That was what Stalin wanted to hear. Things only seemed to get better when FDR matched Stalin's contempt for the French and rode his old hobby horse of the necessity of dismantling the British Empire and colonialism in general. Stalin was probably quite satisfied

⁹⁷ Wheeler-Bennett, Sir J. & Nicholls, A. The Semblance of Peace, New York, 1974, 222.

⁹⁸ FRUS, Yalta, 510-573.

to hear of divisions in the Western camp. But he should have given closer scrutiny to the meaning between FDR's line. FDR thought that his little speech openly expressed his desire to play honest broker and fix things up between Churchill and Stalin on basically American terms.

Naturally, Stalin heard only that the President might not be receptive to Soviet plans. The two leaders broke up the talk and strolled into the Livadia's ballroom for the first plenary session unaware that they had already misunderstood each others' main point.

Stalin must have been very pleased with this first two and a half hour session, for it discussed the preparation of the final military defeat of Germany. Everybody seemed delighted to renew old acquaintances, and were properly eager to finish off the enemy. Actually this first session merely cleared the air of the technical details which needed recognition. But it is noteworthy that it was probably the most cordial session of all. The closer discussion remained to military matters, the easier agreements were to reach. The farther discussion strayed, the harder agreements became to realize.⁹⁹ Stalin and Churchill established both this fact and the pattern for the conference itself with the closing exchange of the day. With all the military reports concluded, Stalin proposed that a few general observations

⁹⁹ Deutscher, Stalin - A Political Biography, New York, 1960, 527.

on Germany be made. Churchill said why not discuss Germany's future, or even "if she had any." The probe scored a direct hit. Stalin retorted, "Germany will have a future" and left FDR, the appointed chairman, to close the meeting.¹⁰⁰ With that exchange, the battle lines were drawn. Churchill intended to use every trick in the book to draw out the real Stalin for FDR's benefit. But Stalin was equally determined to win FDR over without revealing the real core of his desiderata. The President was truly the man in the middle.

The first man fully to realize this was Churchill's right hand man, Foreign Secretary Anthony Eden. Eden shared Churchill's perspectives and goals, but not his new faith in postponement. Eden felt that Churchill should turn his energy directly towards convincing Roosevelt to forge a common Western policy on Germany and work it out, repara-

¹⁰⁰ Reitzell, R. (edit) Teheran, Yalta, Potsdam - The Soviet Protocols, Mississippi, 1970, 59.

There is no mention of this exchange in the British and American conference minutes. Charles Bohlen, who took the US minutes, notes (Bohlen, 138) that there was no joint or official record kept of any Big Three conference, as each side kept its own records. This study used all three sets of records for Yalta and American and Soviet minutes of Potsdam. Generally, there are no significant differences of meaning in the three records. As a rule of thumb, where two sources agreed, the wording of a passage was accepted as truthful. But this particular passage is a living embodiment of Churchill and Stalin at Yalta; more importantly, unlike other minor Soviet "editorial changes" in the record, it reflects badly on Stalin's intentions. This author could find no reason to dispute its authenticity and many to accept it.

tions included, in the EAC.¹⁰¹ He did not think that Churchill's attack on Stalin would sway FDR, and Stalin's first performance only further reinforced this belief. Eden had long experience with both the American and Soviet leadership, and held very definite respect for Stalin's ability:

— Marshal Stalin as a negotiator was the toughest proposition of all. Indeed, after something like thirty years of experience of international conferences of one kind and another, if I had to pick a team for going into a conference room, Stalin would be my first choice. Of course the man was ruthless and of course he knew his purpose. He never wasted a word. He never stormed, he was seldom even irritated. Hooded, calm, never raising his voice, he avoided the repeated negatives of Molotov which were so exasperating to listen to. By more subtle methods he got what he wanted without having seemed so obdurate.¹⁰²

Eden actually went to the conference very disturbed over Anglo-American divisions because he felt that Stalin, already a tough enough proposition, was the only leader who had clear and definite aims.¹⁰³ Stalin's parting shot supported this conviction, and Eden's belief that Soviet aims for Germany were based on an expansion of their power at its expense. He resolved to do something about it himself, and to supplement, not supplant, Churchill's efforts.

101 FRUS, Yalta, 512.

102 Eden, 595.

103 Ibid, 583.

Eden's resolve brought him straight into conflict with Stalin's hatchetman, Foreign Commissar Vyacheslav Molotov. If Stalin listened to anyone, it was Molotov, the only man he addressed in the familiar form "ty". Molotov was an original old Bolshevik and the Soviet Foreign Commissar from May 1939, who exceeded even Stalin in his distrust of the capitalist West. Together, Stalin and Molotov made a truly formidable negotiating team. They complemented each others strengths in a near perfect "soft man-hard man" act.¹⁰⁴ Molotov epitomized the inflexibility of Soviet diplomats under Stalin so perfectly that he earned the sobriquet "Stone Ass". His only tactic was to outlast an opponent by sheer endurance, gainsaying everything said and clinging to his own position. Molotov's role at all the Big Three conferences was simply to wear down the Westerners and provide Stalin with an opportunity to keep them off balance by appearing eminently reasonable in contrast.

The Foreign Ministers had their first three-way discussion at luncheon the next day, February 5th. Eden, Molotov and Stettinius all knew that the purpose of this meeting was to stake out the priorities and starting positions that the Big Three would carry on. Eden went right to the point and expressed a desire to discuss the "troubling Polish question".¹⁰⁵ Molotov, completely

¹⁰⁴ Djilas, 70.

¹⁰⁵ British Government Documents, Cabinet Papers, Yalta Conference, CAB/99, 118-9 (microfilm folio).

deadpan, said the meeting should "leave them alone."

Instead, they should focus on Germany.¹⁰⁶ Molotov then informed his colleagues that the Soviets expected to receive German reparations in quantity and "in kind" and were anxious to settle the issue right here at Yalta.¹⁰⁷ This was all far too quick for Eden, who conceded to Molotov that the War Cabinet had not even debated reparations yet and insisted that "other business" was more urgent.¹⁰⁸ Molotov was unmoved. He turned to Stettinius and, as openly as he dared, told him just exactly what the Kremlin's priority was:

Mr. Molotov indicated that the Soviet Government expected to receive reparations in kind from Germany and hoped that the US would furnish the Soviet Union with long-term credits.¹⁰⁹

Stettinius should have paid closer attention, for Molotov had just told him that reparations and reconstruction were two separate issues and reparations was priority, and that the Soviets didn't intend to see them used as any "economic lever".

Stettinius missed the point, and left the meeting unenlightened. He also missed the significant fact that Molotov had addressed his remarks directly and specifically to him. Eden did not, nor did he overlook the fact that, as

106 Ibid.

107 Ibid., 119-10.

108 Ibid.

109 FRUS, Yalta, 610, my emphasis.

far as Molotov was concerned, the issue of reparations revolved around the question of how much the Soviet Union would receive. He must have briefed Churchill well, as that worthy was about to give a truly virtuoso performance at that afternoon's plenary session. Stettinius on the other hand merely forwarded FDR State's latest advice on economic policy toward Germany, which was:

We should favour abolition of German self-sufficiency and its position of economic domination of Europe...¹¹⁰

This advice, even based as it was on US fears of the precedent, would have made Stalin's day. Unfortunately for him, about all FDR was really ready to do with it was read it.

Stalin entered the Livadia ballroom for the second plenary session later that afternoon, ready to get down to business. He must have been well pleased with Molotov's performance, because he seated Maisky immediately to his left and prepared to have him reveal the comprehensive and crucial Soviet proposal on reparations, to his expectant counterparts. But first, Stalin himself responded to FDR's opening invitation to discuss political issues relating to Germany by raising the related question of dismemberment.¹¹¹ By dismemberment Stalin meant the question of whether Bismarck's achievement in 1871 was to be overturned and

¹¹⁰ Ibid, 568.

¹¹¹ Ibid, 610; Soviet Protocols, 59-60.

Germany broken up into several independent units. This was the logical starting point for any German policy, as it obviously would determine the actual implementation and method of post-war Allied occupation. The concept of dismemberment had been debated at Teheran and in the EAC, with each side showing various levels of enthusiasm at various times. By now, Stalin was actually against dismemberment.¹¹² It seemed too nebulous a method to control the dangerous Germans, and also too likely to either promote discontent or give them room to maneuver. Stalin brought it up for two reasons 1) he wanted the talk centered on German policy 2) he wanted a clear picture of Western intentions and readiness to formulate a common policy.

Stalin's foray sparked a very interesting debate, the result of which was merely that the principle of dismemberment was agreed upon and the details referred to the Foreign Ministers for further study. In other words, the whole idea was buried. But the arguments used in the debate led the meeting right down Stalin's trail, for they revolved around the question of German power. Churchill talked of traditional questions of power and spheres in Central Europe and wanted any dismembered Germany to be under British influence. Failing that, his next option was to resurrect France as a force on the Continent which could be used to

¹¹² Bohlen, 183.

further the British aim of balancing Soviet power. Thus, when FDR raised the next issue of whether France would be granted a zone of occupation in Germany, Churchill leapt to the attack. Churchill really wanted France in so as to provide an extra voice against the Soviets, but he wisely argued that the British needed help from the French to ease the burden of occupation. Stalin did not like the idea or the French;¹¹³ He did not want them to have a zone, and he especially did not want them to have a voice on the proposed Allied Control Council which would rule defeated Germany.

Stalin opposed a French role because he didn't trust their ability to help control Germany. But Churchill interpreted his opposition as an attempt to interdict British plans, and made an eloquent defence of exhausted Britain's need for French help. When Stalin threatened to bring the Poles in in reply, FDR intervened. The President said that he did not mind France having a zone but he was not willing to seat them on the Control Council, and that the problem was serious because US forces would remain in Europe

¹¹³ This debate is the one significant omission in the Soviet records. Stalin simply did not trust the French, and never forgave their 1940 collapse, which destroyed his general plan of distracting Germany. Stalin opposed a French role because he felt they would be too weak a link in the control of Germany. The omission was a result of the political pressures of the late 1960's. The Soviet Union was then earnestly trying to woo France from their American connection, and it was obviously felt indiscreet to resurrect records of Stalin's attitude in 1945.

for only two years.¹¹⁴ Both Churchill and Stalin, for different reasons, must have been jolted by this news,¹¹⁵ and the intensity of the debate increased. Stalin finally agreed that the French could have a zone carved out of the British and US zones, and that the question of France's voice on the Control Council could be referred to the Foreign Ministers. But this debate clearly underscored the emerging Anglo-Soviet dispute over exactly how to control Germany, and on whose terms; and thus control Europe. So, when Churchill suggested the future government of Germany be discussed next, Stalin assessed the moment as propitious and "stated that he preferred to discuss the question of reparations."¹¹⁶

Roosevelt concurred, and said that he felt there were two sides to the question, namely 1) how much the small allies would receive 2) the question of German labour. He underscored his nearly total ignorance of the importance of the problem by declaring that the US desired no reparations for itself. Stalin couldn't have cared less how much the US or anybody else wanted, he immediately announced that Maisky would reveal what it was that the Soviets wanted.

¹¹⁴ FRUS, Yalta, 616; CAB/99, 120.

¹¹⁵ Churchill would obviously have been appalled. A serious debate rages over Stalin's reaction, but the obvious point is whether Stalin was predatory, insecure, or both. If predatory, he would have licked his chops. If insecure, he would have been as disturbed as Churchill. Most likely, he experienced both emotions in equal measure. Most certainly, he regarded a reparations deal as now even more vital than ever.

¹¹⁶ Soviet Protocols, 66.

Maisky's big moment had arrived, and he gave the conference the unabridged version of the Kremlin's plan for the crucial issue of German reparations, ie the optimum Soviet position. This plan was then the best developed of all Soviet plans for post-war German policy, and it reflected their main objective of economically disarming Germany.¹¹⁷ It was much more concerned with depriving Germany than with who received what. The real core of the plan was the proposal to dismantle almost all German heavy and war related industry and infrastructure.

Malsky's plan had three key elements: 1) the aim of security first then restitution 2) the necessity of a tripartite plan for security reasons 3) the status of the Soviet Union as the priority recipient. These were expressed in eight points: 1) reparations to be paid "in kind" 2) they would take two forms, removals (ie. dismantling) and deliveries from production 3) "The third principle was in short that by way of reparations payments Germany was to be economically disarmed, as otherwise security in Europe could not be ensured..." 4) there was to be a two year period for removals and ten years for deliveries 5) tripartite control was essential. "in the interests of security in Europe" 6) the prerequisite for priority of receipt should be war damage and contribution to the war effort 7) the

¹¹⁷ Nettl, J.P. The Eastern Zone and Soviet Policy in Germany 1945-1959, London, 1951, 39.

Soviet Union wanted to receive payments of an aggregate 10 billion dollars value and 8) a Reparations Commission should be established in Moscow immediately, to set an overall extraction figure and establish technical procedures.¹¹⁸ Maisky revealed the entire spectrum of Soviet reparations plans in this one long delivery. His speech was clipped, precise, and complete. Point number one was addressed to Western fears of the precedent. Number two gave specifics for the first time. Number three established the ultimate objective. Number four proposed a time frame and number five emphasized Soviet insecurity and haste. Number six claimed first place in line, number seven established a figure to debate and number eight called for action. But it was points three and five, the calls for tripartite policy, that were the real meat of the plan.

Churchill was ready and immediately launched a rebuttal. He stressed the disaster of the precedent and seized on Maisky's figure to express disbelief that it would not overtax German capacity. Roosevelt tried to stay in the middle, but also recalled the precedent.¹¹⁹ Maisky was equally ready for this argument. He pointed out that the real downfall of the precedent had been the transfer problem and that the Soviet plan circumvented it by calling for reparations "in kind". He then went on to insult the

¹¹⁸ FRUS, Yalta, 620; Soviet Protocols, 66-74, my emphasis.

¹¹⁹ FRUS, Yalta, 621.

Anglo-Americans by blaming the failure of the 1920's on their actions and concluded:

In the circumstances, there was no reason to draw pessimistic conclusions for the new reparations from the unfortunate experience of the old...¹²⁰

This was the argument that Maisky had been appointed to make, but his experience with the British did not sway Churchill. The Prime Minister had not yet caught the Soviet stress on tripartite control, but he was clear on their intent to strip Germany. He replied to Maisky's assurance of the correctness of Soviet calculations¹²¹ with a proposal, aimed at FDR, to refer the whole issue to a committee.

¹²⁰ Ibid, 622-623; Soviet Protocols, 71.

¹²¹ Soviet historiography still depicts the Yalta plan as sober and realistic in regard to capacity. Their main defence is that the scale of Soviet destruction was such - 20 million dead, 25 million homeless, 1,700 towns and 7,000 villages destroyed, 6 million buildings wrecked - (Issraelejan, 334) that it was not even taken into account. Instead, (Issraeljan, 335):

The Soviet government set up a special Reparations Commission as early as 1943...In its work the Commission took into account the sad experience with... reparations after the First World War and therefore refused to consider reparations in the form of money, insisting that these should be paid in kind, by a delivery of various factories, commodities, products and so on. In determining the sum of reparations it took a realistic view and demanded from Germany only what observing all the necessary strictness, could really be obtained from her.

Stalin was probably not dismayed over the lack of instant success, but he did want something a little more substantial than that. Stalin joined the debate, and requested that the Soviet criteria for priority of receipt be accepted and that the proposed committee be given as firm instructions as possible on the intent to settle a fixed amount.¹²² Churchill responded "fine, let the USSR be recognized as the major recipient but refer the details to an Allied commission in Moscow." Stalin said "alright, but the conference must give the commission strict guidelines and objectives." Churchill and FDR both hemmed and hawed, so Stalin took his small victory and proposed referring the whole issue to the Foreign Ministers. Aware that everybody was just establishing positions at this point, Churchill and FDR agreed.

With the issue tabled, Stalin had time to reflect on what had happened. This initial debate clearly revealed his Western colleagues intent to temporize. But, it also based the whole debate on a Soviet proposal, which is always a crucial diplomatic gain. Stalin and Maisky had almost indecently revealed the great urgency behind Soviet need for Anglo-American approval of an acceptable reparations plan. The whole plan aimed to destroy Germany's war-making potential, and maintain long term control of her remaining

¹²² FRUS, Yalta, 623.

economy.¹²³ This had been explicitly stated in Maisky's third point.* But Stalin's first attempt to secure a Western commitment had not succeeded. FDR did not really seem to have understood the point, but Churchill's fixation on both the precedent and his views of the issues role in Soviet plans for expansion were very clear. Probably as a result of this session and at sometime soon after, Stalin presumably decided to win over FDR by winning this debate on reparations with the British. After all, recognition of Soviet priority as a recipient and the establishment of the Soviet plan as the discussion paper was not a bad start. Stalin turned the issue over to Molotov and Maisky for the next Soviet move, some old fashioned diplomatic hardball.

The reparations question was thus passed from the top level down to the second tier for a further grapple, and the Big Three moved on to other topics. The ensuing discussions, however, only more clearly underlined what Stalin's priority was and why. Poland and the proposed UN captured the attention of the conference. Both were seriously debated at the plenary session of February 6th. Stalin turned back Churchill's eloquence over Poland with a thinly veiled threat to settle its fate by himself. More importantly, he clearly stated that his biggest concern over a UN was that it had to preserve the Grand Alliance so that

¹²³ Issraeljan, 336.

* See above, p 74.

"there was no need to fear the German danger."¹²⁴ Stalin had already enunciated his views on the UN at dinner on the first day, when he spoke of the new body in terms of a cover for spheres-of-influence and a rubber stamp for the Big Three.¹²⁵ Churchill largely left the UN initiative to FDR (that is as far as getting Stalin's approval) but he did not give up on Poland. His persistence led Stalin to end the debate with a blunt description of the clear link in Soviet policy between Polish and German roles in the vital security question.¹²⁶

That February 6 session was the hottest of the conference. Poland was a sensitive issue, and it did not fade. The key points in dispute were of course who was to govern Poland and what its frontiers were to be. As for the UN, it too was approached in dead earnest by all sides even though the core of this dispute was ridiculous. The problem here was essentially that the Americans wanted the great power veto power to extend only to decisions, not to debate. When Stalin realized how serious FDR was about this, he magnanimously surrendered in the plenary session of February 7.¹²⁷

Roosevelt and Hopkins sincerely believed that this was a key Soviet concession which greatly enhanced the prospect of achieving their great ambition. Actually, it was nothing of

¹²⁴ Soviet Protocols, 81.

¹²⁵ FRUS, Yalta, 589.

¹²⁶ Soviet Protocols, 82.

¹²⁷ Ibid, 92.

the sort. Stalin knew that the existing veto power left the interests of the USSR well protected and his decision committed him to nothing. In return, he received FDR's gratitude.

This gratitude was precisely what Stalin was really after, and he tried the same tactics on the Polish question. After FDR wrote him a personal letter, Stalin eventually agreed to a cleverly worded compromise which seemed to merge the Soviet puppets in Poland with the exiled government in London but actually left the former well poised to take charge. He also agreed to an inspired and visionary sounding "Declaration on Liberated Europe", drafted by Stettinius, which pledged fine words about allowing freedom in Eastern Europe, but provided a loophole that allowed the Soviets to decide when conditions warranted any action.¹²⁸ At a private meeting on February 8th, Stalin agreed to enter the war against Japan three months after a German surrender. Again, this seemed altruistic but was actually accomplished by FDR's agreement to give the Soviets everything Japan had taken from Russia in 1905. By all these decisions and through reasoned discussion Stalin created a climate of goodwill and bolstered FDR's confidence in his readiness to co-operate. Yet it was all just shadow and no substance. Stalin had played on FDR like a

¹²⁸ Ibid, 116, 124, my emphasis.

professional con man, by allowing the President to feel he had achieved all his goals and yet not really giving him any definite concessions at all.

This was a real accomplishment. The new atmosphere of cordiality made anything seem possible. But Stalin was still after tangible physical results, and that meant reparations and security. The serious clash over Poland was a clear indication of this. The one Polish issue left entirely open at the conference was the matter which would later denote the explicit connection between Poland and Germany in Soviet policy, their common border. The Soviets wanted to compensate Poland for their reannexation of the Western Ukraine by giving her most of East Prussia.

Churchill accepted the Oder River as the main border, but insisted that the wealthy district of Silesia be left to Germany. On this, a physically identifiable security issue, Stalin would not move. The conference decided only in principle to move Poland west, and to delineate borders later. It thus laid a minefield under the crucial question of the control of Germany.

Stalin's glib appeasement of FDR was important, because it affected the settlement soon to be reached on reparations. Molotov and Maisky resumed the debate on February 7 at the third general meeting of the Foreign Ministers. Molotov was in the chair for the day, and took the opportunity to present a slightly more specific draft of

Maisky's original proposal. Maisky then immediately delivered a deliberate and precise defense of the Soviet figures and a demolition of the previous British objections. He noted that the draft submitted by Molotov set the envisaged total value of reparations payments at 20 billion dollars, half of which would go to the Soviets. This figure, he explained, was based on sound calculations and represented a level within German capacity yet large enough to fulfill the objective. Maisky elaborated that the remaining national income of Germany at war's end would be 75 billion dollars, and half of the reparations payments would be extracted from this source. The second 10 billion dollars would be extracted in annual goods deliveries of 1 billion dollars, which would represent only 6% of the probable 20 billion dollar future annual income of Germany.¹²⁹ Maisky firmly stated that this responsible method of calculation clearly displayed Soviet determination to implement a workable plan based on practical and not emotional considerations.

Stettinius' banal response again revealed that the American delegation had simply not yet caught the thrust of the Soviet initiative. Stettinius noted in his memoirs, years later, that Maisky had tried very hard to make his plan seem palatable by citing these aggregate figures and justifying Soviet claims on the safe grounds of

¹²⁹ FRUS, Yalta, 707; CAB/99, 132-137.

restitution.¹³⁰ But at this session all Stettinius discussed was the non-interest of the US in receiving reparations, and the desirability of establishing a study commission in Moscow as soon as possible. Eden, however, knew what Maisky was up to, and said right away that the British would need time to study the Soviet package. But Eden also noted that he was prepared to agree, in principle, to paragraph 2 of Molotov's draft, the specification of materials and methods of reparations payments. With this brief statement, Eden virtually guaranteed that the eventual form of any reparations settlement would be payments "in kind" centered on German heavy industrial assets. The only possible motive for his action was to ensure that, if reparations were agreed upon, the transfer problems of the precedent would be avoided.

By this agreement, Eden also made the Soviet draft the basic document that would be modified and finally accepted as the reparations protocol.* When the meeting proceeded to debate the provisions outlining the establishment of the Reparations Commission, it quickly accepted this proposal "in principle". But this was as far as Eden was willing to go. In the midst of this agreeable debate, he raised the question of "whether the proposed Reparations Commission in Moscow should not examine the control of German industry in

¹³⁰ Stettinius, E. Roosevelt and the Russians, New York, 1949, 168.

* See Appendix 1.

relation to future security."¹³¹ In other words, he challenged the Soviets to admit that the real objective of their plan was hidden beneath the camouflage of Maisky's figures. Eden clearly hoped that Stettinius would get the point, and in fact wanted only to prevent the consummation of a reparations settlement. Molotov handled the challenge with a clever subterfuge:

— Molotov thought that the Commission would be bound to deal with German industry. It should keep in mind the question of security, although this would not be its principal task.¹³²

• Molotov won this round, as Stettinius concluded by noting that the Commission would have to integrate its work with the EAC. In short, it would produce a reparations plan. Eden's gamble had backfired and the initiative clearly lay with the Soviets. This progress definitely influenced Stalin's acceleration of the Soviet approach to FDR on the other issues. Stalin must have felt an American commitment to be very close indeed.

This was probably why Molotov's frustration at the postponement of the reparations debate in the next day's Foreign Ministers meeting, at both Eden and Stettinius' request, was unusually evident. The British and American delegations were both busy drafting responses to the Soviet

¹³¹ CAB/99, 137.

¹³² Ibid.

proposal. Churchill and Eden had reported that debate to the War Cabinet, and they received a telegram on February 8th with recommendations much to their liking. The Cabinet supported their intent to try and refer the whole matter to a commission for prolonged discussion. They also concurred with the proposal to try and ensure that any payments would be "in kind" and made in as brief a space of time as possible to a maximum two years, if it ensued that American obtuseness forced even a tentative settlement.¹³³ Stettinius, on the other hand, was in the midst of drafting a proposal that accepted both the proposed methods and figures of the Soviet plan. The reason, quite simply, was that he and his advisers had completely accepted the line of argument that the Soviets had taken, that reparations were only just recompense and were vitally necessary for reconstruction. They did not challenge the Soviet figures, because they had expected them to be much higher.¹³⁴ Because Stettinius felt that by demanding only 20 billion dollars worth the Soviets were being "reasonable", he was quite prepared to commit himself to their entire proposal.¹³⁵ Ironically, the only thing that prevented him from doing so was FDR's reaction to the fixed sum itself. FDR could not overcome his instinctive aversion to definite commitments,

¹³³ CAB/65, 51.

¹³⁴ Backer, 61. This belief stemmed from an OSS report of late 1944, #1899 "Russian-War Damage and Probable Reparations Claims," submitted to Stettinius.

¹³⁵ Stettinius, 230.

especially when expressed in numbers, and ordered Stettinius to reserve the proposed figures in his finished draft. This modification would prove to be decisive.

The Foreign Ministers meeting of February 9th turned out to be the key reparations debate of the entire conference. Stettinius was in the chair this day, and he put forth the US proposal as modified by FDR. This proposal accepted the Soviet positions on method, terms and time of payments, composition of the commission, and agreed that the Soviets would receive half of all payments extracted. But it also proposed that the fixed sum of the payments be taken under consideration by the proposed commission. The crucial turning point in the debate was at hand. The Anglo-American acceptance of the Soviets proposed methodology was indeed a Soviet success, as it did ensure that the practical application of any reparations plan would be oriented on the principle of the dismantling and control of the German industrial economy. But the fixed sum of the value to be extracted represented, to the Soviets, the sincerity of an Anglo-American political commitment. Stalin knew that his real objective had to be to secure a general Allied agreement to a very specific plan, signed before Soviet actions in Germany* could influence Western policy. If he could get a commitment to any reasonable figure, then

* See Chapter Two.

the Soviets could make a diplomatic case against the Anglo-Americans in the event that they later backed away from that agreement. The fixed sum was the Soviet test probe. It, and it alone, would determine whether there was to be any general reparations agreement actually implemented.

Maisky's reply typified the extreme delicacy and care the Soviets used in dealing with the Americans at Yalta. He was "not quite clear" about the last sentence but thought that the Commission "should consider" the 20 billion figure as "a basis", from which a final figure could be set.¹³⁶ This was an attempt to start with at least a US commitment to debate the figure set by the Soviets. It worked splendidly - Stettinius replied that the commission could indeed use that figure for a "basis of study". Molotov then asked "what was disturbing about the figure," hoping of course to expand on Maisky's success. Stettinius said he couldn't know until after further study, but it was fine as a "basis for discussion". Maisky knew an offer when he saw one and assured Stettinius "that was what he wanted." Eden realized that a Soviet-American connection was about to be forged, and intervened in order to stop it. He blandly lied that the War Cabinet had not yet returned their approval,* and so his hands were still tied; however, Churchill was and

¹³⁶ FRUS, Yalta, 809; CAB/99, 64.

* See above, p 82.

would remain firmly opposed to the mention of any figure as even a guideline, and so was Eden.

Molotov insisted that the figure allotted to the Soviets at least be inserted in any agreement or instructions. Stettinius confused the whole issue by praising Maisky's entire original concept, and offering the Soviets half of the final sum, but expressing a desire to refer the whole matter to the commission. Molotov "said he had no objection" but noted that "the mention of a figure would have great importance for the Russians." Stettinius promptly reverted to offering them insertion of the 20 billion as a "basis" as well as the 50%. Eden, who must have been desperate by this point, again insisted that no figure be dictated and the commission left to do the technical work prior to any deal. Maisky replied that the commission had to have general instructions. Finally, Eden resorted to blackmail, and inquired whether any dismemberment plan would reduce the total possible reparations extractions - "one or the other and quite possibly neither?"¹³⁷

In reply, Maisky probably revealed more of the Soviet

¹³⁷ This was as close as the British came to revealing, at Yalta, their suspicion that all Soviet plans were actually designed to create such chaos in Germany that it would be ripe for inclusion into the Communist orbit. See Toland, J. The Last 100 Days, New York, 1967, 96.

position than he intended to:

It would not have any effect on the removal from the national wealth of Germany of German equipment...at the termination of the war. It might affect annual payments in the post-war years. However, the Soviet government had taken this into consideration in drawing up its report...¹³⁸

This clear indication that the Soviets expected their actions in Germany eventually to scuttle any tripartite plan must have been accidental. Naturally the Soviets had taken the effect of dismemberment into consideration. But because they were mainly interested in depriving Germany, and were not expecting the 10 year deliveries provision to endure, it did not affect their plan. Maisky might as well have admitted that what he really wanted was a Western commitment that the Soviets could hold them to if and when it became detrimental to their interests to do so. Eden's sally was clever, but it did not succeed.

Stettinius closed the meeting with a statement that consolidated Maisky's initial success. He agreed to mention the 20 billion figure as the commission's "basis," allot 50% of the eventual amount to the Soviets, and accept their principles of extraction. Even more importantly, he agreed to report to the Big Three that the US and the Soviet delegations had reached agreement on this joint proposal and officially note that Eden had reserved the British

position. Although they had failed to secure final approval of a fixed sum, Maisky and Molotov had to be buoyed by their partial victory. They had again based the future debate on their proposals, this time on the pivotal point, and they had achieved their objective of concordance with the Americans at the expense of the British. They had, in effect, extracted a notice of intent from the Americans to produce a satisfactory reparations policy.

It must be understood that this was not the commitment Stalin was after. It was, however, a good start, as it provided a favourable basis from which to expand. But speed was more than ever of the essence and, unknown to Stalin, there was trouble ahead. The British delegation had not overlooked the fact that the US proposal did, in the end, rate the total amount of reparations as the crucial point because it vetoed a definite figure. This was the work of State Department adviser H. Freeman "Doc" Matthews, a strong advocate of the moderate reparations line, who wrote the draft in such a way as to ensure that FDR would after all temporize.¹³⁹ Churchill and Eden ensured that British dissent to the "basis" provision was noted at the plenary session, later that day, in Stettinius' report. They prepared a counter-proposal designed to re-open the whole question on the last full working day of the conference.

¹³⁹ Ibid, 816.

Almost imperceptibly, the nature of the debate itself now changed. Eden and Churchill now had to be the instigators, and reverse the successes the Soviets had achieved.

By the time the February 10th noon meeting of the Foreign Ministers settled in, it was clear that the overall conciliatory approach adopted at the conference by the Soviets had changed the atmosphere of the entire proceedings. Reparations was their issue - they had brought it up, they had presented the detailed proposals. There can be no doubt that:

During all the consideration of the German question at Yalta, reparations were the chief interest of the Soviet delegation.¹⁴⁰

On this day, however, the question was of equal importance to the British. They had to shatter the emerging reparations pact and thus halt the development of any bilateral US-Soviet policy. Quite probably British opposition to this pact was based on a sincere aversion to the capacity provisions; but there is also no doubt that they felt that a deal such as this would commit them to bankrupting the Western zones of occupation for the benefit of the Kremlin.¹⁴¹ Eden adopted the natural rhythm established by the conference, and tabled the British proposal designed to re-open the whole question, and force a

¹⁴⁰ Byrnes, J., Speaking Frankly, London, 1947, 26.

¹⁴¹ Woodward, 493.

settlement at the top level in plenary session. Eden made several observations on the general Soviet position on the issue, and then offered a British rewrite of the Soviet paper. The intent of both these moves was, "if possible, to prevent, and in any case minimize any reparations settlement.

The British paper added a third clause to the proposed "forms of payments" which called for the accounting of German labour as reparations. It also inserted clauses which demanded that the accord "take into account any reparations receipts from other enemies by claimants," "preserve the German economy," "take account of Germany's need for imports," and it mentioned no figure at all.¹⁴² Eden also insisted that the French be included on the proposed commission and that the Soviet desire for heavy removals coupled with deliveries was incompatible. Molotov replied that the commission had to have a guideline figure. Eden offered to accept the principles of extraction proposed by the Soviets. Maisky had had enough. He told Eden his reply was very disappointing, and that the whole point of the British plan was "to take from Germany as little as possible."¹⁴³ Eden must have been pleased to have so neatly struck the nerve, but he merely denied the charge and asserted that the Soviet plan would not work. Maisky,

¹⁴² FRUS, Yalta, 874-885; CAB/99, 88.

¹⁴³ FRUS, Yalta, 875; CAB/99, 84.

* See Appendix 1.

2

MICROCOPY RESOLUTION TEST CHART
NATIONAL BUREAU OF STANDARDS
STANDARD REFERENCE MATERIAL 1010a
(ANSI and ISO TEST CHART No. 2)

responded with, in effect, an offer to drop dismemberment if the British would drop their opposition to a "basis" figure. Just when things were becoming fairly sensible, Stettinius again took matters in hand.

Perhaps Stettinius had been carried away by the Soviets' overall willingness to reach agreements. Maybe he felt the same urge to be "middleman" that influenced FDR. For whatever reason, Stettinius told Eden that his objection to the US-Soviet plan was unwarranted, and there was nothing wrong with naming a figure as a "basis". After all, nothing was settled - "the Soviet Government was not committing itself to 20 billion or 10 years."[!!]¹⁴⁴ Well of course the Soviets weren't committing themselves, it was the Western commitment they were after, and even the figure was negotiable! It is a tribute to Molotov and Maisky's skill that there is no record of them breaking out in laughter. The whole point of their strategy had become to insert the strongest possible language in the reparations protocol, preferably with American support. Stettinius' statement seemed to foreshadow both this and a definite Anglo-American split. Molotov closed the meeting with alacrity, agreeing to draft comments on Eden's proposal.

The presence of Stalin at the conference was of course the ingredient that enabled firm decisions on Soviet policy to be made. Molotov and Maisky had, under the

¹⁴⁴ FRUS, Yalta, 875, my emphasis.

circumstances, done as well as could be expected. It must be understood however that the decision was Stalin's, on reparations and everything else.* Now that his aides had taken the Soviet initiative as far as they could, the rest was up to Stalin. His aim, at that last major plenary session of February 10th, was clear - defeat Churchill's arguments and secure FDR's confirmation of Stettinius' offer on the reparations protocol. Churchill began the debate by flatly stating that the War Cabinet had bound him not to allow the insertion of any figure. Stalin responded with an argument based on 1) the provisions that differentiated from the precedent and 2) the unwarranted suspicion of the British. He stressed that the figure represented a scale, not a method of payment, and that cash would be avoided. Then he got nasty:

Perhaps the conference would prefer that the Russians have no reparations at all. If so, they had better say so.¹⁴⁵

Churchill was too canny to grasp that bait, so Stalin tried another tack. First, did the conference agree that the principle of exacting reparations was acceptable? It was, good, then it should be so stated that Germany would be forced to "make good Allied losses" by reparations, and the commission should ascertain the final amount. That too was acceptable, good, so why not have the commission take the 20

¹⁴⁵ CAB/99, 98; Soviet Protocols, 121.

billion figure "that the American side had agreed to accept" as a basis for their discussion? FDR said he "agreed with this" but was still concerned over the psychological connotation of the word reparation. Stalin replied, alright call it compensation. Churchill agreed to this, but then displayed his own obstinacy by flatly refusing to commit to any figure at all. Stalin responded that there would be no commitment, and again noted that the Americans had accepted a figure for consideration. Churchill realized he had arrived at the point of no return, and pulled out the telegram dispatched by his Cabinet.

Churchill read out this very severe telegram, which argued that the capacity problem was being overlooked, and made his key point:

The reparations payments would more than cover German imports and if these imports were not given a priority ahead of reparations...other countries would be paying for German reparations to those countries receiving them...¹⁴⁶

The old argument - we will again pay for Germany's recovery - was aimed directly at FDR. Stalin was on the defensive now, and must have felt that the issue was in the balance. His behaviour clearly marked the importance of the whole issue:

Stalin, on the question of German reparations, spoke with great emotion, which was in sharp contrast to his usual calm, even manner. On several occasions he arose, stepped behind his

chair, and spoke from that position, gesturing to emphasize his point. The terrible German destruction in Russia had obviously moved him deeply. Although he did not orate or even raise his voice, he spoke with intensity.¹⁴⁷

Stalin responded to Churchill:

~~He did not consider his figure as~~
sacrosanct. His proposal was not that
 it should be accepted, but that it
 should be discussed.¹⁴⁸

It had to have been the critical importance of reparations that led Stalin to so clearly reveal his real objective, a tripartite political commitment. There was nothing inherently wrong with his reasoning or his strategy. If the Americans agreed, there was every likelihood that, in the long run, the British would have to go along. It was probably the combination of the intensity of his argument and the overall Soviet attitude at the conference that now won Stalin the possibility of eventually securing that commitment, right here at the table.

Harry Hopkins, FDR's right hand man and the strongest American advocate of the policy of going the extra mile to win the trust of the Soviets, felt that here was the issue, and now was the time, to make that move. All the Americans, including Stettinius, had realized ever since Maisky's original proposal that the Soviets greatly desired a

¹⁴⁷ Stettinius, 263.

¹⁴⁸ Soviet Protocols, 122; CAB/99, 99, my emphasis.

tripartite commitment to a reparations plan.¹⁴⁹ Hopkins had been very impressed by the "concessions" Stalin had made on the American's major issues.* So Hopkins decided to return the favour. He passed FDR a note:

The Soviets have given in on so much...I think we should grant this...¹⁵⁰

FDR took the advice, and suggested the adoption of the figure as a "basis for discussion" and, also on Hopkins' advice, proposed to allow the British to simply record their dissent and resume the debate in the commission. Stalin accepted with alacrity, and agreed to allow the British to record their dissent in the protocol. The matter now seemed closed, but Stalin was not quite through.

The last and most splendid formal dinner of the conference, that same evening, provided Stalin with one last opportunity to try and secure a better reparations agreement. A great deal of post-war German policy had been settled that week. The French had now been allotted both a zone and a seat on the Control Council, it was agreed that this time no massive aid would be sent to Germany, and the zones of occupation were delineated. These zones allocated all of Eastern Germany to the Soviets, except Berlin, which was reserved for four power occupation. This placed a substantial area of Germany at the mercy of Malenkov's

¹⁴⁹ Stettinius, 131.

¹⁵⁰ FRUS, Yalta, 920.

* See above, pp 77-78.

Special Committee and available for the secure implementation of Stalin's genuine reparations policy. But, it also left the solid majority of Germany's modern heavy industry, especially the vital Ruhr area, to the Western Powers.¹⁵¹ Because the aim of Soviet policy was after all to destroy the German threat, this left open the spectre of a German recovery, especially if the Anglo-Americans did not produce that vital political commitment and perhaps even then. Stalin had after all merely protected Maisky's previous gain, that notice of American intent to debate a reparations plan based on Soviet criteria. This provided some leverage, but Stalin wanted more.

Stalin's long and emotional plea, that evening, for a better reparations agreement, proved that he at least felt that nothing was yet settled. Yalta, like Teheran, was a secret conference. The leaders were going to sign two main documents, a protocol of their detailed and secret accords and a communique to publicly reveal the general scope of the talks. The issues mentioned in this communique would of course serve as public notice of further action. Stalin described the failure to produce a tripartite reparations protocol as "unsatisfactory" and insisted that the agreement in principle to extract reparations be inserted in this communique.¹⁵² In other words, he insisted that the

¹⁵¹ Kuklick, 100.

¹⁵² FRUS, Yalta, 921.

commitment be strengthened by making the issue public. In light of FDR's attitude, Churchill could do naught but agree.

This agreement was confirmed at the short wrap-up plenary session at noon on February 11th. Paragraph III of the communique to be released to the world was drafted to read:

We have considered the question of the damage caused by Germany to the Allied Nations in this war and recognized it as just that Germany be obliged to make compensation for this damage in kind to the greatest extent possible.

A commission for the compensation of damage will be established. The commission will be instructed to consider the question of the extent and methods for compensating damage caused by Germany to the Allied countries. The commission will work in Moscow.¹⁵³

Stalin's insistence on this was of course a manifestation of the Soviet desire to get the strongest possible language and Western commitment on a reparations policy entered into the record. Stalin was well aware that even a final settlement would not guarantee that a tripartite policy would actually be carried out, especially after his Special Committee got to work. Nevertheless, this public agreement to exact reparations was certainly at least the bare minimum Soviet goal at Yalta, and it was reached. It is true that the real bonding factor in the Grand Alliance and their deliberations

at Yalta was a combination of the need to finish Germany off and FDR's determination to win Stalin's trust. Stalin was wise to conclude agreements on Eastern Europe that left him in control but did not preclude further negotiation. This influenced the Western decision that the conference had been successful. But it had also paid off for him in similar fashion in regard to reparations.

The conference broke up amid unprecedented optimism, even amongst the British. The publication of its communique created great excitement in the Allied publics, and materially contributed to a genuine "diplomatic honeymoon" (and to the final military conquest of Germany). But to the Soviets it was only a partial success, that produced only a possibility that the Western powers would co-operate in the interests of Soviet security policy. While Churchill and FDR faced the fact that Yalta had not brought them definite success in Eastern Europe, Stalin had to face the same fact in reverse regarding overall German policy and especially reparations. Neither side had passed the others' "test case" and yet both had received results that did produce grounds for optimism. If Churchill could reflect that Stalin had not yet sealed off Eastern Europe, Stalin could note that FDR had agreed to formulate a reparations policy and debate it on Soviet terms.

The question that now faced the Kremlin was of course

whether such partial success was enough. The answer was only 'maybe', and for Stalin that was never enough. By the strictest possible definition, the Soviet government failed to secure its main objective - a firm and definite Anglo-American commitment to a specific reparations plan and a general post-war German policy based on Soviet interests.¹⁵⁴ There was no doubt that the reparations debate at Yalta was Stalin's litmus test of his Allies' future intentions, towards both Germany and the Soviets themselves, and that they did not pass.¹⁵⁵ However, they did not, in Stalin's eyes, completely fail. The conference did produce the essential beginning, a general agreement to exact reparations from Germany. It also basically adopted Soviet proposals for the method and object of these extractions. The final protocol did contain some changes from Maisky's basic plan: 1) the inclusion of German labour 2) the dilution of "economic disarmament" to "removing war potential" 3) the reservation of a specific 10 year term for deliveries, now "to be specified" and especially 4) the replacement of the fixed sum with the "basis of discussion." It also placed the British in opposition to a joint US-Soviet agreement and it reserved the first place in receipt to the Soviets. All this meant that there was a possibility that a satisfactory tripartite plan could be produced.

¹⁵⁴ Feis, 540.

¹⁵⁵ Yergin, D. Shattered Peace, Boston, 1977, 64-64; Carr, A. Truman, Stalin and Peace, New York, 1950, 41.

This possibility was enough to convince Stalin to continue the diplomatic attempt to secure a general reparations agreement and thus perhaps a satisfactory general post-war German policy as well. The "basis" provided enough potential leverage to induce the Kremlin not to abandon precipitately the attempt to forge the post-war alliance in the proving ground of Germany. That was the real effect of the Yalta Conference on the development of Soviet reparations policy. But the overall effect of Yalta on the development of the reparations issue was somewhat more complex. Historian Gabriel Kolko notes:

On Germany...the Yalta Conference resulted in a substantial accomplishment for the Americans and British, who alone obtained tangible concessions...and above all secured Soviet approval to the formal postponement of [the] German problem...In brief the Russians agreed not to run Germany unilaterally despite every indication of an imminent military victory that would permit them to do so. They did not trade this leverage by withholding their final signature from zonal divisions in return for specific concessions on reparations...¹⁵⁶

But Kolko misses the main point - the Soviets did not think they could run Germany unilaterally and their position on reparations at Yalta convinced the Anglo-Americans of this. Yet, once again, they reached the right conclusion through the wrong calculations.

¹⁵⁶ Kolko, 355-356.

Both Churchill and FDR had tested Stalin on Poland but for different reasons, and this focus helped reinforce their decision to proceed slowly on Germany policy. After Yalta, both were sure that the Soviets were eager for a tripartite reparations plan because they wanted to ensure that either the German economy was destroyed or it was oriented totally towards reparations.¹⁵⁷ For whichever reason, they construed Soviet claims at Yalta to be further indications of Stalin's aims for expansion. The Soviets' willingness to drop dismemberment if it interfered with reparations only seemed additional proof of this.¹⁵⁸ Churchill was therefore somewhat worried about the Americans performance, but he did emphasize that no fixed sum had been imposed and that policy development had been referred to the commission.¹⁵⁹ Thus, there was no final commitment and there was time to interdict Soviet plans. Churchill assessed the Yalta decision on the reparations question as a near thing but nevertheless a success. Many members of the American delegation agreed with him.

There was greater general optimism among FDR's people over the whole result of the conference and that included reparations. Most Americans present, such as Harriman, Stettinius and Bohlen, then and later, were convinced that

157 Feis, 534.

158 Wheeler-Bennett, 270.

159 CAB/65, 51.

FDR made no firm commitment on a figure at Yalta. This is technically true, but the spirit and intent of the agreement were just as important as the wording itself. Historians Daniel Yergin and Herbert Feis point out that what FDR did do was commit the US to a plan to extract the 'greatest possible' amount of reparations¹⁶⁰ and this is more to the point. The Americans were so impressed by the eagerness of the Soviets to come to agreements with them and remain in step with their policies, that they did indeed infuse the reparations protocol with this spirit of ultimate expansion. It is hard to refute the claim of Soviet historians that the US supported Soviet reparations policy at Yalta and split with the British.¹⁶¹

Although the Americans did create a political atmosphere that seemed to indicate a Soviet oriented reparations settlement, they also left that all important final figure open. The "basis" was a lever that the Soviets could use to their advantage. At the time it was settled it was also a genuine expression of American intent. But it was not a firm commitment. Roosevelt's pre-occupation with his Polish test case and his fixation with delay leave no doubt of that.¹⁶² Churchill and FDR still agreed that the time had not yet come to settle post-war policy towards Germany.

¹⁶⁰ Yergin, 57; Feis, 538.

¹⁶¹ Issraeljan, 336.

¹⁶² Snell, 154; Sherwood, R. Roosevelt and Hopkins, New York, 1948, 862.

Roosevelt had not placed the Western Allies under an irreversible obligation. But the crucial point is that the President had given Stalin the firm impression that very soon he might do just that.

Thus, even though the American decision to avoid a commitment was neither well thought out nor well executed, it had been made. The fact that it had been made in the manner that it was, at Yalta, made speed more urgent than ever in the execution of Soviet reparations policy. Even if Yalta had been a complete success, Malenkov's Special Committee would still have carried out its mission in Germany. Because it had not been, it was now more important than ever to parlay the agreement that had been secured into an Allied commitment to the destruction of German power. The results of Yalta were just successful enough to delay the final showdown. But even before the conference had adjourned, the Red Army and the Allied forces under Eisenhower had begun the great offensives that would bring the war in Europe to an end. Stalin must have pondered, long and hard, whether the tenuous and somewhat dishonest concordat he had forged with FDR at Yalta would hold firm against the press of pending Soviet actions in Germany, and elsewhere, long enough to produce a tripartite reparations and overall German policy that would eradicate the threat of German power. That was the vital question that the results of Yalta left wide open in Soviet diplomacy.

Chapter Four - Interim

The failure of the Soviet delegation to secure a definitive agreement on Allied post-war policy toward Germany at the Yalta Conference practically guaranteed that another Big Three meeting would have to be scheduled to finish the task. This was not necessarily because of any Anglo-American request. It was simply the same old story:

Decisions on the Soviet side were obviously made only at the most senior levels. Those not at the top - that is, in some sense, everyone save Stalin - were held in check, fearing to depart from their instructions. Important business could only be done with the dictator.¹⁶³

There was a possibility that, because the Allied Reparations Commission established by the Yalta protocol was located in Moscow, progress on the vital reparations question could be had independently of another general top level meeting.

However, the drastic changes in the overall relations of the Grand Alliance that took place while the war in Europe came to an end, precluded any definitive settlement at this technical level. The diplomatic atmosphere was so significantly altered that the solution of the problem of how to control Germany, so vital to Soviet policy, had again to be sought at the conference table.

¹⁶³ Yergin, 57.

This further failure to conclude a settlement was the most important result of the four month period following Yalta. Three major factors precluded this settlement: 1) Soviet reparations policy did not change, and its actual execution was begun 2) President Roosevelt died and was replaced by Harry S Truman and 3) American reparations and general German policy did change. The unconditional surrender of Germany, on May 7-9, 1945, also contributed to the shift in Allied diplomacy. With hostilities ended, two factors came into effect: 1) the military necessity behind the Alliance disappeared and 2) the problem of post-war German policy could no longer be postponed. The significant deterioration in Allied relations that resulted from the confused end to the war forced Stalin to accelerate one track of Soviet reparations policy and attempt to secure the other under conditions far less hopeful than those at Yalta. This period constituted an actual setback for the Kremlin's reparations and security plans.

After Yalta, the problem of the post-war treatment of Germany came slowly but surely to the fore in Allied diplomacy. It was not the only cause of the increased contentiousness, but it was the catalyst.¹⁶⁴ The Yalta debates might have left some question marks on Soviet attitudes toward their allies, but it left no such doubt on their

¹⁶⁴ Mastny, 269.

views of Germany. By the beginning of March, public Soviet commentary on the Germans seemed to be adopting a more moderate line.¹⁶⁵ The Soviets came out against dismemberment, and Stalin told his people that "the Hitlers may come and go, but the German people remained." Averell Harriman reminded his government from his embassy in Moscow that throughout the war the Soviet government had intermittently repeated this absolution of the German people, in the midst of their constant calls for terrible revenge.¹⁶⁶ Harriman interpreted this sudden public shift as a purely tactical move, which stemmed from Soviet insecurity. The idea was that a soothing palliative might ease the burden of occupation of the Red Army by giving the Germans a reason not to fight on in desperation against the expected "barbarian revenge."

Harriman was right about both the motive and the act. The Kremlin leaders had no intention of letting the German people escape retribution, but they despaired of their possible inability to control them.¹⁶⁷ Stalin hoped that this statement would at least ease the desperate German resistance in front of Berlin and perhaps reduce the problems of occupation. However, he didn't believe that it would. Early in April, as his Red Army prepared for the final push

¹⁶⁵ Feis, 620.

¹⁶⁶ FRUS, 1945, Volume V, Washington, 1967, 830-831.

¹⁶⁷ Nettl, 36.

into Berlin, Stalin discussed the Germans at length with the Yugoslav Communist Milovan Djilas. Stalin felt that the Germans were a very dangerous people, especially as they were such sheep and would follow any lunatic.¹⁶⁸ When asked what he expected from Germany in the future, Stalin got carried away and made an agitated speech:

...they will recover, and very quickly. That is a highly developed industrial country with an extremely qualified and numerous working class and technical intelligentsia. Give them 12 to 15 years and they'll be on their feet again....The war shall soon be over. We shall recover in 15 or 20 years and then we'll have another go at it...¹⁶⁹

The simple fact was that Stalin's assumptions about what to do with Germany had not changed at all since he had made almost the exact same speech at Teheran. The eradication of the German threat was still the fundamental aim of Soviet policy. By now, however, the method Stalin had chosen at least to begin this task had already been put into practice.

As early as the 14th of March, Harriman warned Washington that the Soviet occupied areas of Germany were being literally pillaged, as if the place was a "free store".¹⁷⁰ That same day one of his top aides, chargé d'affaires George Kennan, had a fairly heated debate with Malisky on the same subject. Kennan officially protested this undocumented

¹⁶⁸ Djilas, 78.

¹⁶⁹ Ibid, 114.

¹⁷⁰ FRUS, 1945, Volume III, Washington, 1968, 1176.

Soviet looting and the apparently arbitrary transfer of the section of Germany east of the Oder River, the same area contested at Yalta, to Polish control. Maisky brushed him off, and demanded to know when the American delegation would be sent to Moscow so the Reparations Commission could get to work.¹⁷¹ Once again, it seemed that the Soviets had no interest in discussing Poland or anything else until they saw some action on reparations. This was exactly the case, as Daniel Yergin neatly encapsulates:

...on reparations...the Soviet concern went beyond the simple arithmetic. Reading through the minutes of meeting upon meeting during the war and after, the historian must conclude that reparations were not only a central issue, but also a highly significant symbol in Moscow's postwar vision...Perhaps the Soviets could never understand the nature of American concern for Eastern Europe; similarly, the Americans could never comprehend the emotional intensity the Soviets attached to reparations. Reparations may well have been as much a test case for the Soviets as Eastern Europe was to become for the Americans...¹⁷²

Even as Maisky renewed the diplomatic initiative on reparations, the officers of the Special Committee moved into Eastern Germany, right at the heels of the Red Army, and started to take Germany's material wealth apart piece by piece.

¹⁷¹ Ibid, 1215.

¹⁷² Yergin, 64-65.

On the 4th of April, Harriman sent yet another warning to Washington that the Soviets intended to cart away everything they found in the areas they occupied.¹⁷³ He insisted that this was because the Kremlin viewed all issues solely in light of its own interests and would take little notice of Allied views. This warning coincided with some trouble and bad feelings that had arisen between the Allied leaders over the possible surrender of some German forces. Roosevelt was very disturbed about Stalin's recent actions. Under the circumstances, he asked Harriman to explain more fully what the Soviets were up to. Harriman sent him a long and detailed report which repeated the argument that the Kremlin intended to exploit the confusion in Europe to expand Soviet power. The report stated that Stalin had three long-term aims: 1) try and maintain the overall Big Three relationship 2) establish a sphere-of-influence in Eastern Europe and 3) spread Soviet power as far as possible.¹⁷⁴ Of these three, the latter two were fixed aims; but the former was only a desire, and not to be pursued at the expense of more vital objectives. Harriman interpreted the beginnings of Soviet pillaging in Germany in light of this supposed Soviet intent to create turmoil there and cause problems for the Western Allies. Kennan supported his conclusions, and wired on April 27th:

¹⁷³ FRUS, 1945, V, 815-819.

¹⁷⁴ Ibid, 821-824.

All information reaching Embassy indicates that Russians are seizing and transporting to USSR without compunction any German material which they feel will be of use to them...¹⁷⁵

FDR never had a chance to reflect on the advice his men-on-the-spot had submitted. His sudden death on April 12th passed the reins of power to Vice-President Harry S Truman. This had no instant effects on US policy. Truman was somewhat awed by his fate and was determined to continue his predecessor's policies, at least long enough to ascertain his own.¹⁷⁶ But the transition was ultimately to have a decisive effect on general US policy, relations with the Soviet Union, and the solution of the reparations and overall German questions. With FDR's death, the last powerful advocate of the policy of actively seeking out Soviet co-operation in the US government was removed.

The attitudes of the Washington bureaucracy towards their Soviet ally were generally stiffening at this time. For the first time, so were the attitudes of the American public. Immediately after Yalta, over 75% of the American press had praised its results and expressed optimism for the future. By FDR's death, a drastic shift in public opinion was reported. The Soviets were now seen by the majority as the biggest international problem and the greatest obstacle to a strong peace settlement.¹⁷⁷ This was attributed to two

¹⁷⁵ FRUS, 1945, III, 1200.

¹⁷⁶ Feis, 599.

¹⁷⁷ Levering, R. American Opinion and the Russian Alliance, Chapel Hill, 1976, 186.

factors: 1) the Soviet's behaviour in Eastern Europe and 2) the vague generalities that FDR had used to describe pending post-war problems to the public.¹⁷⁸ FDR had always kept everything close to his chest. Throughout the war he had let Hopkins virtually supplant the State Department, kept even top advisers in the dark as to his plans, and imposed his policy of delay on both officialdom and the American public. It is fair to say that:

During World War II, Stalin and Churchill were much more candid with their peoples about their governments' foreign policy than was FDR.¹⁷⁹

As a result, the US government was still drifting in its foreign policy and the public was confused and angered over the sudden problems with the Soviets. Much would depend on what the new President did about it.

It did not take Truman long to grow into his job. As this happened, great changes occurred in the way the US government conducted its foreign policy. Truman was a very different man from Roosevelt. He shared the same ideals of a new international system and global order; but not the same belief in their feasibility. Truman was a rough no-nonsense man-of-action, to whom US interests came first, last and always. He believed in forcing events to conform

¹⁷⁸ Ibid., 197.

¹⁷⁹ Ibid., 190.

to his objectives, as opposed to FDR's policy of waiting for them to do so themselves. He also felt that the President should let his State Department do its job and carefully consider their advice. These attitudes and his freshness to the job induced Truman to restore to the State Department the active role in policy making that FDR had reserved to himself. By now the views of Bohlen, Harriman and Kennan dominated State, with the result that the advice Truman received on the Soviets was almost entirely negative.¹⁸⁰ Soviet actions in Europe had instilled profound mistrust in the Department. This feeling was shared by Truman, and he, unlike FDR, began to consider taking action on his advisers' arguments.

Truman's commitment to FDR's goals of a strong UN and co-operation with Moscow was initially sincere. However, he was soon ready to be firm and blunt instead of pliable and decided that if these goals were to be achieved it would be the Soviets who made the extra effort. The first tangible change in US foreign policy after the transition was Truman's adoption of the argument that economic leverage could, and should, be applied on the Soviet Union, to force it to change its policies. On April 13th, his second day in office, Truman received a memorandum from Stettinius (which he almost certainly didn't write) which offered an analysis

¹⁸⁰ Feis, H. Between War and Peace, Princeton, 1960, 20.

of the state of the Grand Alliance:

UK - Churchill's policy is based fundamentally upon co-operation with the US. It is based secondarily on maintaining the unity of the 3 Great Powers but the British Government has been showing increasing apprehension of Russia and her intentions...

USSR - Since the Yalta Conference the Soviet Government has taken a firm and uncompromising position on nearly every major question that has arisen in our relations...¹⁸¹

Roosevelt had received several equally astute summaries, but this time the result was different. Truman believed what he read and made further inquiries. Stettinius' capture of Truman's attention gave the State Department the critical access to the decision-making power whose absence had stymied American policy development for so long, and it was not wasted.

Even as Truman made a sincere effort to continue the initiatives on the UN, he turned his attention to the related problems of practical relations with the Soviets and the future of Germany. American policy development on the control of Germany was still entangled in the State-Treasury "moderate-hard" dispute. The former's arguments were holding their own on reparations and the latter's on actual occupation policies.¹⁸² State was convinced that the

¹⁸¹ Kimball, Volume III, 633-635.

¹⁸² Gaddis, 131.

crucial element in sound policy towards both the Soviets and Germany was the general economic condition - that is, unbelievable destruction and dislocation - in war-torn Europe. As they saw it, reconstruction was the Soviets' overriding post-war need. So, both an American loan and German reparations were considered as a linked issue in Soviet policy and thus as an ideal American diplomatic lever. Very shortly after Yalta, on February 15th, Assistant Secretary of State Will Clayton accepted a summary of the conference debates on reparations and a proposed US policy:

...reduction of Germany's underlying economic potential has a strong, present appeal as a security measure...Along with this demand for economic restraints on Germany, there is an insistent demand for reparations. [In Soviet policy, of course, the two were one and the same.] The two demands are not in conflict so long as reparation is confined to transfers of existing capital assets and labour services [removals], but the possibility of conflicting demands arises when reparation from current production is also envisaged. Restraints on German production and exports will have to be reconciled somehow with the necessity of securing payment for such imports as may be needed for the minimum functioning of the German economy and the production of reparations goods. Unless Germany is allowed to pay for such imports, the US may have to supply necessary food-stuffs and raw materials to Germany at its own expense.¹⁸³

This report articulated the policy on reparations that

¹⁸³ FRUS, 1945, III, 415.

Stettinius brought to Truman's attention. It was touted as an ideal method to use that economic lever on the Soviets and protect US interests.

Although the report perpetuated the American misunderstanding of Soviet objectives on reparations, it also subtly advised how to implement a reparations program that would appease the Soviets and yet not force the US to re-live the precedent. The new element in the report was this idea that a "first charge" should be placed on German assets as payments for operating costs and then any surplus could be made available for reparations. This solution seemed to be just the thing: the Soviets needed reparations for reconstruction; if we give some to them while carefully controlling the process, we will gain a powerful tool to force them to adjust any policies we don't care for and also avoid the disastrous precedent. Stettinius had first mentioned this "first charge" to FDR on March 10th.¹⁸⁴ When Truman heard the plan, it seemed to him precisely the sort of idea he needed to approach the Soviet-German questions. Truman accepted the "economic lever" idea completely. He was convinced that the Soviets were in enough need of US help on both reparations and a loan that he could use this approach - blackmail - to get "85%" of his goals for a post-war settlement.¹⁸⁵ As a result, the controlled reparations

¹⁸⁴ Ibid., 437-438.

¹⁸⁵ Truman, H.S. Year of Decisions, New York, 1955, 71.

proposal became US policy.

This was a critical change in the American approach to the German problem, and it decisively affected the formulation of a final reparations settlement. American policy now became an active attempt to formulate a detailed and limited tripartite reparations program largely in order to place the Soviets at least partially at American mercy. A decision - to take action on drafting an American reparations plan - was finally produced. The crucial factor in the acceptance of the technical feasibility of this policy was the more sophisticated appreciation of the reality of the German threat, than that held by the Kremlin, that was prevalent in Washington. The Americans knew a beaten enemy when they saw one. It was also clear to Washington that reparations had to be controlled. Large extractions would make Germany once again an American burden, so that danger was taken seriously. This danger, however, was over-shadowed by the political potential of the policy - the possibility that economic pressure could be used to blunt the Kremlin's drives. The Soviets were about to find out just how much Truman intended to change their diplomatic relationship, in response to their behaviour in Europe, with this new policy.

Roosevelt's death was regarded by the Kremlin as a disaster for the future of the alliance or, more specifically, the future they had envisaged. Harriman reported that both Stalin and Molotov were deeply moved and obviously

concerned.¹⁸⁶ Stalin knew better than anyone else how vital FDR and his attitude was to any possibility of realizing all of the Soviet security aims. Unilateral Soviet actions all over Eastern Europe and in Germany and the sharp and bitter disputes over German surrenders had seriously damaged Soviet-American relations. Stalin himself had worsened the situation by withdrawing a promise to send Molotov to the first UN conference in San Francisco at the end of April. This was obviously a slap at FDR's dream and was meant to be taken as an indication of the Soviet attitude to international co-operation on any but their own terms. But without FDR the predictably patient US policy of focusing on the larger, long-term goal, which Stalin had so adroitly abused, was in the hands of an unknown quantity. Stalin therefore accepted Harriman's suggestion that he reconsider sending Molotov to America, both as a gesture of respect and basic friendliness, and to take the measure of the new man.

Molotov arrived in Washington and went to see the President on April 23rd. Truman had now had almost two weeks to digest the reports of general Soviet policies, behaviour in Eastern Europe, actions in Germany, and truculence towards their allies representatives. He felt that the pervasive Soviet suspicion was unwarranted, and that patience and conciliation were no longer having any diplomatic effect.

¹⁸⁶ FRUS, 1945, V, 827.

So, he took Molotov to task for the Soviets' behaviour. Truman's intent was ~~to~~ to impress upon Molotov that the US was now going to stand firm and define its practical interests in Europe, and to establish a fresh but more traditional basis for diplomatic dealings with the Soviets in the old game of power. Truman was not looking to break with the Soviets, but he did hint at economic and diplomatic pressure and delivered the blunt message "live up to your agreements."¹⁸⁷ In effect, Truman gave notice that from now on the US was going to demand satisfaction in practical terms; in the same way that the Soviets always had. For quite a while the Anglo-American policy makers had been formulating policy based on an erroneous interpretation of the Soviets created by their tough talk and tougher behaviour. Now, at last, the Soviets reversed this error by completely misunderstanding the message in Truman's words.

Molotov was convinced that Truman had warned him that the US was about to drop its policy of co-operation with the Soviets.¹⁸⁸ This seemed to confirm the Kremlin's belief that a different style and attitude in US policy had taken over with Truman.¹⁸⁹ Of course, it also confirmed what the Soviets and especially Stalin were always ready to believe, that their capitalist allies were eventually going to act

¹⁸⁷ Truman, 80-82; Gaddis, 205.

¹⁸⁸ Paterson, I. G. On Every Front, Toronto, 1979, 97.

¹⁸⁹ Paterson, 97; Gaddis, 205.

against Soviet interests and deliberately attempt to contain Soviet power. Truman's warning was more than enough to convince Stalin, who had always believed that the alliance would probably not outlast the war because the capitalists would never agree to Soviet terms. The Americans' delay in the Reparations Commission and their protests over Soviet removals in Germany, coupled with these subtle threats of economic pressure, appeared to further support this assumption. The Kremlin's basic appreciations of Western aims on the reparations issue, always inherent, were now clearly accepted:

US - the American plan for Germany's post-war structure provided for the preservation and consolidation of the links between the US and German monopolies on terms favourable for the US finance oligarchy...

Britain - The British ruling class hoped to gain full control of the Ruhr industry and with its help to dominate Europe...¹⁹⁰

As far as the Kremlin was concerned, Truman's threats explained why the Anglo-Americans had been so hesitant to conclude a reparations agreement. The capitalists obviously wanted to be able to revive Germany, in their own interests, if and when the alliance broke apart.

The looming diplomatic conflict between East and West over how to restructure both Germany and the world was much

deeper and more complex than a spat between Truman and Molotov. But Truman's blunt style did exacerbate the situation and, because it was based on a miscalculation, further confused Allied policy towards Germany. The relationship between reparations and reconstruction in Soviet policy was secondary. At that time, Soviet plans for reconstruction envisaged a three year program to recover prewar industrial levels primarily through the Soviets' own resources in the East.¹⁹¹ German reparations could accelerate the pace of Soviet recovery, but they could not, that is, the Kremlin dared not, base their planning for reconstruction on this factor. Nor could Moscow even think of formulating policies that depended on US loans for their success. There was simply no way that Soviet policy would either be made dependent on foreign economic sources or radically changed in order to secure such sources.¹⁹² Reparations meant first security and then reconstruction, a long way behind.

This vital relationship of political and economic factors in Soviet policy towards Germany and the West was confused by Western leaders at the time and by many historians ever since. The ideological preconceptions of the Soviet leaders made the problem even more complex. This was due to two prevalent Kremlin beliefs: 1) the West would rebuild

¹⁹¹ Mikhailov, N. "The Soviet Peacetime Economy" in Foreign Affairs, Washington, July 1946, 633, my emphasis.

¹⁹² Feis, Churchill, Roosevelt, Stalin, 645.

German power in order to enlist it again to the capitalist ranks, and 2) if enough pressure were maintained, the West would undergo a depression severe enough to render them in need of Soviet co-operation. These beliefs definitely influenced Stalin's decisions during this period. The first was indeed quite possible, especially in Britain's case. The second was absurd with regard to the United States, and most probably contributed to Stalin's precipitate decision to meet Truman's diplomatic challenge.¹⁹³

Predictably, Stalin centered his riposte on the reparations question. In Soviet eyes, the question was now very complex. Diplomatically, the Soviets wanted to commit their allies to a large general reparations program because

- 1) they wanted to legitimize their own treatment of Germany
- 2) they still wanted to ascertain Western policy in Germany and towards the Soviets, beyond any doubt, on terms they understood
- 3) they wanted to trap the West into a commitment that would, at the very least, lay the moral onus on them if the alliance broke up and
- 4) they hoped to prevent the West from leaving the powerful industrial areas of Germany intact or exploiting them themselves.

If the West was hostile, their reparations policy would, again, prove this to the Kremlin. Even if they were, some sort of tripartite agreement would legitimize the more secure policy being implemen-

ted by the Special Committee. It might also produce a slightly greater reduction of Germany's potential power.

Maisky's task was slightly altered, to include the interdiction of Western plans. But his fundamental aim remained the eradication of German power:

Clearly, the Soviet reparations claim was seen by the Kremlin leaders as both a means of influencing developments in the western zones of Germany and as a source of help for their war-ravaged provinces, with long-term political goals increasingly gaining priority over economic reconstruction.¹⁹⁴

The increasing contentiousness in Soviet-US relations absolutely delighted Winston Churchill. Churchill's optimism over Yalta, although sincere and based on his personal admiration of Stalin, was as quick to fade as the American public's had been.¹⁹⁵ Churchill tried right to the end to convince FDR that Soviet intentions were malevolent and a co-ordinated response was essential. Roosevelt resisted his blandishments right to the end, and kept his sights fixed on the goal of enduring Soviet-American co-operation. The last missive FDR ever sent Churchill, in response to Stalin's accusations of double-dealing over a possible German surrender, read:

I would minimize the general Soviet

¹⁹⁴ Krieger, W. "Was General Clay a Revisionist?" in Journal of Contemporary History, London, Volume 18, #2, 1984, 166.

¹⁹⁵ CAB 65/51.

problem as much as possible because these problems, in one form or another, seem to arise every day and most of them straighten out...We must be firm, however, and our course thus far is correct...196

Even though he was deeply saddened by FDR's death, Churchill knew that on foreign policy they had moved somewhat apart. The Prime Minister was greatly heartened by Truman's definition of "firm", and his early willingness to adopt a harder line on post-war issues with the Soviets.¹⁹⁷

After Yalta, the British Government gave serious consideration to the issue of reparations and post-war policy towards Germany. Here as well the crucial factor was seen to be the fact that Germany would be the proving ground for the practical post-war relations of the Big Three and the balance of power in Europe. The Cabinet had a long and important debate on the reparations question on March 22nd. It was dominated by two elements: the precedent and the Soviets. Churchill felt reparations was an important but still secondary issue in German policy. He was well aware, however, that the Soviets considered it more important and would bring powerful arguments to bear. He told his colleagues:

...as regards reparations, we must recognize that the Russians were equally determined to get everything they possibly could out of Germany by way of

¹⁹⁶ Kimball, ID, 574, 630.

¹⁹⁷ Kimball, 1, 19.

reparations...we must take it as certain that Russia would press to be allowed to remove machinery and plant from all parts of Germany, including Silesia and the Ruhr...In view of the sufferings and losses of the Russians, he thought that there was justice in such a claim and that it would be very difficult to resist...¹⁹⁸

The Cabinet accepted the point that reparations were probably diplomatically unavoidable. But then they also agreed to insist on two principles in any reparations plan: 1) all elements - German labour, materials, plant, everything - were to be officially accounted in reparations totals [a very Keynesian clause] and 2) the plan must be based on one short-term removal program, with no deliveries over the long term.¹⁹⁹

The general conclusions that the British Cabinet formulated on reparations policy were framed in a manner to interdict Soviet claims. In essence they were: 1) to allow removals but in return exact a value and time limit, 2) to avoid paying for their own zones' economy, 3) to try and take over German markets, 4) to minimize any settlement and prevent the spoilation of the German economy. The British meant to settle reparations in the same fashion as they intended to settle all post-war issues, by limiting and balancing Soviet power. But this policy was not the most important element that the British injected into the

¹⁹⁸ CAB 65/51, 22/3/45.

¹⁹⁹ Ibid.

reparations question. Their conviction that the Kremlin's German policy was based on expansion, not security, generated two ideas which, because they were eventually adopted by the Americans, determined the actual nature of the eventual tripartite reparations settlement. The first point was technical. It was now clear that the refugees crowding into the Anglo-American zones would strain these areas' food resources beyond their capacity. The major agricultural areas of Germany were in the Soviet zone and the British wanted to secure food from these areas, but they realized that the Soviets would make trouble over this.²⁰⁰ The second thought was political dynamite, and perhaps had been Churchill's aim all along. In the report he sent from Yalta after hearing Maisky's plan, Churchill described Soviet claims as "fantastic" and said:

If we were unable to steer her [the Soviets] into more moderate courses, it might be necessary for us to let her go her own way.²⁰¹

Churchill did not make that fateful move at Yalta. But he assiduously drummed these themes into a receptive Truman from the moment of their very first contact. By the time of the German surrender, as far as Churchill was concerned:

The Soviet menace, to my eyes, had already replaced the Nazi foe...²⁰²

²⁰⁰ Ibid., 16/4/45.

²⁰¹ Ibid., 8/2/45, my emphasis.

²⁰² Churchill, 569.

The fact that all the negative advice Truman was receiving was combined with his own assumptions and determination to act in a firmer manner towards the Soviets on reparations and everything else, finally precluded any chance of a technical level tripartite reparations agreement. After the Molotov interview, Truman adopted a Soviet policy best described as "firm, but fair". On April 27, Truman appointed Edwin Pauley as the new US Ambassador to the Reparations Commission. The commission itself had still not accomplished anything because it was absolutely stymied by a dispute over possible French membership.²⁰³ The Soviets naturally wanted the question kept under the control of the Big Three. The British and the Americans wanted to get the French involved if possible, and even if it was not to press the Soviets by this prolonged stall. The Kremlin probably considered Pauley's appointment a promising sign, and, if so they were mistaken. Pauley was well known as a sharp, rough, unethical and rich oilman. He was appointed by Truman because, as a kindred spirit, Truman expected him to settle the reparations question by forging what, to the Kremlin, would be the worst deal he could force them to accept.

As the European war ground to a halt in early May, the Soviets were more desperate than ever to achieve some

²⁰³ FRUS, 1945; III, 1201.

diplomatic progress on the reparations question. On May 7th, in the midst of the final German surrender, Molotov stopped back in Washington and had a sharp exchange on the question with the new American reparations delegate. Pauley demanded yet another account of Soviet removals in Germany. Molotov insisted that "only whatever was needed for the war was being taken", this on the day hostilities ceased, and urged Pauley to go to Moscow and get to work.²⁰⁴ This exchange began a dispute that terminated only with the agreement to refer the issue back up to the Big Three. In effect it marked an American refusal to submit to Soviet supplications. The initiative on reparations now clearly lay in Washington, a fact that became more pronounced as the overall climate of Soviet-US relations changed. And, more so than ever, the determinant factors in the development of US policy were the activities of the Soviet forces in Germany.

The German surrender found US troops well inside the Soviets' allotted zone of Germany, Soviet troops in Berlin, much of Germany transferred to Poland, no new Polish government installed, and millions of starving refugees in the Western zones. Europe itself was physically devastated and emotionally exhausted. The seemingly limitless Red Army rested in positions that controlled half the continent, and its leaders seemed to want even more. The idea that they

²⁰⁴ Ibid., 1210.

could even consider prostrate Germany a threat seemed preposterous, but that is exactly how the Kremlin felt. The dismantling activities of Malenkov's Special Committee moved ahead at a frantic pace through May. Its officials removed some 1200 enterprises, lock, stock and barrel, in the first two weeks.²⁰⁵ The pace was such that there could be no efficient direction of this effort. Much of the seized material simply rotted on rail sidings, and later proved impossible to re-assemble.²⁰⁶ The war had nearly exhausted the Soviets and drained their confidence. Soviet power was now a hard crust with no depth, and this frantic haste in both practical and diplomatic reparations initiatives reflected their genuine uncertainty of the duration of their stay in Germany.

This crucial fact was once again missed by the leaders of the Western Allies. Churchill saw only a red horde bent on further expansion, and openly depicted the Soviets as possible adversaries. Truman's "firm, but fair" policy was now too slow for him, and he sent the President a telegram, on May 12th, which warned of the Soviet threat. That telegram has become better known as the "Iron Curtain" message, but it also contained a warning about reparations:

...the attention of our people will be

205 Alexandrov, V. "The Execution of Policy 1945-1947" in Slysner, 15.

206 Ibid., 16.

occupied in inflicting severities upon Germany, which is ruined and prostrate, and it would be open to the Russians in a very short time to advance if they chose to the waters of the North Sea and the Adriatic...²⁰⁷

Churchill pleaded with Truman to halt the Allied troops in their positions well inside Eastern Germany and Czechoslovakia, in order to pressure Stalin into agreeing to transfer food from his zone to the western zones. Also, he argued that a Big Three meeting should be held right away and the troops held in place to force concessions in Germany and Eastern Europe from Stalin.²⁰⁸ Truman did not halt the troops withdrawal; it was only "fair" to live up to previous agreements, and he was playing by the book. But he did get Churchill's message about reparations. On this question Truman displayed "firm".

While Truman did intend to live up to existing agreements with the Soviets, he was now also ready to start the process of bringing them to heel. As noted, the thrust of his effort was centered on what the Americans mistakenly felt were related issues - loans, post-war aid, and reparations. The first such move Truman made was to cancel Lend-Lease shipments to the Soviets, on May 8th. Most historians depict this as a technical error, which Truman conceded when he withdrew his action. But, his underlying message was

²⁰⁷ Churchill, 572-573.

²⁰⁸ Churchill, 502, 572-573.

clear to the Kremlin.²⁰⁹ Truman's next step was to draft instructions for his new reparations delegate. The decision to solicit advice on the preparation of this important policy, from the Moscow Embassy, generated an exhaustive memorandum from George Kennan. Kennan was by now very disturbed about the pattern of Soviet behaviour, and was determined to ensure that his interpretation of Soviet attitudes on reparations formed a major part of the developing American policy. Kennan's response of May 3rd is one of the single most valuable insights into the study of Soviet reparations policy. His argument was based on the thesis that American policy must be oriented towards preventing the Soviets from securing a favourable settlement. Kennan made six main points: 1) Soviet looting was taking place at a frantic pace, mainly in order to extract as much material as possible before a settlement was reached, 2) the Soviets had no intention of providing any accounting or inventory of this activity or allowing any observers, 3) the Soviets saw the Reparations Commission only as a tool to further their interests, 4) at the table the Soviets would argue that their greater sacrifice merited greater recompense, 5) the de-industrialization of Germany was a basic Soviet war aim and they would also allot the disputed Oder-Neisse region to the Poles, and, 6) the Soviets would not accept any

²⁰⁹ Truman, 210, 228.

reservations based on the capacity argument.²¹⁰

What Kennan was trying to say was that the execution of any joint reparations deal would only be to the Soviets' advantage and they would return no concessions. His arguments were already well circulated in Washington, but this articulation of them was supported by a forecast of Soviet behaviour that can only be termed prescient. Kennan warned his superiors:

By the time any reparations settlement can be arrived at a considerable portion of existing German assets will already have been removed from the Soviet zone in guise of war trophies or otherwise...

We will probably never be able to obtain really detailed or reliable information concerning these removals...

The Russians may be expected to accept enthusiastically the principal of dismantling German industrial equipment since that is one of their basic war aims...

It is possible that the Russians make here a sharp distinction - and demand that the Reparations Commission do likewise - between the areas which have already been allotted to Poland by the Soviet authorities and the remaining territory of Germany...²¹¹

This was an incredibly accurate forecast of what the Soviets were about to do on the ground in Germany and at the table in Potsdam. But when it elicited no immediate response, Kennan further elaborated his warning on May 12th in a report to Harriman:

²¹⁰ FRUS, 1945, III, 1203-1205.

²¹¹ Ibid.

The Russians are going to advance global demands, probably in staggering figures ...and they will ask that the lion's share of this come from the other zones of occupation. Their demands will be formulated backstage among themselves, on the basis of considerations which will never be revealed to us, but which will certainly be political rather than economic. Any efforts on the part of foreign delegations to pull discussion down to a basis of economic realities will be met with repetitious orations about what the Germans did to Russia. In the end, it will come down to a simple horse trade. How much are we going to make available to the Russians from our zones, and what price are we going to demand for it?²¹²

It is true that although Kennan's analysis was more perceptive than any of his colleagues, he too missed the hard negative thrust of Soviet reparations policy and the resulting importance they attached to a tripartite accord. But Kennan did grasp the fact that reparations was mainly a political issue in Soviet policy. He also provided the crucial theoretical support for the argument that Soviet looting would render any general accord a detriment to the West and therefore, as Churchill had said, the Soviets should be left to their own devices. Kennan drove home the vital message that Soviet policy posed a deliberate threat to American interests. Kennan must have been asked to explain his argument's validity in overall Soviet-US relations, because he drafted another message later in May

²¹² Ibid., 1212, my emphasis.

that discussed the broader issues. This time Kennan warned that the Soviets were putting politics first and economics second in all the areas the Red Army had conquered. In addition, the only expectation the Kremlin had of the new UN was that it would provide a legitimizing screen for the actions of the Big Three which included the establishment of Soviet hegemony in Eastern Europe.²¹³ Kennan admitted to Harriman that he was a little concerned that Pauley's instructions would not be tough enough. Harriman correctly assured him that he need have no fears on that score, as some of his arguments had indeed been accepted by the President. Truman did not abandon the idea that economic pressure could be used to affect Soviet policy. But, he did accept Kennan's view that reparations was "one of the most critical aspects" of German policy and that this was as much due to Soviet policy as it was to the danger of repeating the precedent.²¹⁴ Kennan's advice definitely contributed to Truman's decision to fit the reparations question into the "harder" track of US policy towards the Soviets. From his initial appointment, Pauley had expected to be given instructions to drive a hard bargain. Truman now told him to do just that and to ensure above all that the US would not be committed to a repetition of the precedent.²¹⁵ This

213 FRUS, 1945, V, 855-859.

214 Truman, 307-309.

215 Ibid.

caveat was a sincere cornerstone of the official American attitude to reparations, just as the Soviets did intend to try and make some use of the German material they extracted. But just as the Soviets also had a more important ulterior motive, so now did this concern with the precedent become the justification for a US plan that was primarily designed to defeat Soviet claims.

The decision to oppose Soviet plans was a direct result of Truman's acceptance of the argument that the ongoing Soviet looting would make any tripartite German reparations accord a threat to Western interests.²¹⁶ Truman was convinced that the unilateral Soviet removals would directly endanger American efforts to avoid the precedent by ~~weakening~~ the western zones, and were designed to produce chaos in Germany.²¹⁷ So he decided to propose that each power should, after all, settle reparations claims from its own zone.²¹⁸ It is vital to note that Truman made this decision well before Potsdam, and directed the execution of US policy before and during the conference with the aim of achieving this result.²¹⁹ This decision posed one serious problem. As Truman had recognized that reparations was an emotional issue to both his own people and especially the Soviets, and

²¹⁶ McInnis, E. "The Search for a Settlement" in McInnis, E., Hiscocks R., Spencer R., The Shaping of Postwar Germany, Toronto, 1960, 26.

²¹⁷ Truman, 311.

²¹⁸ Ibid., my emphasis.

²¹⁹ Ibid.; McInnis, 26.

also that there should be some forced reduction of German power, he realized that there would have to be some sort of overall reparations accord. This accord would have to satisfy public opinion and be diplomatically defensible, but also ensure that US interests were protected and Soviet plans disrupted. Therefore, Truman had Pauley's instructions drafted and US policy conducted with these active goals: 1) defend US concern over the precedent, 2) avoid any fixed commitment and, 3) produce a plan with an "own zones" clause. This last clause would of course enable the Anglo-Americans to ensure that a tripartite reparations agreement on paper would never be implemented in practice.

Pauley's instructions were delivered in a Briefing Paper on May 18th. He was charged with securing three key promises in any accord: 1) a minimum of annual deliveries 2) a strict "1st charge" on German material for payment for necessary imports, and 3) a complete accounting of all removals from Germany on any reparations claim.²²⁰ The main passage aimed for public and Soviet consumption read:

This government opposes any plan based upon the assumption that the US or any other country will finance, directly or indirectly, any reconstruction in Germany or reparations by Germany.²²¹

Pauley realized that in essence what Truman wanted him to do

²²⁰ FRUS, The Conference at Berlin, Volume I, Washington, 1960, 507-508 (hereafter termed Potsdam).

²²¹ Ibid.

was prevent the realization of any genuine reparations accord with the Soviets and find and provide ample justification for a reversal of the American offer at Yalta.²²²

This was a definite and vital change in US policy, and it must be understood that it was largely a genuine reaction to the implementation of Soviet policy.²²³

Soviet reparations policy had of course not changed at all since Yalta and still sought that elusive Western commitment, in the interests of Soviet security. Pauley began his mission by notifying Moscow that he would not begin work until he had toured the Soviet zone of Germany and checked the reports of extensive removals. On May 18th, as Pauley received his orders in Washington, Maisky told Kennan that the Kremlin did not want any tours of its zone until the core of a tripartite accord had been worked out.²²⁴ Such a transparent and pathetic attempt at applying reverse pressure showed that the Soviets were now very apprehensive about American plans for reparations. Pauley took his tour after all, and proved in his report that Truman had found the right man for the job. Pauley reported to Truman that despite widespread destruction German war production was largely intact and therefore material removals were desirable. That conceded, on reasonable grounds, that reparations were necessary. But then Pauley pointed out

²²² Kuklick, 132.

²²³ FRUS, 1945, III, 1222-1224.

²²⁴ Ibid., 1220.

that there was great physical dislocation in Germany and a serious shift of population to the west. Therefore, the "first charge" principle and a provision to secure food from the Eastern breadbasket would have to be included in any accord in order to protect the American taxpayer.²²⁵ Both Truman and Pauley felt that the Kremlin would never accept such restrictions and that here was the tactic which would resolve the problem satisfactorily.

By this time, Churchill's calls for another Big Three summit were receiving a sympathetic audience in Washington. The Kremlin had never called for a top level summit, and nor did it do so now,²²⁶ but this time Truman realized that Stalin had at least as much need to see him as the reverse. Truman hoped to conclude a practical and lasting modus vivendi in Europe with the Soviets that would halt their drive for expansion and allow the US to continue its economic push for global primacy. He wanted to translate "firm but fair" into a favourable and strong settlement that would cage the bear. So, before Pauley left, he sent Hopkins to Moscow to clear out the troublesome hangovers from Yalta and prepare for another conference. Hopkins was chosen for the same sort of reason Maisky had been, to exploit the goodwill the other side expressed towards him. To some extent it worked. Hopkins secured an agreement for another conference

²²⁵ Ibid., 1228.

²²⁶ Truman, 257-259.

from Stalin, as well as an agreement that looked just good enough to hoodwink the Western public and allow a new Polish government to be established. No agreement was reached on the Polish borders, but the government merger was the thorny public dispute whose solution paved the way for the conference at Potsdam.

On the reparations issue, Hopkins had no success at all. Stalin reiterated the argument the Soviets had made ever since Yalta - the French would not be given a place on the Reparations Commission and it should get to work.²²⁷

Truman finally gave up, and dispatched Pauley to Moscow.

The practical relations of the East-West wings of the alliance had now obviously succumbed to a mutual desire for confrontation and tendered demands, and the ensuing debate in the Reparations Commission was the clearest example of this development. Between Yalta and Potsdam, the Commission met a total of 37 times.²²⁸ The bulk of these discussions took place between Pauley and Maisky from 11 June to 14 July.

These meetings were dominated by three items: 1) a recurrent US demand for detailed justification of the 20 billion figure discussed at Yalta, 2) US queries over the extent of Soviet looting and the transfer of the Oder-Neisse area to Poland and, 3) Soviet insistence that an overall figure be determined. Pauley received absolutely no satisfaction on

²²⁷ Feis, Between War and Peace, 137; Sherwood, 894.
²²⁸ Bohlen, 232.

the first point. Maisky repeatedly mouthed the platitudes Kennan had foreseen* and asserted that statistics were forthcoming. Maisky did not even elaborate on the second point. He had previously told Harriman, on June 4th, that the Oder-Neisse region would not affect a reparations settlement as the material removed from there would simply be credited to the Poles [ie. the Soviets] as reparations!229 If Truman had any lingering doubts about Soviet duplicity, this statement surely dispelled them; more significant was the excuse it provided him for a truly decisive stand on the issue at Potsdam.**

Such arguments merely played into Pauley's hands and he exploited them mercilessly. Maisky was faced with a crisis when, on 19 June, Pauley responded to Soviet demands for a set figure with a proposal to split the final unspecified amount of extractions by allotting 55% to the Soviets and 22-1/2% each to the Americans and British, and to satisfy each others dependent allies' claims from these shares.230 In other words, Pauley told Maisky that any Oder-Neisse transfers would, after all, be charged to the Soviets, in return for a slightly increased cut. Maisky realized that he had been given a warning. He also realized that Pauley, who knew full well that without a set figure the offer

229. FRUS, 1945, III, 1234.

230. FRUS, Potsdam, 1, 511.

See above, p 131.

** See below, Chapter 5.

wouldn't be accepted, had no intention of concluding a settlement. The debate dragged on until the end of June.

Maisky refused to accept the priority of the "first charge" over reparations and insisted on a fixed sum. By now the Soviets realized that the two sides were far apart, because of the shift in the American position. Stalin was very angry at this fiasco in the Commission, and construed it and Western objections to Soviet "removals" as clear indications of a position of antipathy to "legitimate" Soviet interests.²³¹

On the 3rd of July Maisky received a blunt letter from Pauley that confirmed Stalin's fears. Pauley categorically stated that there would be no settlement unless: 1) the Soviets produced a clear definition of "booty", the term they had been using to justify their removals and exempt them from a reparations claim and, 2) they dropped their demand for a ~~fixed sum~~ and settled for only a percentage before a comprehensive inventory of Germany could determine what scale of reparations was really feasible.²³² The Soviets had at last been told that their allies did not intend to commit themselves to the Kremlin's terms. Stalin must have ordered a tactical retreat, for on July 6th Pauley signalled that Maisky had accepted two stipulations - that Germany be treated and accounted as an economic unity, and that the

²³¹ Feis, Between War and Peace, 58-59.
²³² FRUS, Potsdam, 1, 523.

first charge for imports have priority" - that cleared the way for a debate of substance at Potsdam.²³³ That clearance was the only reason Stalin would have vetted a promise he did not intend to keep. It was obvious that the Commission had failed, and Stalin again decided to stake his policy at the conference table.

The failure to secure a reparations settlement before the extent of Soviet looting was discovered and accelerated the change in US policy made Potsdam, much more so than Yalta, the last chance for Stalin to secure the diplomatic goals of his reparations policy. Although he had now physically secured Eastern Europe and was still hopeful of gaining Western recognition of his hegemony there, Stalin did not go to Potsdam with the same high hopes that had brought him to Yalta. The crucial issue - the future of Germany - was still unresolved. Post-war Germany had been an important topic at Yalta, but it was to be absolutely predominant at Potsdam. Stalin went to Potsdam with the absolute top priority goal of, somehow, contriving to negotiate a reparations settlement that would ensure, to his satisfaction, the destruction of German power. Perhaps he never realized that his own fateful decision ultimately to rely on the Special Committee, and not on the wiles of diplomacy or the sympathy of his allies, was the crucial factor that had already made this task almost impossible, even for him.

²³³ Ibid., 528.

Chapter Five - Potsdam

The last of the great wartime conferences of the Grand Alliance took place from July 17 to August 2 1945. By deliberate compromise, the leaders convened in the capital of their defeated enemy; more precisely, in a near-by suburban district called Babelsberg, in the town of Potsdam. The site was appropriate, for what was at stake at this crucial conference was primarily the question of whether the bonds of East and West were strong enough to construct a solution to the German problem and thus maintain the alliance in the post-war world. The atmosphere at Potsdam was, as at Yalta, an important influence on the outcome of the proceedings. The delegations saw at first-hand the destruction and misery wrought by total war, and the magnitude of the task of reconstruction. However, they also saw with their own eyes the results of the unilateral decision of the Soviet Union to conduct its own unique policy for the control of Germany. The Western delegates came to two conclusions at Potsdam: 1) the Soviets were not interested in overall co-operation for reconstruction in Europe and, 2) Stalin intended to pursue a course of action that would actually impede the overall effort. The decisions of the Potsdam conference cannot be regarded as other than a product of the particular

and general atmosphere under which the work was conducted. This atmosphere led both sides to realize that they were indeed two sides and no longer shared basic assumptions, aims and policies for the post-war world. The decisions of Potsdam formalized a diplomatic divorce.

The critical issue of the conference was of course the question of Allied policy towards Germany. Beyond the basic feeling that Germany should be prevented from again unleashing a war, Allied views and intentions on Germany radically diverged. Stalin would have agreed with Churchill that the crux of the matter was:

: Russia's share of Poland, Poland's share of Germany, and the place of Germany and the Soviet Union in the world...²³⁴

Stalin seemed to have his goals fixed and his policies oriented on the long term. He saw in Germany not a prostrate enemy but a future threat. Indeed, he was obsessed with the Soviet need for "security" from a possible German resurrection.²³⁵ To an extent, Stalin reflected the feelings of his whole nation, feelings of fear and revenge that he could not simply ignore.²³⁶ But this domestic feeling only influenced Stalin's policy, it did not dictate it. Stalin alone decided Soviet policy toward Germany, and he based his decisions on his fears for the future of both Germany and the intent-

²³⁴ Churchill, 647.

²³⁵ Deutscher, 539.

²³⁶ Ibid.

ions of his allies.

Stalin came to Potsdam to try and secure an agreement from his allies to implement a policy that would, by joint action, eradicate the German threat. Soviet intentions towards Eastern Europe were important, but there is no doubt that at this time:

The Hopkins-Stalin compromise* settled the controversy over Poland for the time being, leaving Germany as the major issue facing the Big Three...at Potsdam.²³⁷

Germany was the issue at Potsdam, and what Stalin wanted were "decisions" on the post-war world to rule out any fresh German aggression."²³⁸ The problem Stalin could no longer avoid at Potsdam was that his allies, whose intentions he did not trust, had overrun the bulk of Germany's heavy industry. The only decision that Stalin and his associates would have accepted as offering proof of an Anglo-American commitment to the eradication of the German threat was a decision to dismantle and remove the great majority of the physical, material, technological and mental assets and resources that provided the structure of German power. Stalin wanted to deprive Germany of the vast bulk of the impedimenta of a modern industrial economy and society that had made her a great power. He wanted to use the device of

²³⁷ Gaddis, 236.

²³⁸ Tolmachev, 79.

* See above, p 137.

reparations payments as indemnities to accomplish this pillage, and he wanted his allies to legitimize the policy by their participation.

Stalin's perception of the world was so cynical that only such a dramatic and physically manifest policy would allay his fears. But, by this time, he faced several self-inflicted problems in the attempt to secure such an accord at this conference. The most important problem was his own belief that his allies would in the long run resurrect Germany in their own interests and his decision to forestall this eventuality by unilateral Soviet actions in their own portion of Germany. Malenkov's Special Committee, not Maisky's prepared proposals, represented Stalin's real estimation of the future of the Alliance and their common occupation of Germany. The prospect of a legalized reparations accord at Potsdam actually increased the looting activities of Malenkov's men, in an effort to remove as much material from Germany as possible before the Kremlin's hand was forced.²³⁹

Stalin sincerely believed that his capitalist allies were indifferent to the obviously legitimate Soviet concern for national security posed by the continuation of a modern industrial society in Germany. He put negative connotations on all Western objections to Soviet plans for reparations and all their professions of confidence as far as the Ger-

²³⁹ Rudolph, 20-21.

mans were concerned.²⁴⁰ Stalin was certain that the key to a successful common policy and the control of Germany was Western willingness to conclude a firm tripartite reparations accord. He was convinced that the heavy industry now in the Western zone was the key to German power. The previous failures to conclude an agreement at Yalta and in the Reparations Commission had only increased Stalin's fear that the Anglo-Americans intended to oppose reparations and leave this industry intact. Therefore Soviet policy was stiffened somewhat. Stalin's goal at Potsdam became no less than a firm commitment from the West to de-industrialize Germany, and to provide concrete evidence of this by allotting the Soviets a fixed value of the extractions from their zones. Stalin was not to succeed in achieving this accord, largely because of the decision he had already made to pre-empt Allied policy in his own zone.

Global issues were a greater concern of the Anglo-American leaders at Potsdam than they were to the Soviets. Churchill wanted an exhaustive conference, to settle all major post-war political issues and hopefully influence US policy to adopt a firm anti-Soviet posture.²⁴¹ Truman wanted a settlement that would create a durable modus vivendi in Germany and Europe and halt Soviet expansion, and thereby allow the US to pursue global economic dominance. But both

²⁴⁰ Feis, H. From Trust to Terror, New York, 1970, 44.

²⁴¹ Churchill, 611.

men realized that the key to their aims was the solution of the problem of how to control Germany. Stalin's major self-inflicted obstacle was actually the perceptions Churchill and Truman brought to Potsdam about Soviet policy on reparations. Truman was convinced that the Soviets intended to strip Germany in order to create general chaos.²⁴² Churchill agreed completely.²⁴³ Therefore, both were determined to call Stalin to account for Soviet behaviour in Germany and prevent the conclusion of any accord that would firmly commit them to heavy reparations. In essence, all three leaders went to Potsdam prepared, if necessary, to disentangle East from West on favourable terms and, if possible, genially and tranquilly.

By now the truth was that, despite public displays of friendship and solidarity, a basic distrust of each others' political aims had developed on both sides.²⁴⁴ The prospects for a clean divorce were not good, and they were worsened by three factors: 1) the appearance of the US and the USSR in natural competition as the remaining great powers, 2) the Soviet obsession with Germany and, 3) the glare of publicity at Potsdam. Unlike Yalta, the world knew that a summit was being held at Potsdam, and it expected results.²⁴⁵ This increased the already great pressure on the

242 Truman, 357.

243 CAB/65, 53.

244 Bohlen, 228.

245 Ibid., 227.

delegates, and produced a very different conference. Potsdam was laborious, thorough and no-nonsense diplomacy at its best. The Soviet leaders fought long and hard for their reparations and security package at Potsdam. But it was all to no avail in the end, because of the disputes they had provoked with the Anglo-Americans before the conference and the influence these disputes had on American policy.

Churchill and the British delegation went to Potsdam with the same general goal they took to Yalta - use the issues to provoke a Soviet-US split. Churchill had been the most insistent supporter of a conference, and the sort of result he envisaged was revealed in the code name he successfully proposed for the conference, "Terminal."²⁴⁶ Churchill was convinced that Soviet policy in Germany was designed to create physical and financial trouble there for the West in order to further prospects for communist expansion. The British official historian describes his view of the general connection thus:

...it [Potsdam] would be at once a meeting to settle a number of immediate arrangements connected with the occupation of Germany and a test whether the Russians were intending to co-operate with the other Great Powers in regulating the affairs of Europe...²⁴⁷

As for reparations, Churchill now firmly believed that the

²⁴⁶ FRUS, Potsdam, I, 98.
²⁴⁷ Woodward, 536.

Soviets intended to force an overall agreement in order to obligate the West to strip their zones at their own expense, for the Kremlin's benefit, and avoid the reverse obligation. He told his Cabinet:

It seems likely, however, that the Russians might seek to describe a great deal of the material which they were removing from their zone as booty, and not as reparations, so as to avoid counting it as part of their agreed share of reparations...²⁴⁸

Churchill's other priority was to strengthen US inclinations towards a common-Anglo-American overall and Soviet policy. While Truman may have been ready to give Stalin a "take it or leave it" offer, he did not go to Potsdam intending to construct comprehensive joint policies with the British. He regarded Soviet policies as a potential but not a present threat, and he wanted to deal with Stalin, not dictate to him.²⁴⁹ But even before he reached Potsdam, Truman was induced to move US policy closer to British aims. This was due to both Soviet actions and the inescapable fact that the Anglo-Americans shared basic general and particular assumptions and aims that Soviet policies ultimately affected. The British and Americans shared an aversion to the reparations precedent's possible repetition, a relatively confident view of their ability to control Germany, and a

²⁴⁸ CAB65/53, 20/6/45.

²⁴⁹ Feis, Between War and Peace, 158-159.

concern over the possible cost of rebuilding devastated Europe.²⁵⁰ They were convinced that a heavy reparations plan was more of a threat to their interests than it was a sound method to control Germany. This stemmed from two shared attitudes: 1) both believed that Soviet insistence on a fixed sum was malevolent and 2) both saw Soviet removals of "booty" as both arbitrary and as a threat to their interests which necessitated response.²⁵¹

The result of all this was that Soviet actions helped produce a basic concordance in Anglo-American general and reparations policy that was strengthened when put to the test at Potsdam. Both Churchill and Truman believed that they would have to pay for any heavy reparations plan and intended to prevent it. Both realized that reparations were politically necessary, but intended to exact a price in return. They intended to insist that Germany be treated and accounted as one economic unit, in order both to account for Soviet removals and to claim food supplies from the Soviet zone. Churchill had now decided to follow a moderate policy in Germany in order to oppose Soviet aims, and Truman was leaning in that direction.²⁵² Stalin was, if anything, more suspicious of his counterparts and more hard-line towards Germany than ever. The consequence was that, as Herbert

250 Ibid., 253.

251 Ibid., 255-256.

252 Snell, 196.

Feis notes, the Kremlin's basically correct but self-fulfilling estimation of its partners produced an undeclared but almost certain Western opposition to Soviet plans before the conference began:

The Soviet rulers were convinced that the leading purpose of the British government was to surround the Soviet Union with friendly states in order to confine it, and cheat it of its fair reward for victory. While they did not attribute the same fixed purpose to the US government, they thought there was little chance that in direct contest over any issue in this sphere the US government would range itself against Great Britain.. They were counting on Soviet power to grab and hold what it most wanted, rather than on the chance of winning willing assent...²⁵³

In the case of reparations, this cause and effect process was already settled by the time the conference began.

On the 11th of July, Pauley formally warned Maisky that reparations would be placed on the agenda of the impending conference.²⁵⁴ This was an unnecessary formality, but it reflected the new purpose and initiative of American policy. As noted, Truman had already decided that a reparations accord must be framed in such a way as to, in effect, prevent the actual execution of any really tripartite program.* Truman brought his new Secretary of State, James

²⁵³ Feis, Between War and Peace, 158-159.

²⁵⁴ FRUS, Potsdam, I, 237.

* It was blithely assumed that France would assent to whatever accord was reached at Potsdam. The plan was therefore technically quadripartite.

Byrnes, to Potsdam to oversee the completion of this task. Byrnes was a veteran Senate "backroom fixer" who was indeed an ideal man to negotiate an agreement with all the right holes. Byrnes agreed that "the stalemate in the Reparations Commission necessitated a new approach to the question," in other words that Soviet actions were a threat, and saw the issue as "one of his main goals."²⁵⁵ Byrnes was also convinced that Soviet looting made a US response necessary, and that this response should be the treatment of reparations as "a distinct issue from the economic treatment of Germany" - in other words, to force the Soviets to accept a facsimile reparations plan as the price of their behaviour.²⁵⁶ Pauley and Maisky carried on their debate in an attempt to clarify exactly what their leaders would fight over at Potsdam. The exchanges of the two men and the Briefing Book prepared for Pauley strongly indicate that the Soviets had made one important misinterpretation of the now settled US policy. Pauley's task was to prevent the conclusion of a binding tripartite reparations pact and clearly to lay the blame on Soviet policy. This objective resulted from the American conclusion that Soviet removals would put the US in a position of having to once again keep Germany viable through American resources. So, the Briefing Book advised Pauley to concentrate on the demand that Germany be treated as an

²⁵⁵ Byrnes, 68.

²⁵⁶ Ibid., 68.

economic unit. The "first charge" on German assets and the availability of food supplies were now defined as prerequisites for the conclusion of any reparations deal.²⁵⁷ The instructions also agreed that removals of material from Germany were desirable for security and propaganda purposes, but any final figure would have to await a complete inventory of Germany to determine what was both feasible and desirable. In any case, a prolonged program was absolutely rejected.²⁵⁸ In other words, the thrust of the American initiative was to force the Soviets to account for their previous and future actions and commit themselves to such general accounting as an integral part of any plan. This was, as noted, because of American concern over Soviet policy. The Soviets, however, misconstrued this vital reactive nature of the US initiative. They believed that the US opposed Soviet reparations plans because they intended actively to reconstruct the heavy industrial base of German power and use it to further their own interests.

Neither Truman nor Pauley had any such intent before or during Potsdam. But the harder Pauley pushed, the more convinced Maisky became that the old capitalist threat was once again taking shape. That same day, the 11th of July, Pauley again demanded that Maisky provide a definition of "booty", the label under which the Soviets were insisting that their

257 FRUS, Potsdam, I 443-450.

258 Ibid.

ongoing removals be exempted from reparations claims.²⁵⁹

Pauley wanted a narrow and specific definition, in order to render most material liable as reparations accountable.

Maisky stalled him for the umpteenth time, and Pauley decided that the Soviets had simply tabled the issue until the conference convened. But Pauley was concerned over the

clear gap that had arisen on the issue between him and Maisky. The Soviets insisted that reparations, not the "first charge," must be the priority lien on German stock. They

also wanted another Reparations Commission to be delegated the authority to oversee the execution of the eventual

plan. This would not do, as the Americans did not want

Soviet interference with operations outside their own zone.

But they still wished to force the Soviets to accede to the idea of treating Germany as an economic unit. As a matter

of fact, Truman was now flatly opposed to dismemberment

because it would negate such a unit and therefore ruin US

plans to hold the Soviets accountable.²⁶⁰ The solution

Pauley was instructed to seek was to demand that all

authority for the actual participation and execution in the reparations plan be accorded to the individual Zone

Commanders.²⁶¹

As this would obviously render participation in any tripartite plan entirely voluntary to each side, Pauley felt

²⁵⁹ Ibid., 537.

²⁶⁰ Ibid., 450.

²⁶¹ Ibid., 509.

that it would endanger his attempt to shift blame onto the Soviets by tipping the US hand. Pauley was also concerned about some of the advice Truman had recently received. One particular memorandum of 13 July argued that US interests would be endangered by the detachment of any part of Germany and that a strict definition of what that nation now constituted for occupation and reparation purposes must immediately be established.²⁶² Pauley did not dispute the point but the timing worried him. Any such initiative would obviously be a blunt query to the Soviets on the Oder-Neisse question. Pauley felt that this would place the US on the attack without first having made its own case. Pauley realized that the success of his mission depended on reversing this order of procedure. So on July 13, he wrote Maisky a long and important letter to explain exactly what the basis of US policy was:

Surely we both understand that there can be no current annual reparations [deliveries] from Germany except as more goods are shipped out than are shipped in, that is, there must be a large export balance...You say that the Russian people are more interested in "R" in this formula [expressed as $R(\text{eparations}) = P(\text{roduction}) - (O(\text{ccupation}) + C(\text{onsumption}) + I(\text{imports}))$] than in anything else. My people, remembering the last reparations settlement...insist that we do not forget the "I", the imports...²⁶³

Historian John Lewis Gaddis understood very well the point

²⁶² Ibid., 543.

²⁶³ Ibid., 547-548.

Pauley had hoped to make to Maisky:

Washington's position on the postwar treatment of Germany had become clear by the time of the Potsdam Conference...the US would support the demilitarization, denazification and deindustrialization of the Reich, but not to the point of causing an economic collapse which might impair prospects for recovery and impose a heavy relief burden on US taxpayers...²⁶⁴

Maisky understood the threat to Soviet policy in the letter, but not the basic sincerity behind the postulation of the case.

Maisky responded the next day by revoking his earlier agreement-in-principle to the "first charge," something he had intended to do all along.* The action had been designed to elucidate some statements on US policy and it had succeeded, probably only too well for Maisky. The core of the dispute - the priority status of reparations, which would determine the actual extent of the plan - was now clear. Pauley and Maisky had shaped the points and articles which would now be debated at Potsdam. The two crucial arguments would be the definition of "booty" and the question of which came first, the "first charge" or reparations. The US arguments were designed to force an accounting from the Soviets. The Soviet arguments were designed to force a commitment from the Americans. Pauley's letter summarized the

²⁶⁴ Gaddis, 325.

* See above, p 139.

main points of the issue, and tabled the last item - the question of annual deliveries - that completed the mixture. A large final figure with reparations as priority and guaranteed long-term deliveries, plus a wide definition of booty in order to exempt previous removals, was what Maisky would seek at Potsdam. Pauley would attack the issues of booty - to account for previous actions - and deliveries - to avoid lengthy commitments - as his main tactical approach to securing his objective. But in the end, the issue would be resolved the only place it could finally be - among the leaders in plenary session.

The American and British delegations were settled in at Potsdam by July 16th. The conference was delayed one day, to allow Stalin to recover from a slight heart attack. The contrast between the attitudes and situations of the two Western leaders was rather dramatic. Where Truman was brisk and confident, Churchill faced the prospect of being the junior partner. The diplomatic initiative on reparations and indeed all major issues had very definitely passed into American hands. Britain itself was now virtually dependent on US aid. If that was not enough, Churchill had just undergone a general election which would determine his future, and the results would become public only during the middle of the conference. But on the other hand, Churchill was at last where he could most effectively determine events, at

the conference table. There was still some fight left in the Prime Minister, and Britain still intended to make her voice heard. Ironically, the result of this British input ~~actually~~ prevented the sort of clear-cut split on reparations extractions that Truman hoped to achieve.

Although talks began on July 17th, there was no drastic immediate set to on the reparations issue. Each side began by simply getting re-acquainted and establishing starting positions. In fact, the reparations issue sparked a long drawn out debate which became the focal point of the whole conference and was not settled until the last day. There were three phases of the debate. The first phase lasted from initial contact on July 17th to the important plenary and committee meetings of July 21st. This first phase was characterized by a definite American offensive, during which both sides established their main positions and what exactly was in dispute. During this phase, the vague general lines of discussion at Yalta were at last narrowed down to the hard nuts-and-bolts of what the Soviets wanted from Germany.

Truman and Stalin met for the first time for lunch on July 17th. Truman told Stalin that he was no diplomat and had come for some straight talk and fast action. This was certainly the first time in his diplomatic career that a man of real power told Stalin that he had come with his own practical plans which he intended to demand that the Soviets accept. Stalin must have been impressed, but he remained

impassive. He and Molotov told Truman that the most important items on the Soviet agenda were reparations and the disposition of the German fleet.²⁶⁵ But towards the end of the luncheon, Stalin made a very revealing gesture. He brought up the issue of Soviet entry into the war with Japan and emphasized his willingness to carry out the Yalta commitment on schedule. This was the first time the Soviets had taken the diplomatic initiative on this matter and it underlined the fact that at this conference Stalin was now an open suppliant.

Truman had fully expected Stalin to raise the reparations question and he was prepared. The first people Truman had seen when he arrived in Potsdam on the evening of July 15th were Harriman - his ranking Soviet expert - and Pauley.²⁶⁶ There is no record of the conversation, but its substance is not difficult to surmise. Harriman later recorded that he reacted to visual evidence of Soviet looting by advising Truman to press the Soviets for a complete accounting of this effort.²⁶⁷ Whether he did so at this meeting or not is irrelevant, as he certainly expressed his opinion and urged that the US ensure that a reparations accord was reached that reflected its own interests. It is also no coincidence that shortly after Truman's chat with Stalin, Pauley wired

²⁶⁵ FRUS, Potsdam, II, 1583.

²⁶⁶ Ibid., 19.

²⁶⁷ Harriman, 484.

his staff in Moscow a request for information on what portions of German pre-war movable assets were known to lie in both the whole Soviet zone and in the disputed Oder-Neisse area.²⁶⁸ The answer he received next day was that 40% and 12% of German assets were so located respectively, but that the dislocation of war and occupation would actually inflate these numbers in any consideration of Germany's capacity to pay reparations.²⁶⁹ This query and this answer too closely reflected the arguments in the Briefing Book to construe any other meaning than the fact that Truman was searching, right from the start, for a way to force the Soviets to give up on tripartite reparations. The fact that Pauley immediately advised Byrnes to force the Soviets to account for the cession of the disputed area in any reparations package is further evidence of this.

What all this meant was that the US delegation planned to reverse the procedure of Yalta by taking the initiative on the reparations question. Stalin had already received further notice of this new decisive American attitude at the first plenary session on the evening of the 17th, when Truman opened the conference by delivering the complete American agenda.²⁷⁰ Truman wanted three major agreements: 1) the establishment of a regular Council of Foreign Ministers,

²⁶⁸ FRUS, Potsdam, II, 841-843.

²⁶⁹ Ibid.

²⁷⁰ FRUS, Potsdam, II, 52-58; Soviet Protocols, 140-148.

ostensibly to prepare for a peace conference to draft a treaty for Germany but actually to circumvent one and keep matters trilateral 2) an American inspired Control Council mandate for Germany, which would impose harsh political but moderate economic occupation policies, and 3) the diplomatic rehabilitation of Italy and the "reorganization" of the governments in Eastern Europe to conform with the Yalta accords. In essence, what Truman said was that he wanted Soviet recognition of US dominance in Western Europe and the right to oppose Soviet actions in Eastern Europe. What he was after was a "quick fix" that would leave future European diplomatic details and the fate of Germany firmly in the hands of the Big Three after a basic accord was fashioned here at Potsdam.

Truman was very brisk and business-like. He even made his speech before mouthing the usual platitudes that marked such opening sessions. The signal he delivered was that the US government had come to settle its problems in quick order. Churchill did not like this at all. He would much rather have lead a long, bitter squabble than a brisk horse-trade. So he started off by placing himself squarely in the spoiler's role and putting the old Polish problem back on the agenda. Stalin did not mind brisk negotiation, but he did not wish to re-open the question of Soviet control in Eastern Europe. The problem Stalin could not solve anywhere but at the conference table was the nature of Allied control

of Germany, and that is what he put on the agenda. Stalin wanted to solve the reparations question first and then, because that settlement would decisively affect it, settle overall German policy. He too had his pin-pricks to place on the agenda - the annexation of Königsberg,* Spain, a share of Italian colonies, etc. But the heart of the Soviet program was reparations and Stalin's desire for receiving tangible assets as visible support for Soviet security.²⁷¹ Truman and Stalin had in effect practically guaranteed that the vital core of the conference was going to be a concurrent debate over how to control Germany and how to conduct operations in a sphere-of-influence by their initial stake-out of such directly opposed positions. Already, the lofty internationalist discussions of Yalta had given way to simple balance-of-power high-stakes poker.

The next day, Byrnes, Molotov and Eden convened the first Foreign Ministers' meeting in the early afternoon. They established the natural rhythm of the conference by discussing in detail the general outline of the issues of

²⁷¹ Mee, C. Meeting at Potsdam, New York, 1975, 65-67.

* The annexation of Königsberg and area was more important in a propaganda sense than in a diplomatic one. In effect, it was a legacy of the dismemberment debate begun at Teheran. Soviet annexation did remove the last vestige of a common border between Germany and the USSR. But the question was simply all too clearly a justifiable Soviet security interest and it caused no major dispute at Potsdam. Stalin made great domestic political capital of this physically obvious measure of revenge, which, however, remained insignificant in his goals as compared to reparations.

the plenary session and setting up expert sub-committees to repeat this devolution at a technical level. . This three-tiered process of negotiation was pursued throughout the conference on most issues, and was quickly adopted for the reparations question. Byrnes and Molotov wasted no time in discussing the disputes left open by Pauley and Maisky. This time, unlike Yalta, Byrnes was on the attack. Byrnes pointed out that the biggest outstanding problem was "the relationship of booty to essential imports and the application of reparations to the Germany of 1937."²⁷² Thus he served notice that the Americans intended to force the issue on the basis of Pauley's two demands for an account of Soviet actions. Molotov dodged both questions, and raised the question of the German fleet. Byrnes then proposed that the reparations issue be delegated to a sub-committee and that the ministers proceed to the problem of political policy in the occupation agreements. Molotov agreed to form an Economic Subcommittee to consider the whole spectrum of economic policy toward Germany. But, as Pauley, Clayton and Maisky were all named to the subcommittee, it was pretty clear what the major topic of discussion would be. With the practical ease of professional diplomats, the ministers had very simply expressed their basic views and then sent the issue down the line, for their experts to ferret out what was negotiable and what had to be passed back up the chain of command.

²⁷² FRUS, Potsdam, II, 70.

mand. But the American attack did not relent.

Later that evening of 18 July, at the second plenary session, Truman very cautiously probed Stalin on the whole question of the definition of Germany. When Churchill raised the question of Germany's borders, Truman was ready to extract an answer from Stalin. This was the second stage of Pauley's strategy of citing Soviet actions as justifying an American reaction and Truman drove it home. He asked Stalin whether it could be agreed that "the Germany of 1937" could be assumed as a starting point for all discussions on German policy. At this stage Stalin and Truman were still facing each other with caution, and what Churchill wanted was to draw them out of their shells. It worked, as Stalin really had no choice but to agree, if serious discussions were ever to begin, that 1937 Germany could be accepted as a "starting point".²⁷³ This was a tactical error, for it immediately placed the Soviets in the wrong for arbitrarily detaching the Oder-Neisse region from their occupation zone. Truman scored a definite victory, which his advisers were soon to exploit to the fullest. That night, Churchill had a private dinner with Stalin and discussed the Polish-German border and the other problems they had come to settle. Churchill could not help but notice how serious Stalin was about the German threat to Soviet security, and how he even then

²⁷³ Soviet Protocols, 156.

"thought thirty years ahead."²⁷⁴

The leaders moved on to other issues, but the Economic Subcommittee finally convened its first session on the next evening, July 19th. Earlier, in the plenary session that afternoon, Stalin had made another tactical error by giving Truman a narrow definition of what constituted "booty", in an attempt to secure a share of the German fleet.²⁷⁵ For the first time, there was an indication that apprehension over American plans was creating confusion in Soviet policy co-ordination at the different tiers. Pauley exploited this and Truman's previous success to the fullest by successfully insisting that the subcommittee work from the US drafted proposal on German economic policy presented by Truman at the first session. Maisky was now forced to respond to American proposals because the Soviets sluggish command system had not yet formulated a policy in response to Truman's stand. Pauley and Maisky and the British delegate Sir Walter Monckton then agreed to proceed first with the agreement on the principles of economic policy toward Germany and therefore establish their respective positions. These positions, to no one's surprise, revived the "first charge/booty" dispute and the question of the priority of reparations.²⁷⁶ With another display of effortless symmetry the

²⁷⁴ Churchill, 637.

²⁷⁵ FRUS, Potsdam, II, 132.

²⁷⁶ Ibid., 110.

delegates then tabled the issue, having restated what it was they were going to proceed to argue about.

The reconnaissance stage ended abruptly at the next subcommittee meeting the next day, July 20th, when Maisky presented the Soviets' rebuttal to the American demands. Maisky made a very long and definitive presentation, which is noteworthy for three reasons: 1) it again indicated the fear of Germany inherent in Soviet perception, 2) it underlined the Soviet view of reparations as a political issue and, 3) for the first time, it represented a Soviet response to a comprehensive Western proposal on the actual execution of reparations. Maisky was now forced to present his arguments on the American terms. His proposal included:

1. The main task of the Control Council is the elimination of the German war potential.
2. For the purpose of [German] war potential in the future, the general policy which will be carried out uniformly in all zones of occupation will be in preventing the recovery of those parts of the economy which are the basis of the heavy industry and at the same time giving Germany a free hand in agriculture and in light industry.
3. Guiding ideas for the Control Council and for the German administration will be: 1) Reparations obligation, according to plan which will be established, and 2) Meeting needs of the occupying armies...

It would be undesirable politically to say that imports have first priority over reparations. Everybody [in the USSR] would say that reparations come first and imports after because we have suffered so much...capitalists want to have profits from foreign trade and,

don't care about reparations for those who have suffered. Also when Germans know about it they will try to prove that without very considerable imports they can't live and can't export. Same as after last war and there is no reason to believe they won't repeat same joke again as after last war...²⁷⁷

The core of Maisky's argument was familiar, that the Soviets viewed reparations as a security measure but justified it as recompense. But Maisky's blunt attacks on American intentions and his warning that American plans would actually recreate the precedent were fresh and important. Maisky's proposal reversed the order of policy towards claims on German assets on political grounds and correctly stressed that only a uniformly executed reparations plan would actually succeed and reduce German power. The Americans preferred to debate the issue on practical grounds, because then Soviet removals had to be taken into account. Clayton responded simply "The US won't again pay for reparations" and with that remark the crux of the dispute came out into the open. The Soviets intended to insist on a reparations accord based on political criteria, while the Americans would stand for one based on practical considerations.

While their subordinates came to grips with the hard core of the reparations question, Truman and Stalin turned to the question of world politics and spheres of influence. At the plenary session of July 20th, Truman pressed his de-

mands for the diplomatic rehabilitation of Italy and Soviet acquiescence to the modification of the political situation in Eastern Europe. Stalin responded with a denigration of the Italian regime and a demand that the governments of Romania, Bulgaria, Hungary and Finland be fully recognized by his allies. In effect, what was happening was that the two men had begun to draw a line of control between their respective spheres as represented by the limits of their armies advance. Stalin rejected American criticisms of his behaviour by insisting that his new satellites be equated with Italy and accorded the same treatment. Again however Stalin was forced to defend himself from Truman's imprecations. In fact, he was somewhat off balance. This must account for an astonishing statement he then made, in defence of his motives behind policy towards the smaller former enemies, that "revenge was a...poor guide in politics. We should be guided by the calculation of forces..."²⁷⁸

Churchill, who by now was enjoying every exchange, took great pains to elicit a very specific defence of this statement from Stalin. There was more to this than mere legalism, for Churchill obviously realized that Stalin had just admitted that the Soviet justifications for reparations were not the real motives of their policy. Power - the reality and potential of German power - was Stalin's guide in his

²⁷⁸ Soviet Protocols, 187.

policy calculations. To have admitted this when more palatable justification was being proffered was a tactical error. Stalin must have been very disconcerted to make such a blunder, and it was going to cost him. This remark probably helped Truman realize that the real thrust of Soviet policy was towards Germany. As noted, it was Germany that had twice devastated Europe and the control of Germany was clearly the key to the control of Europe. There could be no UN, no cordial division of spheres, no real co-operation at all with the Soviets unless the Allies could work together in Germany. For this reason, Truman realized that German policy, including reparations, would have to be drafted in co-operation with the Soviets. But Stalin's remarks were addressed not to a man prepared to concede on some issues in order to achieve general solidarity but to a man determined to protect his country's practical interests even at the expense of this solidarity. Truman was now ready to include a showdown over Germany in his overall firm approach to Stalin here at Potsdam.

That evening, in another subcommittee meeting, Maisky continued the Soviet response but switched the focus of the issue. He tabled a proposal for a special joint 4 Power (including France) control mechanism for the Ruhr, for purposes of reparation and occupation.²⁷⁹ The Ruhr itself was

²⁷⁹ FRUS, Potsdam, II, 183.

in the British zone. It was one of the most important reasons why the Soviets so ardently desired a tripartite plan, because it was the key component in Germany's heavy industrial machine. The Western zones together held probably 2/3 of German heavy industry, and the Ruhr alone produced 70% of German steel.²⁸⁰ Maisky's ploy was further evidence of Soviet suspicions of the West and fear of Germany and their fixation on tangible evidence. It was yet another litmus test. There was no immediate response, but both the British and American delegations took the proposal under consideration. The meeting itself produced a report to the Foreign Ministers, which noted two basic agreements and two key disputes. The agreements were: 1) to treat Germany as an economic unit and, 2) to maintain only a minimum living standard for Germans. The disputes were of course: 1) the question of whether reparations or the "first charge" was priority and, 2) Germany's borders.

The report indicated that at this stage the subcommittee was still considering a tripartite reparations plan.

Pauley had not yet made his case, but there were strong indications that he soon could. Stalin's revelations and Maisky's proposals under-lined one vital fact: the Soviets felt they needed a tripartite reparations pact. This was due to three factors: 1) fear of Germany 2) the location of

²⁸⁰ Woodward, 539.

German heavy industry and 3) suspicion of Western plans.

Pauley realized that this perception of need very definitely put the Anglo-Americans in the driver's seat. Eden would have agreed, but for different reasons. Eden felt that Soviet concern for a share of the Ruhr's assets could be exploited to force concessions from them, particularly on the Oder-Neisse question.²⁸¹ Pauley, Truman and Byrnes now thought more in terms of exploiting Soviet concerns to scuttle a Western reparations commitment completely.

The Foreign Ministers tabled the Subcommittee report without serious debate at their next meeting on July 21st. They did this simply because the next move on the issue had to come from the top level. Both sides had stated their positions and platforms and noted their disputes. As far as the Soviets were concerned, a political commitment had been made to exact reparations. Because they had no intention of providing an inventory of their zone, it was now up to the West to produce the means of fulfilling that commitment.

Truman had other ideas. When, at the plenary session later that day, the Oder-Neisse question again came up for discussion, Truman used it to make the climactic point in the US argument on reparations. The specifics of the question were that the British and US delegations were now prepared to accept the cession of that portion of coal-rich and indus-

²⁸¹ Ibid.

trialized Silesia lying east of the Oder and Eastern Neisse rivers to Poland. They were not prepared to agree to cede the area east of the Western Neisse, insisting that it remain part of Germany. The Soviets had of course already actually made this transfer, for three very good reasons:

1) to detach a big mineral-industrial area from Germany, 2) to shorten Germany's border and, 3) to boost the prestige of their Polish puppets. But Truman now insisted that this was in fact a fait accompli and represented a threat to US interests:

Truman stated: "It will be very hard to come to a just decision of the question of reparations if important parts of Germany are under an occupying Power other than...the four powers."²⁸²

With this threat, he made the vital connection between Soviet actions and a tripartite reparations plan, on the grounds of practical considerations, that Pauley had paved the way for. Stalin replied "Is it for reparations that you are apprehensive? In that case, we can waive reparations from these territories."²⁸³ Stalin probably thought he was being clever, because of course Malenkov's men were busy ravaging the said area, but there were two important points behind his statement.

The first point was that it was further proof of the

²⁸² FRUS, Potsdam, II, 217; Soviet Protocols, 201.

²⁸³ Ibid., my emphasis.

real basis of Soviet policy. As Stalin realized that if this offer was accepted, a final extraction figure would be reduced to compensate for this detachment, it was obviously not the size of the figure he was interested in but the commitment it represented. The second point was that Stalin had obviously not quite understood Truman's threat - Truman wasn't threatening a reduction in the figure, he was thinking of no figure at all. Stalin said that the real Soviet motives for detaching the region were a desire to punish Germany and a need to facilitate Soviet communications. Churchill engaged him in a long and detailed debate over the effect the transfer had on the flood of refugees to the West. Then he deliberately reminded Stalin of his statement the previous day of the futility of revenge.²⁸⁴ Both these arguments were aimed at Truman, and they fell on already convinced ears. Truman decided to leave Stalin in no doubt of just exactly what the Americans intended to insist upon:

I want to say frankly what I think on this question. I can't agree to the alienation (of the eastern part) of Germany in as far as it bears upon settling the reparations question and supplies of food and coal for the whole German population...²⁸⁵

This debate was the pivotal session of this first phase of negotiation. Truman had now explicitly told Stalin that

²⁸⁴ Ibid, 220-221.

²⁸⁵ Soviet Protocols, 207.

he regarded Soviet actions in eastern Germany as a linked issue with overall reparations because these actions would render a tripartite plan one-sided. He had told him in so many words that the US intended to scuttle tripartite reparations if the Soviets continued their unilateral actions. This created an impasse in the question which the Soviets obviously regarded as critical. If a tripartite plan was still to be salvaged, the Soviets would now have to answer Western demands for satisfaction on the crucial points at issue. Stalin had already tried bribery, when he told Truman that "we have destroyed for you a competitor" and thus implied that the capitalists should consider reparations a fair trade.²⁸⁶ Truman's only response had been his threat to scuttle the whole plan, so Stalin had Maisky try something else.

That evening, in the meeting of the subcommittee, Maisky finally provided Pauley and Monckton with the official Soviet definition of "booty". If the Americans accepted this definition, then perhaps their demands for an accounting and the threat over the Oder-Neisse could be dealt with:

...all supplies and equipment used by the enemy to satisfy his military needs and captured by the Allies before the end of the war on territories where military operations were conducted...²⁸⁷

²⁸⁶ FRUS, Potsdam, II, 220-221.

²⁸⁷ FRUS, Potsdam, II, 943.

This definition actually allowed the Soviets to call anything the Germans had "booty" - technically even the kitchen utensils the German soldiers had used to eat with. It was open-ended, and the Americans knew it, because they too realized that "total war" was just that:

Maisky insists that Ivan has the right to take and remove everything and anything from its own zone of occupation...²⁸⁸

The subtlety that had marked Soviet diplomacy at Yalta was gone, and all that was left was the crude reality of a suspicious, demanding bully. Maisky was reduced to re-iterating an obviously untenable claim to unilateral action in one zone and tripartite action in all the others. Pauley had found his excuse, and indeed it had been present in reality all along. The Americans had no need to use Soviet behaviour as an excuse, because the Soviets fairly tripped over themselves to do it for them.

When Pauley reported on his mission to Truman months after the conference, he recalled that evening in graphic detail:

Following the presentation of the Soviet side's definition of war trophies the US Delegation...came to the conclusion that an "overall percentage" allocation of shares as between the Big Three was no longer feasible. The division of reparations as a whole would have to be abandoned for some less controversial method

of dividing what would be removed as reparations.²⁸⁹

Pauley cited Soviet looting, the transfer of the Oder-Neisse area, and this definition as sound reasons for abandoning a tripartite plan. This course was exactly what Truman had been searching for, as it would allow him to place the political blame for this break on the Soviets. Even better, he could cite Soviet actions and their own words as proof of his case. The Soviets were indeed about to be trapped by Stalin's panic inspired decision to implement his own reparations policy in the Soviet zone. The effects of this decision now finally allowed Pauley to advise Truman that the grounds for renouncing the Yalta plan as no longer practically feasible were now established.

This ended the first phase of negotiation on reparations. The Americans had secured all their objectives. Historian Charles Mee correctly notes that Truman had indeed scored a direct hit at the plenary session by linking the Oder-Neisse and reparations as a package issue. By establishing this connection, Truman forced the Soviets to provide the definition of "booty" that would make the American case. But Mee did not quite understand the quandry that the Oder-Neisse dispute posed to Stalin. Stalin saw the border issue as part of the greater issue of security from Germany and thus in the same light as reparations, not as a question

²⁸⁹ Ibid., 943, my emphasis.

of the Soviets control of a sphere of influence.²⁹⁰

Therefore, Truman's threat would, if carried out, force Stalin to choose between either achieving his security goals or securing a continued alliance through concessions to Truman.

It must be understood that because of the real aim of Soviet reparations policy, the choice Stalin now faced was just exactly that simple in his view. There was simply no way that Stalin would have reversed the detachment of the Oder-Neisse. So Truman was right to recognize it as a fait accompli and to exact a price in return. The American hand had indeed been very skillfully played. Byrnes gave credit to Pauley's tough stand on the legal necessity of the accountability of Soviet removals as a prerequisite for a tripartite plan, as the factor that elicited the vital definition from the Soviets.²⁹¹ Because of this success, and the Oder-Neisse issue, Byrnes could now defend a hard-line US policy on the grounds of the threat relative to the precedent posed by Soviet policy. This was important, because the impetus to produce a new reparations offer, one that appeared tripartite on paper, but would be individual in practice, was now clearly in his hands. There was no chance that the Soviets would proffer such a plan. They would obviously continue to insist on a genuine tripartite

²⁹⁰ Mee, 145.

²⁹¹ Byrnes, 82.

accord which contained that firm Western commitment. The American delegation had to use the advantages it had created to force the Soviets to accept failure.

The second phase of the Potsdam debates on reparations effectively began on July 22nd and concluded on July 29th. During this phase, both sides dropped all pretense and conducted spirited negotiations on all three tiers. The Americans resumed their offensive, renounced a tripartite accord, and proposed a deal that would allow each occupying power to decide the scale of reparations extractions from its own zone, on methods which could be negotiated. The Soviets stuck tenaciously to a tripartite proposal and tried every tactic and offer possible in an attempt to secure one, but were finally forced to submit. Finally, the essence of a deal that enabled the settlement of all the major issues on a similar basis was struck. The nature of this deal was an agreement that left nominal general commitment but practical detachment. Yet it also provided clauses that left enough of a wedge to allow for further Soviet diplomatic agitation.

The dominant figures in this second stage of the process were Molotov and Byrnes. The third tier experts had already done most of the hard preparatory work, and it was now time to debate the issue at the political level. At the Foreign Ministers meeting on July 22nd, Molotov again

insisted that reparations removals be given priority claim on German assets, as if Pauley's points had never been made. This was the usual Soviet tactic of clinging to their original demand. Byrnes insisted that this crucial practical dispute be postponed, and only agreed on some general principles of reparations objectives.²⁹² Molotov was of course unaware that Byrnes' staff was busy drafting the response which he would use to interdict Soviet plans, and accepted the adjournment. In the course of the day, Byrnes' staff produced a Working Paper which articulated US intentions:

4. No attempt shall be made to distinguish between "war booty" and reparations as regards capital equipment within the 1937 German borders... Within the framework [the Control Council] the Zone Commanders shall administer the removals of capital equipment from their respective zones...

5. In practice Soviet and Polish claims will be met from the Eastern zone...²⁹³

The threads of Truman and Pauley's plans were now at last being woven together.

Another US Working Paper specifically cited the Soviet definition of booty as justification for abandoning overall reparations in practice.²⁹⁴ This argument prompted a memorandum in response that same day from another Byrnes aide,

²⁹² IRUS, Potsdam, II, 233.

²⁹³ Ibid., 849-850, my emphasis.

²⁹⁴ Ibid., 854.

Philip Mosely. Mosely argued:

It is not feasible to progress in the reparations negotiations by arguing each part of the problem in isolation and abstract terms. The Russians have their own set of principles, based on intense popular feelings and fresh experience. They define war booty widely because their own country has only recently been plundered almost to the last nail and thread and they interpret British and US reluctance to see the same treatment meted out to Germany as evidence of greater sympathy for the German people than for the Soviet people...²⁹⁵

Mosely's assessment isolated the political element in Soviet policy and their feelings towards both Germany and their allies with an accuracy matched only by Kennan. Byrnes did not quite understand the thrust of his argument, but he did accept Mosely's advice that a debate on principle was pointless and the time had now come for some practical bargaining. At the plenary session that evening, Stalin achieved a minor success by cleverly maneuvering Churchill and Truman into inviting the newly recognized Polish leaders to Potsdam to discuss the border question.²⁹⁶ Stalin intended to use their arguments to help break the link Truman had forged between border and reparations questions, and again discuss them in isolation. However, it was too late. Byrnes had already decided that Mosely's argument that only a horse-trade was feasible was correct, and he intended to use Tru-

²⁹⁵ Ibid., 850-851.

²⁹⁶ Ibid., 264.

man's link to provide the basis of his offer. Later that night, Pauley once again cabled his staff for "urgent" information on exact German assets in the Soviet zone, most probably at Byrnes' request.²⁹⁷

Byrnes needed the information in order to arrive at the numerical and material details that he would insert in the offer he was about to place before the Soviets. Before he made that offer he had to make Molotov realize that the concept of a tripartite plan was redundant. So, the next morning, July 23rd, he called Molotov in for a private consultation before the Foreign Ministers meeting. Byrnes's brief that morning clearly advised him that the Soviet concept of "booty" made unilateral reparations imperative and recommended he propose a new program. It rationalized the problem for him as follows:

The Soviet Zone, including the area occupied by Poland, contains between 45 and 50 percent of the area and wealth of Germany. Soviet and Polish claims for reparations amount to about the same percentage of total claims. Soviet and Polish claims for reparations...should be met solely from the Soviet zone...²⁹⁸

Byrnes' arguments were now prepared, and he presented them to his Soviet guest.

Byrnes and Molotov's debate encompassed the entire spectrum of bilateral sparring on the whole reparations

²⁹⁷ Ibid., 853-855.

²⁹⁸ Ibid., 849-850, my emphasis.

question. Byrnes hammered Molotov over Soviet behaviour and Molotov fought for the overall concept with equal vigour:

Byrnes - The Secretary said he had asked to see Mr. Molotov because he was deeply disturbed at the development of the question of reparations from Germany... after listening to the discussions... he did not see how certain of the positions taken by the Soviet Government could be reconciled with the adoption of an overall reparations plan... Another factor ... was the definition put in by Maisky of "war booty". The Secretary said he wished to make it clear that the US did not intend to... repeat the experience after the last war...

Molotov - Said he fully understood that point of view and he wished to say that Maisky had not fully made clear the position of the Soviet Government on the definition of "war booty"...

Byrnes - [ignored him] was also very much afraid that the attempt to resolve these conditions in practice would lead to endless quarrels.

Molotov - thought that these difficulties could be reconciled here... and... intended to put forward concrete proposals.

Byrnes - [who had not come to listen] said that under the circumstances he wondered whether it would not be better to give consideration to the possibility of each country taking reparations from its own zone...

[thus the American threat now became a demand]

For example, according to their estimates, about 50% of existing wealth of Germany was in the Soviet zone and that, therefore, the Soviet Union could receive its share of reparations from its own zone. He added that if they wished

to obtain certain equipment or materials from the British or US zones they could do so in exchange for food or coal needed to feed and warm the German population in the west. He added that Marshal Stalin had indicated some such proposal when he had said yesterday that if the British wished to obtain coal from Silesia they could do so by exchanging other goods with the Poles. He added that his suggestion for zonal as against overall treatment applied only to reparations but that in other matters, such as currency, transport, etc., Germany would be treated as an economic whole...

Molotov said he knew that the Marshal strongly favoured an overall plan for reparations and he said that they would be quite prepared to consider reducing their claims.

Byrnes - repeated that the US could not agree to anything which would require them to finance the feeding of Germans in their zone so that the latter could work on behalf of reparations for other countries...²⁹⁹

Byrnes had now openly stated that the Americans were going to insist on separate reparations policies and justify this through Soviet behaviour. Byrnes' statements envisaged a clear split. He knew very well that if separate reparations policies were pursued the concept of treating Germany as an economic unit would be a sham, because of the overriding priority the Soviets attached to reparations. But he promised the opposite anyway to signal Molotov that the US wanted only a practical break and not a public diplomatic falling-out. The one item in Byrnes' package that would

²⁹⁹ Ibid., 274-275, my emphasis.

prevent a complete two-way split over reparations was the provision for inter-zonal trade. This had been a subject of debate in the US delegation, for such a provision would obviously represent some sort of commitment, however well balanced, to provide the Soviets with material from the Western zones. However, the British delegation had insisted that such an amendment was necessary because of the dearth of food supplies in their zone.³⁰⁰ This of course had been decided by the Cabinet months before.* Byrnes accepted the stipulation, as it would also help support the US argument of the danger of the precedent, and thus conceded that a definitive split on reparations was not going to be pursued. Once again, the Soviets were to be accorded a paper promise that would shape the nature of the final settlement.

Molotov was not yet ready to strike such a deal, but his responses to Byrnes are very important because they again indicated the true concern of Soviet policy. Of course Molotov wanted an overall plan and was willing to reduce his figure, because the political commitment was the key to Soviet plans. Byrnes did not catch this, and some historians never have. If the point of Soviet policy was to receive as much in reparations as possible in order to aid their reconstruction, why would they reduce their figure? The offer only makes sense when it is understood that

³⁰⁰ Ibid., 860.
* See above, p 124.

Molotov cared more about denuding Germany of that heavy industry than he did about receiving a set amount of it.

Molotov understood Byrnes' message only too well, but Byrnes was to continue thinking in terms of a Soviet policy with positive aims and haggling over a price. Molotov simply had to try again to salvage an overall plan.

Byrnes and Molotov went from their meeting to join Eden for their daily conference. Molotov got right to the point with another proposal to draft an overall reparations plan. He submitted a "comprehensive new draft" which contained not a single significant change from Maisky's original presentation at Yalta months before.³⁰¹ It was as if he had ignored everything Byrnes had said. Byrnes and Eden both merely said the draft would be considered. Molotov then switched his tack, and submitted a proposal on the priority claim on German assets. The paper proposed that "After the payment of reparations" the "first charge" for payment of imports take effect.³⁰² Again, it was as if all previous discussions never took place. This was Molotov's normal style, but on this issue it also indicated a critical Soviet weakness. Reparations was the critical issue in their German policy because of political criteria, so there was no room for Molotov to maneuver or haggle on the basic issue of a

³⁰¹ Ibid., 863-864.

³⁰² Ibid., 810.

* See above, p 71.

tripartite plan. He could not compromise, just insist.

Byrnes did not supinely accept this behaviour and a heated debate ensued.³⁰³ Byrnes insisted on the "first charge". Molotov suggested "reduce everything equally," ie the figures for reparations and exports. This of course would still leave reparations as priority, and again indicated the Soviet view of the sum's real meaning. Byrnes snapped "not a dollar will be paid on reparations until imports are paid for." Molotov said "Let the Control Council decide priority, export or reparations, for each item;" naturally, the Soviet delegate would have insisted on the latter in every case. Byrnes finally said "it was impossible to reduce consumption [German] in order to provide reparations" and the issue was tabled. Molotov had tried very hard to regain the initiative and reverse the American stand on an overall plan. But his ideas of compromise or the insertion of clauses which would circumvent American plans, such as the Control Council proposal, were simply far too transparent to succeed. Molotov had even tried to dangle the carrot by promising some account of removals if advance deliveries of material from the Western zone³⁰⁴ were promised, but. Byrnes and Eden knew very well that this was another Soviet attempt to salvage German assets before the door closed and they rejected him. It must have been obvious to Molotov

³⁰³ Ibid., 276-281.

³⁰⁴ Ibid., 865.

that time was running out.

The ministers gathered later that afternoon for an informal session to hear more "new" proposals that Molotov wished to make. This time it seemed like hard bargaining could finally begin. So when Molotov simply resubmitted the exact same definition of "booty" that Maisky had offered three days before,* Byrnes literally exploded.³⁰⁵ In very undiplomatic terms, he demanded Molotov truthfully account for the extent of Soviet looting. Molotov graciously conceded that some had taken place, and offered to reduce his ~~claim~~ by 300 million dollars to cover it. Byrnes justifiably snorted over this, so Molotov raised his offer to an even billion. This led to a discussion on the whole question of resources in the Soviet zone. Molotov offered to consider the cession of the Oder-Neisse area as Poland's reparations claim. Byrnes was not fooled by this renewed attempt to isolate the issues, and insisted that the question was an integral part of the whole reparations problem and would be treated as such. Finally, Byrnes stated that the Oder-Neisse cession would cost the US in increased ~~feed~~ bills for refugees in its zone and would only be considered if Molotov agreed to his deal, which he then restated.

Molotov adroitly transferred his argument back to the Ruhr question, and offered to cut the Soviet claim from 10

³⁰⁵ Ibid., 295-298.

* See above, p 173.

3

MICROCOPY RESOLUTION TEST CHART
NATIONAL BUREAU OF STANDARDS
STANDARD REFERENCE MATERIAL 1010a
(ANSI and ISO TEST CHART No. 2)

billion to 8 if 2 billion came from the Ruhr. Eden responded that first the Soviets must agree to supply food from their zone. Molotov, somewhat heartened, said this could be discussed. But Byrnes neatly nipped this further attempt to salvage a Western commitment in the bud and:

...remarked that he was worried that quarrels would develop...over these matters since there would obviously be a disposition on the part of the Soviets to question the need for imports which would reduce the amount available for reparations from the western zones...³⁰⁶

In other words, he again warned Molotov that a Soviet concession here would probably help prevent future disputes due to the intractable positions on both sides. Molotov knew that they would develop anyway and:

...repeated his willingness to reduce their figure but repeated Soviet insistence on a fixed quantity of reparations from the Ruhr...³⁰⁷

This exchange ended the longest day of reparations debate the Allies had yet undertaken.

Byrnes could now reflect on some progress on the issue as Molotov had certainly resorted, for the first time, to some serious bartering on the American proposal. The Soviets still insisted on an overall plan, but from morning to evening Molotov had stopped debating Byrnes' offer on

³⁰⁶ Ibid.

³⁰⁷ Ibid.

principle and started discussing its practical terms. Byrnes still interpreted this as a desire to extract a higher figure, for positive aims, but Molotov's clear and repetitious flexibility on his figure obviously contradicted this view. Molotov was running out of back doors from which to attempt to extract that crucial political commitment. The debate itself had now undergone a major transition.

Instead of striving to secure the Soviet's original goals, Molotov was now being forced to attempt to insert whatever clauses he could that would retain some degree of an overall commitment in the American plan.

The next day, July 24th, Molotov resumed his attempt to detach the Oder-Neisse and reparations questions and debate an overall plan. Byrnes not only rejected him, he also, for the first time, expressed a desire to settle the major issues or else end the conference.³⁰⁸ This time Molotov had brought some friends that had been invited to Potsdam,* and he explained why their point of view had to be considered in the Oder-Neisse question.³⁰⁹ Molotov argued that the transfer of the region was necessary because: 1) it would weaken the Germans and, 2) it would fulfill a Soviet obligation to their Polish friends. The Poles also insisted that the de-

³⁰⁸ Ibid., 330.

³⁰⁹ These Polish leaders, with the exception of Mikolajczyk, were all Moscow's puppets. Obviously, however, they had an independent vested interest and were united in their desire to detach the region from Germany.

* See above, p 179.

sire to weaken Germany was the prime factor in their desire to annex the region,³¹⁰ Actually, these were all perfectly valid arguments. The Soviet line even indicated that they too privately considered the border and reparations question as linked issues. But as far as Byrnes was concerned, and he was correct, his argument was equally valid. The transfer of the region would affect Germany's capacity to provide reparations. If he conceded it, Molotov would have to return the concession. The subcommittee closed the evening in a desultory debate, and recorded their failure to agree on a method of extraction.³¹¹

The 25th of July was a much more active and important day for both the conference in general and reparations in particular. During the course of the day, Truman received several reports on events in the Soviet zone. One particular report, found in Truman's papers under this date,³¹² described Soviet actions in Berlin. The American observers noted that Soviet troops were stripping Berlin in a "wholesale" manner. They appeared to be highly organized and seemed to enjoy their work. The report categorized the seizures in great detail, from rolling stock, blueprints, lumber and so on down to the proverbial kitchen sink.³¹³ And it concluded that the Soviets were arguing that every-

310 FRUS, Potsdam, II, 334.

311 Ibid., 866.

312 Ibid., 874-876.

313 Ibid.

thing they seized was in effect "booty". Truman himself had toured Berlin the previous week, and seen much the same activity. As he described it:

I had seen where the Russians had torn the plants up and taken everything out of them. They had loaded the industrial facilities on flatcars, and in many instances the cars were standing on a sidetrack. The material was rusting and disintegrating. Very soon it would be of no use to anybody...³¹⁴

This physical atmosphere that surrounded Potsdam simply made Stalin and his associates out to be dissemblers in Truman's appreciation. It was a decisive factor in Truman's decision to stand fast and risk a break over the reparations issue.

Now that Byrnes had made the diplomatic stand, the US delegation was busy drafting the technical details that would fill out their final proposal. Pauley submitted a report to Clayton that discussed both Soviet and US figures and how to conclude a deal. Pauley noted that in their calculations of value the Soviets rated heavy industrial assets three times more important than agricultural stock. He also pointed out that Soviet calculations placed the value of German assets in their zone at 41% of the national total, while the American figure was 50%.³¹⁵ Clayton realized that the average of the two was 45%, so if the US offered 5% of the Western zone assets free and 5% in trade for food, the

³¹⁴ Truman, 357.

³¹⁵ FRUS, Potsdam, II, 877-883.

Soviets would then be able to receive the 55% cut of reparations Pauley had previously offered.³¹⁶ It was clear that now that the British zone transfer amendment had been accepted, the Americans were working on the basis of a barter agreement within the "own zones" accord. The deal was still being fashioned under the impression that Soviet policy had positive aims.

While this backroom clerical work was proceeding, the whole reparations issue had once again ascended back to the plenary sessions. July 25th was the day Churchill, Eden and Attlee left for Britain to await the election result, so the session was held in the morning. Churchill was visibly pleased over the atmosphere that had descended on the conference. Truman and Stalin had not settled any of the important issues, and were at positive loggerheads over the Italy/Eastern Europe and German border/reparation questions. Churchill strongly supported Truman's intention to make Stalin pay a price for the transfer of the Oder-Neisse region. He and Eden felt that Stalin had transferred the area in order to weaken Germany, increase his hold on the Poles, and avoid accounting for the area's stock in his reparations claim.³¹⁷ But they also felt that the Soviets should be made to accept the zone transfers as a fair price only for removals in the rest of their zone, and that these

³¹⁶ Ibid., 882.

³¹⁷ Churchill, 658; Eden, 631.

should be withheld if the Soviets refused to account for the Oder-Neisse.³¹⁸ Churchill felt the US stand should be taken the next logical step beyond Truman's position. So he went after Stalin in this his last official international appearance of the era.

Churchill had told Stalin that his talks with the Poles had not swayed him, and he still regarded the border and reparations issues as a connected problem. Stalin responded with the usual Soviet justifications for the land transfer. But then Truman surprised both men by intervening in the debate to "remind" his counterparts that he was bound to refer all treaties to the US Senate. Therefore, they all had to ensure that the provisions would not offend the American public. Stalin queried him very closely on exactly what he meant and what his powers were. The answer Truman gave was, in effect, a warning that Truman did not want either a dramatic public break or a future peace conference: Truman knew that American public opinion would not then have understood or accepted an open break with the Soviets. He wanted the issues settled here, privately and practically, and matters left in the hands of the Big Three. Truman wanted a practical power-politics bargain. Stalin responded "he understood" and indeed he probably did.³¹⁹

Whether or not Churchill also understood, he did want a

³¹⁸ Churchill, 658; Feis, Between War and Peace, 224.

³¹⁹ FRUS, Potsdam, II, 384; Soviet Protocols, 250.

more public break, and so he picked up where he left off. Stalin again indicated that the only deal the Soviets wanted was a free hand in their zone and assurances that reparations would come out of the Western zones. He argued that the Ruhr was more important than Silesia and should be under general control, and insisted that the Polish annexation was final and just. Churchill finally insisted that he would not agree to one way transfers, and either the Soviets promise food supplies and an inventory or he would not accept a deal.³²⁰ Stalin was not disturbed. He really felt that Western concern over the border issue was unreasonable and displayed a moderate attitude towards Germany. He simply did not believe that their insistence that it was linked to reparations was as much practical as it was political.³²¹ Nor was he afraid of Churchill. Ever since the conference began, Stalin had resumed his old tactic of challenging Churchill and treating the President with more circumspection, for the sound motive of addressing the real power in a cautious manner.³²² So Stalin rebutted Churchill with an unusually maudlin description of the Soviet peoples' sufferings and their genuine need for the resources of the disputed region. This exchange ended one of the strangest and yet greatest personal diplomatic relationships in modern history.

³²⁰ Ibid.

³²¹ Feis, Between War and Peace, 228.

³²² Ibid., 318.

Churchill and Eden left Potsdam not to return, as the British electorate consigned them to opposition. The conference virtually ground to a halt to allow the new British Labour Government leaders, Prime Minister Attlee and Foreign Minister Bevin, to get their bearings. But Churchill's overall contribution and his last performance did produce a definite reaction by Truman. Truman was not impressed by Stalin's arguments. The visual evidence of Berlin gave weight to Churchill's words. Truman also noted some unusual confusion in Soviet diplomatic conduct over reparations, explicitly portrayed by Churchill himself. Truman wrote in his diary that at that plenary session on the morning of the 25th, Churchill had caught the Soviets practising a double standard. In an "almost offhand manner" he had noted that Maisky's definition of booty in fact allowed the British to retain sole possession of most of the German fleet. According to Truman this "paralyzed the Russkies." Nor was it lost on him, as he noted Churchill's point "has a lot of merit".³²³ Finally, Truman noted that he was now convinced that Soviet policy was selfish and malevolent and that he was right to stand firm. Churchill would have been delighted to hear that his sallies had helped Truman form such a perception of Soviet aims.

Later that afternoon, Pauley drafted a proposal that attempted to incorporate all the ideas on actual methods

³²³ Ferrell, R., Off the Record, New York, 1980, 56.

that his delegation had discussed. Pauley's memo was very carefully worded. It still talked in terms of treating Germany as an economic unit and providing some minimal annual deliveries, and it was described as an interim plan. Some vestiges of the original concept had not yet been abandoned. But the draft did clearly specify the "own zones" extraction method; and, in a private copy, Pauley suggested that zone transfers amount to 25% of the Western zone assets labelled as reparations in exchange for Soviet zone food and coal.³²⁴ This last provision represented an internal compromise; as Harriman and Pauley had of course wanted no such transfer clause while Clayton and the British had insisted on the amendment.³²⁵ The fact that this debate was internal is critical. The American proposal, as modified to retain a legacy of the tripartite concept, was now almost finished. But the Soviets had had virtually no input at all into its evolution. Therefore, they risked being presented with an unsatisfactory final offer.

Once again however, this situation was the result of the Soviets' own actions. At the subcommittee meeting that evening, Maisky insisted that before he would even discuss a transfer clause a fixed total sum of extractions must be established. Maisky did not know it, but his stand was endangering the one remaining concession that the Soviets stood

³²⁴ FRUS, Potsdam, II, 867.

³²⁵ Harriman, 487.

to gain. There was a strong reaction in the US delegation to the whole transfer concept on the grounds that any sort of overall clause was unworkable because of Soviet policy.³²⁶ The Soviet obsession with a firm Western commitment might well have cost them the soon to be proffered tentative one. But it did not, because of the lingering American belief that the internal objective of Soviet reparations policy was positive.

The conference adjourned on July 26th to await the return of the British. The US delegation considered the results of Maisky's stand and the previous days work. A consensus was formed that the Soviet objective was to secure a share of Western zone assets in return for accepting the "own zones" deal. It was decided to proceed on this assumption and reduce the Soviet claim for a share in the Ruhr.³²⁷ If Soviet policy had been positive, this would have made good sense. But the Soviet goal was not, as the Americans then thought and Charles Mee later felt, 2 billion dollars of Ruhr assets in return for unilateral extractions.³²⁸ The Soviet goal was still to secure the firmest possible Western commitment to the reduction of German power, preferably by the delivery of material to the Soviets themselves. While the Americans pieced together their offer, Stalin and Molo-

³²⁶ FRUS, Potsdam, II, 870-872.

³²⁷ Ibid., 886.

³²⁸ Mee, 218.

tov prepared for one last attempt to secure a fixed sum and an overall agreement.

The Foreign Ministers returned to the table on July 27th and this time Molotov had some questions. Molotov wanted to know whether the Yalta protocol had now been abandoned. Byrnes admitted that this was so, and said that Soviet looting was the main reason. Molotov ignored this, and pointed out that the result of no overall accord would be that each power would resort to its own zone for reparations whether Byrnes' proposal was accepted or not. Byrnes was unmoved by this statement of the obvious, so Molotov aggressively insisted that he was going on record and protesting Byrnes' decision.³²⁹ Byrnes indicated that the overall concept was dead, and adjourned the discussion with the excuse that the British were still absent.

The whole discussion seemed to have revolved in circles, and the US delegation did not understand that this was Molotov's last real probe. Pauley reported to Byrnes later in the day. He described his own observations on the Soviets' deliberate and systematic removals in the Western zones of Berlin, before they handed the area over to the Western Allies, and advised Byrnes to "draw his own conclusions."³³⁰ By now this advice was overkill, as Byrnes already intended to keep to his course. Later that day,

³²⁹ FRUS, Potsdam, II, 428.

³³⁰ Ibid., 889.

Byrnes received another request to meet Molotov informally and discuss the reparations problem. Byrnes found out just how successful his efforts of the last few days had been when Molotov at last abandoned his obstinate posture and finally discussed specific practical matters.

The crucial gist of the exchange went as follows:

Molotov - inquired whether it was still the intention of the US Government to reduce the production capacity of the Ruhr as a security measure...

Byrnes - replied that it was...

Molotov - said that as he understood it what Mr. Byrnes suggested was in fact an exchange between zones.

Byrnes - said this was correct.³³¹

After five hard days of bargaining, Molotov had finally indicated that the Soviets were prepared to consider Byrnes' plan and abandon the overall concept. Once the breach was made, the two experienced diplomats quickly sorted out the technical points of the possible deal on which they could easily agree. Both agreed that the proposed exchanges of material were to be between and from the respective zones of occupation. Molotov conceded that there had been no final commitment to a fixed sum at Yalta. In return Byrnes agreed that the Soviets could be allotted an extended period of time to complete their end of the zone transfers.³³² Byrnes

³³¹ Ibid., 450-452, my emphasis.

³³² Ibid.

admitted that the British and French could be forced to accept the settlement and Molotov agreed to consider specific details along the lines of Byrnes general principles. Alone and off the record, the two men had finally produced the outlines of a possible reparations settlement.

In specific terms, what Molotov did was indicate that the Soviets were prepared to consider a Western promise to reduce German power without a firm numerical guarantee of reparations deliveries. What Byrnes did was agree to provide such a promise and a commitment to extracting reparations if the Soviets accepted a unilateral extraction plan as the price of their Oder-Neisse transfer and unilateral looting. But in diplomatic terms, what had happened was that Molotov had signalled that the Soviets were now ready to abandon their optimum objective and settle for less. Molotov had failed to modify Byrnes' stand; so now the Soviets had no choice but to negotiate the firmest possible political commitment, based on the American transfer clause, that they could persuade the Americans to accept. Once this decision was made, the pace and co-ordination of the Soviet diplomatic thrust for reparations accelerated dramatically.

Molotov's actions indicated to the American delegation that the time had now come to settle the details of their plan. So on July 28th, Pauley submitted another memorandum to Byrnes in order to influence him to remain as close as possible to the original concept. Pauley told Byrnes that

US calculations indicated that Germany could only provide about 5 billion dollars worth of reparations. If therefore 2-1/2 billion were allotted to the Soviets, only 1/3 of a billion could be made available from the Western zones for the transfer clause. As the disparity between these numbers and the Soviet figures of 20, 10 and 2 billion was so great, Pauley warned Byrnes to reject all figures and offer only a percentage for the transfers.³³³ Interestingly, the extant document is a carbon copy. This is almost certainly because Pauley was putting on record what had been his intention all along. Pauley actually made the next move himself. Now that Byrnes and Molotov had broken through the impasse, Pauley drafted a letter to present to the Soviets which would formally restate the American argument and put on record their justification for the impending deal.

When Pauley arrived for the Subcommittee meeting that day, he found that Maisky had been replaced by Andrei Vyshinsky, another Deputy Foreign Commissar. Byrnes thought then that Maisky had been sacked for his failure on the "booty" question.³³⁴ This is partially correct. But the main reason Stalin replaced Maisky was to signal the failure and abandonment of the entire original Varga-Maisky diplomatic reparations initiative. Stalin put in a new man to negotiate on a new basis, which was the clearest signal he

³³³ Ibid., 892.

³³⁴ Byrnes, 85.

could send of a policy transition. Pauley's letter recapitulated all the now familiar arguments: 1) the Soviets had failed to provide a feasible plan in negotiations before Potsdam 2) they provided no detailed support for their figures 3) they provided no acceptable definition of "booty" 4) they had officially undertaken unilateral and widespread looting in Germany 5) they had arbitrarily transferred the Oder-Neisse area to Polish control and 6) they had rejected the "first charge" principle. As a result:

The US has therefore been placed in the position where it must deal with reparations along the same lines as have, in fact, been initiated by the Soviet Government...³³⁵

The Soviets never replied to this letter, but there was really no need for them to do so. Pauley had simply observed a diplomatic nicety and indicated American readiness to conclude a settlement. The replacement of Maisky was in fact a similar response on Stalin's part. Everything seemed ready, but there were some further diplomatic formalities that remained to be executed.

Attlee and Bevin had now returned to Potsdam, so the plenary sessions could be resumed. Attlee was a very self-effacing man. In time he was to become one of Britain's

³³⁵ FRUS, Potsdam, II, 894-896.

better leaders, but here at Potsdam he never managed to fill his predecessor's large shoes. Attlee's first stop was an official and unsolicited call on Truman. This in itself was a diplomatic indication of what had long been reality -

Britain was a junior partner now, who could shape deals but not make them. There is no record of Truman and Attlee's talk, but it is very probable that Truman described the impending reparations deal and its basic form. That gesture now performed, all that remained for the British leaders was to influence, in any way they could, the details of the accord that would be struck without them.

The other remaining formality was for Stalin and Truman to clarify together what specific ideas each side was about to place on the reparations block. At the plenary session that night of July 28th, they did just that in their now routine circumspect and subdued fashion. Truman brought up the question of reparations from Italy, in order to provide a polite veneer for the debate. But everyone involved realized that the points of the more important reparations question were what was between the lines. The Italian debate was conducted along familiar lines. Stalin argued that the Soviets moral right to receive reparations was the overriding priority. Truman responded that the danger of the precedent and the "first charge" were more important. Then the discussion proceeded to the real point, which was the

question of what form of extractions was the Soviet leader ready to accept. Stalin stressed that the key point was to produce a general accord and some agreed fixed sum, of whatever size. Then for the first time, he agreed to forego annual deliveries and settle for one time removals. Finally, when pressed by Bevin on what type of material was desired, Stalin specifically admitted:

...any kind of equipment is interchangeable for war or peace...we are withdrawing the same kind of equipment from Germany...³³⁶

In one short sentence, Stalin conceded that the American arguments about "booty" were correct and that the Soviets did regard all German assets as potential reparations.

This concession finally cleared the way for a straightforward horse trade on the American reparations proposal. As that sort of deal could best be done without the British and off the record, so it could be abandoned if necessary, Stalin caught a "diplomatic cold." He had the plenary session scheduled for July 29th cancelled, and sent Molotov over to strike the deal with Truman and Byrnes. Once again, Byrnes and Molotov debated the reparations question in a very explicit manner:

Molotov - Marshal Stalin has a cold...

³³⁶ Ibid., 460-470; Soviet Protocols, 262-265..

Byrnes - [noted that there were two major unresolved issues before the conference, the German border and reparations and offered to provisionally accept the Oder-Eastern Neisse as under temporary Polish control] inquired whether Mr. Molotov had had an opportunity to really think about his proposal in regard to reparations, namely, that each country look to its own zone for reparations and then exchange reparations between zones...

Molotov - said that the Secretary's proposal was acceptable in principle [thereby formally agreeing to a deal] but that the Soviet Union would like to have clarity on certain points, in particular, the amount of equipment which would be turned over from the Ruhr...

Byrnes - explained that [US] experts felt that it was impossible to put any specific dollar value or tonnage on the equipment which would be available from the Ruhr, but that our [due to Pauley] proposal was to offer...25% of the total equipment considered available as reparations from the Ruhr...

Molotov - said [correctly] that 25% of an undetermined figure meant very little and that they wished to have a fixed sum or quantity agreed upon...

[The two men then argued over the "fixed sum or percentage" point for some time...]

Byrnes - reviewed his argument in favour of his proposal, pointing out that it would do away with almost certain points of friction in the future...

Molotov - pointed out that if reparations were not treated as a whole, what would happen to overall treatment of economic matters...

Byrnes - said only reparations would be affected...

Molotov - wished to have the...proposal clearly in mind; as he understood it, the Soviets would look to its own zone for a fixed amount of reparations and could receive 25% of the equipment from the Ruhr available for reparations...

Byrnes - replied that this was not quite accurate since in the first place the Soviets would take what it wished from its own zone [a Freudian slip] and second the 25%...from the Ruhr would be exchanged for food, coal and other products...from the Soviet zone...

Molotov - said it was a matter for discussion as to how much and what the Soviet zone could offer in return....

[Byrnes now made a deliberate attempt to proffer a more enticing political commitment...]

Byrnes - added that there had been another possibility, namely; instead of 25% from the Ruhr alone, the Soviets could receive 12-1/2% of equipment available for reparations from the French, British and US zones taken together...

Molotov - returned to the question of a fixed sum and inquired whether [Byrnes] could give him even a rough estimate...

Byrnes - replied that he was unable to do this...

Molotov - replied that they were interested in heavy metallurgical machinery, machine-building and chemical installations [in other words, the basis of German military power]

Byrnes - answered that [US] experts thought it was impossible at this stage to fix any value...³³⁷

Byrnes then closed the discussion with the subtle threat that the US would demand a complete accounting of Soviet removals if they reverted to an overall plan, so Molotov was better off to accept his deal.

This critical exchange in effect marked the Soviets' agreement to accept the basic American "own zones" deal and work from there. Molotov and Byrnes had sketched out some of the basic principles which further debate would transform into the final accord. Molotov's obsession with the fixed sum was the most important point of his argument. All his efforts throughout this second phase had been primarily aimed at convincing the Americans to commit themselves to a fixed sum.³³⁸ Now that the basic principle of the debate had changed, Molotov simply transferred his attempt to secure a Western commitment, as represented by a fixed sum, to the remaining overall clause in the emerging new deal. Soviet tactics and the main objective had not really changed at all. Byrnes' offer to extend the transfers to all zones was the most important point of his argument. It represented victory for Pauley and the "harder line" in persuading Byrnes to minimize the promised amount of assets to be transferred.³³⁹ It was also no coincidence that a three power promise to transfer reparations would be more politically palatable to Stalin than the narrower Ruhr plan.

³³⁸ Mee, 169.

³³⁹ FRUS, Potsdam, II, 900-901.

The settlement in principle on the American proposal marked the end of the second and most important phase of the reparations negotiations at Potsdam. The American stand had finally forced the Soviets to abandon their objective of a firm tripartite reparations commitment expressed in specific arithmetic, and settle for another promise of intent. This time however, that promise was more specific. On the one hand, it renounced a firm Western commitment to eradicate German industry. On the other hand, it specifically recognized that the Soviets had a free hand in their own zone and promised them some amount of material from the Western zones. This was a landmark diplomatic deal in the settlement of German policy and for the evolution of overall Allied relations.

Because of the Soviets' obsession with reparations, the deal was also a calculated risk for Truman to take. The Allies still had to work together in Germany and Europe, for the sake of the future of the whole world. But Truman was convinced that his course was correct, and that the Soviets had to be called to account. As if to drive this conviction home, Clayton filed a report from an aide that provided the most specific evidence yet uncovered of Soviet suspicion and duplicity. The Polish leaders invited to Potsdam had told the aide that they knew beyond any doubt that: 1) it had now been decreed by the Kremlin that it was a criminal offense for rail cars to be allowed to leave Germany for Russia emp-

ty of loot 2) the Soviets were working on a specific three year plan of removals from Germany and 3) the Soviets had stopped looting the Oder-Neisse area in order to allow the Poles to revitalize it.³⁴⁰ Truman could rest assured that the Soviets' abandonment of tripartite German policy in practice obligated him to renounce it in return here at Potsdam.

The third and final phase of the reparations debate at Potsdam was brief but important. The focus of debate now ascended to the ultimate tier, the Big Three themselves. The reparations deal was shaped, specified and settled through a process of mutual give and take. It was also directly connected to the overall political issues of the conference in a package settlement. Soviet tactics remained to try and induce the firmest possible Western commitment to remove the tools of German power, and satisfy Soviet suspicions by the delivery of material from the other zones to the Soviets. Stalin made the final decisions on all Soviet policy at Potsdam, and the fine tuning and political message of the reparations settlement was his personal work during this phase.

Molotov's acceptance of Byrnes' proposal on July 29th had transformed the reparations debate from a dispute over

³⁴⁰ Ibid., 479, my emphasis.

the governing concept to a straightforward haggle over "how much".³⁴¹ Therefore it is not surprising that when the two men again met privately on the 30th, they achieved another breakthrough. Byrnes sensed success at hand, and he made two concessions to speed it along. He offered to change his preliminary approval of the border change to the Oder-Western Neisse line,* and he submitted a new proposal with increased percentages of "in kind" reparations transfers allotted to the Soviets. Molotov graciously accepted the first concession. Then he submitted his own counter-proposal, which again called for a specific long-term commitment. Molotov's plan had two major points: 1) the Control Council should determine what would be "available for reparations" and 2) set tonnage figures of material of a fixed sum value should be established for reparations transfers.³⁴² Byrnes rejected Molotov's points, and repeated that the Zone Commander alone would determine availability of assets. Neither man was particularly emotional over this continuation of the "overall or unilateral" argument in its new form. Molotov was content to observe that three problems remained in Byrnes plan: 1) who would determine availability, 2) the fixed sum and, 3) what the Soviets would have

³⁴¹ Feis, Between War and Peace, 261.

³⁴² FRUS, Potsdam, II, 913-914.

* This has often been construed as weakness but it was not and for two reasons: 1) the Soviets were going to transfer the area anyway and 2) Byrnes' concession helped secure success on a matter he did control in practice; Soviet access to Western zone reparations.

to provide as transfers; this was all really the same old argument. But then Molotov concluded by noting that "some progress had been made."³⁴³ Byrnes' border concession had brought the deal a little closer to consummation.

It was brought even closer to conclusion by the serious bartering that marked the formal Foreign Ministers meeting later in the day. Pauley had once again persuaded Byrnes to reduce the percentage offered to the Soviets, because they supposedly already had 50% of German assets under their control.³⁴⁴ Byrnes went to the meeting intending to pursue this course, and Bevin's intervention consolidated the change. Byrnes, Molotov and Bevin engaged in a spirited debate over the size and location of the proposed transfers. Bevin insisted that all the Western zones, not just the Ruhr, make available only 10% of the determined assets. Bevin believed Byrnes' deal would actually negate the "Germany as a single unit" concept in practice and therefore the Soviets would fight all the harder for their specific figure. He resisted Molotov's demands for a figure, and Byrnes' idea of Ruhr only transfers, because he knew that the British zone held the most German heavy industry and British occupation costs would be gravely affected by his counterpart's plans.³⁴⁵ Molotov supported Bevin's stand

³⁴³ Ibid., 917.

³⁴⁴ Ibid.

³⁴⁵ Woodward, 566.

that all zones provide transfers, because the Soviets wanted all their allies to make whatever commitment finally resulted, as extra diplomatic insurance.

As a result, Byrnes was forced to accept the all zones clause and thus include the US zone in the transfer program. At this stage, the debate became rather puerile.³⁴⁶ Byrnes offered Molotov a free hand in his own zone in return for agreeing to a percentage. Molotov accepted the free hand and then demanded the fixed sum anyway, as well as Control Council control over transfer allocations. Byrnes insisted the Zone Commander would have that power. Molotov then said fine, that means all the zones would provide transfers. Byrnes replied right, and in that case the Soviet share of transfers would become 12-1/2% of available assets in exchange for food and coal and 7-1/2% for free, as opposed to 25 and 15. Molotov said he might settle for 25% in trade and 25% free. Byrnes became a little angry, and snapped that his Oder-Neisse concession warranted one in return. Molotov said with a straight face that this was a concession to the Poles, not to him. Byrnes ignored this and insisted that Molotov settle the deal.

Molotov realized that he had taken the issue about as far as he could. So he said that he:

...thought that it [reparations] should be referred to the Big Three and that

346 FRUS, Potsdam, II, 484-503.

the main question was that of an absolute figure...³⁴⁷

Bevin did not accept Molotov's attempt to orient further debate on a Soviet demand, but then he proposed to circumvent the argument by adjourning the fixed sum question and settling the terms on the Oder-Neisse agreement. Byrnes must have been appalled at this, for Bevin was in effect trying to nail down the concession to Molotov, not the one the Anglo-Americans wanted from him. So Byrnes also changed the subject, and hinted that the US delegation now considered the border and reparations questions to be directly linked to the still outstanding dispute over the political treatment of Italy and the Soviets' Eastern European satellites. Then he agreed to refer the question to the Big Three for the solution of the percentage and fixed sum debate.³⁴⁸

Byrnes' hint at the linkage between reparations and the sphere-of-influence dispute was no idle threat. By this time, the debate on the wider issues coupled with the debates on German policy had created exactly the sort of balance-of-power atmosphere that both Truman and Stalin had expected to emerge. Both the Americans and the Soviets really wanted a settlement at Potsdam that would consolidate their own European sphere, disturb the others, and create some working arrangement for the control of Germany. But

³⁴⁷ Ibid.
³⁴⁸ Ibid.

neither could avoid the fact that the reality of power made the German issue the fulcrum of this uneasy balance. Stalin's obsession with the German threat upset the balance by overweighting the reparations question in the general accord. The truth was that Truman was prepared to accept a Soviet free hand in eastern Germany because he was confident of his ability to control Germany in the long run, whereas Stalin had no such confidence and therefore had remained so obstinate on the whole reparations/border question. Truman translated Soviet looting in Germany, proposals on reparations, transfer of the Oder-Neisse and adamant refusal to co-operate on the Italy/Eastern Europe question as a Soviet desire to split the alliance and expand communist power. Stalin was being obstinate because he was too insecure to be anything else, but Truman saw arrogance instead of fear.

Truman entered in his diary that evening of the 30th:

If Russians strip country [Germany] and carry off population of course there'll be no reparations...³⁴⁹

Years later in his memoirs he extended the entry to read:

There was one pitfall I intended to avoid. We did not intend to pay, under any circumstances, the reparations bill for Europe. We wanted a European recovery plan that would put Europe on its feet. We did not intend to send billions of dollars to Russia just because there was no possible way for Germany to pay cost reparations - although morally she should have been made to pay.³⁵⁰

³⁴⁹ Ferrell, 58.

³⁵⁰ Truman, 323.

This entry encapsulated the process by which Soviet reparations policy had provoked a US reaction and this decision of firmness at Potsdam. The Americans were genuinely interested in European recovery and afraid of the precedent, both for their own interest. Soviet policy had been interpreted as a deliberate threat on both grounds. From there Soviet actions in Germany were extrapolated to reflect their attitude in Eastern Europe and represent the objective of harming Western interests by maintaining economic and political chaos in Europe. Truman linked Soviet behaviour in one general policy focused on Germany and reparations, and decided to force Stalin to accept his practical settlement on this basis.

On the morning of July 31st Byrnes and Molotov had yet another private meeting. This time, Byrnes lowered the boom on the Soviet. He repeated the US view that the three remaining disputes - reparations, the Oder-Neisse, and the recognition of the Italian and Soviet satellite regimes - were now all part of the same connected dispute. This view was final, and Byrnes warned:

...that the US would agree to all three [settlements] or none and that he and Truman would leave for the US the next day...³⁵¹

With this threat, Byrnes warned Molotov that the future of

³⁵¹ FRUS, Potsdam, II, 510.

the alliance itself was now at stake, and paved the way for the afternoon's plenary session. Truman should have more closely examined why this threat proved so quickly successful, because this might have disabused him of some of his perceptions of Stalin's aims. Stalin had never wanted a showdown with the US or a public break in the alliance if it was at all possible to avoid it. In this case it was, because Stalin had come to Potsdam expecting failure on the reparations issue in any event. So he finally gave up, and went to the plenary session to accept Truman's overall and reparations settlement. But even as Stalin abandoned his ultimate goal, he worked assiduously to achieve the best terms that proved possible in the final agreement.

Stalin was well prepared, as usual, for this plenary session of July 31st. Throughout the conference, he had worked at the table from prepared briefing files on each possible topic drafted every night by his staff.³⁵² He was intimately familiar with Molotov's progression. Thus it is not surprising that, this time, Stalin brought with him a Soviet draft on reparations that so closely reflected the talks to this point that it eventually became the basis for the final protocol.* Stalin's plan accepted the abandonment of the fixed sum and worked out the essence of the final

³⁵² Podtserob, B. "Teheran - Potsdam", in International Affairs, Moscow, 1985, Volume 10, 117.

* See Appendix 2.

deal. It also proposed several additional clauses that Stalin used as bargaining chips to strike a better bargain. Stalin started by pointing out that the Soviets no longer insisted on a fixed sum value of transfers. Having made his concession, he then stated the existing points of agreement in the plan. First, he noted that the "own-zones" extraction clause was now accepted. Then he cited Bevin's demands and secured agreement that the Western transfers would come from all zones. With these agreements on record, Stalin proceeded to the remaining points to be settled.

The percentage allocations of transfers of available assets to the Soviets were fixed at 12.5% in exchange and 7.5% free. It was then agreed that the protocol would involve only short-term removals of equipment. Annual deliveries were placed under consideration, to be settled after the Control Council determined a "Level of Industry" necessary for Germany to remain viable, with all surplus assets above that level to be allocated as reparations. Stalin thus accepted the practical argument that an inventory had to be taken to establish German capacity and set the import export "first charge" levels before reparations were extracted. This specifically oriented the Allies towards a reparations policy designed to remove only surplus material from Germany, for security grounds, and under controlled conditions. In a sense, Stalin had surrendered. But in return he received a commitment to establish a definite surplus and

to consider annual deliveries.

Stalin revealed how interim this surrender was in his eyes when he suggested that the Control Council be given three months to establish the Level of Industry. This was ridiculously brief, and Stalin was forced to settle for six months. Now that he had obtained what was in effect the same sort of potential commitment that was secured at Yalta, although this time set at a definite limit of material, Stalin introduced his bargaining chips. Stalin demanded that in addition to the zone transfers, the Soviets receive as reparations 1) 500 million dollars of shares in Western zone businesses 2) 30% of German investments abroad and 3) 30% of German gold. Bevin, Byrnes and Stalin debated these points at some length. Stalin finally agreed that he would claim only German investments in neutral countries. Truman was slightly miffed, and made some insulting remarks about Soviet looting. Stalin returned them almost absent-mindedly, as he was very pleased that the debate was now on his terms. Finally, Stalin dropped his demands for gold and Western zone shares in return for what had been his objective all along, a raise in the transfer percentage, from 12.5% to 15% in exchange and 7.5% to 10% free.³⁵³

This last trade between Stalin and Truman wound up the debate with the main points of the protocol now settled.

³⁵³ FRUS, Potsdam, II, 512-528; Soviet Protocols, 265-287.

The agreement now looked very different from Maisky's original plan. Annual deliveries were dropped, Zone Commanders were given an absolute veto power on extractions, and the Western Allies were only committed to transferring a percentage of material, the amount of which they themselves would determine. A Drafting Committee was appointed to write up the protocol and Stalin delegated Vyshinsky as his representative. The session then proceeded to other matters. To everyone's surprise, Stalin presented yet another proposal for four power control of the Ruhr. Clearly Stalin felt - that his failure to secure his maximum aims was not a final defeat. But this proposal too was rejected. Bevin then nearly ruined the whole fragile accord by demanding to discuss the application of the "first charge" to general economic policy. Stalin observed that this was now a dead letter and Truman agreed. When Bevin stated that Germany would be split in two if the Allies followed their course, Stalin quickly had the whole issue tabled.³⁵⁴ Bevin, in his typical blunt manner, had spoken the truth that nobody wanted to hear.

Stalin almost certainly accepted this settlement only because it was the best he could get, as the fixed time limit to set the Level of Industry committed the West to further debate on the whole reparations question. With this

³⁵⁴ Ibid.; Soviet Protocols, 280.

agreement substantially set, the border and Italian recognition questions were fairly easily settled. As the Drafting Committee met late that evening, the work of the conference appeared to be largely completed. The Soviet draft was slightly altered but remained the basis of the protocol. The basic settlement reached included 1) the "own zones" extraction clause, 2) 15 and 10% in Western zone transfers of reparations extractions to the Soviets, 3) removals to be confined to assets specified by the Level of Industry decision as "unnecessary for the German peace economy" subject to the Zone Commander's veto, 4) the Western transfers were to be completed in two years, the Soviets in 5 and, 5) the Level of Industry was to be set in 6 months.* Everything seemed to be settled when, suddenly, Vyshinsky refused to admit that Stalin had renounced a claim to German gold and Western zone shares.³⁵⁵ The whole plan had to be referred back to the Big Three for final settlement.

Vyshinsky's selective memory failure was of course intentional. Stalin wanted further clarification of the whole protocol, and he also had one more idea to propose. On the morning of August 1st, the Drafting Committee met again in an attempt to resolve the dispute. Vyshinsky sprang another surprise by proposing a clause that would provide for advance deliveries of material from the Western

³⁵⁵ FRUS, Rotterdam, II, 922-927, 930.

* See Appendix 2.

zones before the Level of Industry decision was reached. Pauley rejected it immediately, and resignedly suggested referring the whole draft to the Big Three. Vyshinsky agreed so complacently that Pauley queried him as to why, and was told that Vyshinsky had expected the whole question to go back to the plenary level anyway.³⁵⁶ Advance deliveries were Stalin's own idea, as a way to get some fast action after the conference, and Vyshinsky proposed them in order that Truman could have time to consider the idea.

Later that evening, the Big Three settled down to resolve the drafting dispute and put the final touches on the reparations settlement. On paper the debate was over nuts and bolts. But in fact, the political message behind Stalin's last bargaining chip emerged as the definitive and mutually recognized nature of the political intention behind the reparations protocol and indeed the Potsdam agreement in general. Stalin used Vyshinsky's stall to engage Truman in a last debate which, both men realized, put on record exactly what had been agreed upon. This time, everybody was very specific. Stalin opened by again renouncing a claim to German gold. Then he asserted that the Soviets claimed all German investments east of the dividing line of the zones of occupation. Truman asked it that meant east of the line from the Baltic to the Adriatic. Stalin agreed, and

³⁵⁶ Ibid., 544.

specified investments in Bulgaria, Romania, Hungary and Finland. Byrnes asked about shares in the Western zones.

Stalin said that they were theirs to keep and he would keep those in his own zone. Byrnes returned to what he called this important point, and asked if Stalin specifically intended to claim German shares only in those areas occupied by the Red Army. Stalin said, yes, that was right, and the crucial Clause 3 of the Protocol* was settled.

Stalin and Truman might have said "assets" but what they meant was "spheres of influence". The decision that had just been reached marked the culmination of the US-Soviet settlement at Potsdam, the probable failure of Soviet reparations policy, and the agreement to disentangle from the wartime alliance by dividing Germany in two.³⁵⁷ Stalin had just forced the Americans to admit that the denial of tripartite reparations was in fact the delineation of a practical boundary line for future political control by the respective powers. The new modus vivendi between East and West was thus tentatively based on the division of Germany by the reparations protocol. Each side would conduct its own policy on its own side of the new line, even though the transfer clauses, Level of Industry and overall occupation agreement committed the powers to maintain the semblance of shared control.³⁵⁸

³⁵⁷ Mee, 226.

³⁵⁸ FRUS, Potsdam, II, 566-578; Soviet Protocols, 288-301.

* See Appendix 2.

The final touches of the reparations protocol were settled fairly easily. Both sides were now content that their agreement could be used to cover in public their private divorce, and leave it at that. The advance deliveries issue was settled that afternoon by referring the whole problem to the Control Council.³⁵⁹ The last plenary session began at 10:30 that evening of August 1st, with only the signatures left to be applied to the settlements. Byrnes and Stalin agreed to provide one further bit of public protection for their split by specifying that the division of assets between East and West applied to reparations only. Both sides were anxious to retain control of the question³⁶⁰ in the diplomatic forum, as this change further expressed. Stalin had arrived at last, after long and intense diplomatic effort, at that moment of failure. This time, he scribbled his signature first on the comprehensive political settlement known as the Potsdam Declaration, having renounced the privilege at Teheran and Yalta. That signature meant failure, because it expressed the end result of the Soviet diplomatic endeavour to produce a practical agreement to secure the victory by satisfactory control over Germany, which had been based on the conference process. This failure was, to Stalin, certified by the unsatisfactory provisions of the reparations protocol and the Western failure of

³⁵⁹ FRUS, Potsdam, II, 946.

³⁶⁰ Soviet Protocols, 300-310.

his test as expressed by that protocol.

Potsdam was both a beginning and an end for the Grand Alliance and US-Soviet relations. It was the end of the diplomatic attempt to provide the necessary follow-through to military victory, a mutually satisfactory policy for the control of Germany that would be effective in practice. It was the beginning of a dispute over the application of the agreement as it was reached to control Germany that significantly accelerated both the speed and the extent to which the already emerging US-Soviet split widened into an almost complete lack of practical communication, that period known as the Cold War. Germany was the problem that had brought the alliance together. Their failure to agree on how to resolve the German problem was not the only, but nevertheless the critical factor that broke East and West apart. The main connection in this transition process was the Soviet impression of failure in their reparations policy at Potsdam, and their reaction to that failure.

The diplomatic basis of Soviet reparations policy was Stalin's fear of Germany and a suspicion of the motives of his Western Allies. The governing concepts of this policy were a fixation on the long term and a desire to obtain physical proof of success by the actual removal of the foundation of German power. Reparation was always a question of power to the Soviets. Their policy had to take the Anglo-Americans into account because they had overrun the areas

which held the bulk of German heavy industry, which the Soviets felt was the basis of power. Soviet policy had been to obtain a specific Western commitment to the eradication of German power. This policy had to be settled at the major conferences because Stalin retained all decision-making power himself. The ultimate aims of Soviet policy had been expressed in Maisky's proposal at Yalta. But the accord that Stalin signed at Potsdam had altered three crucial points of that proposal. First, there was the agreement that each power would satisfy its claims from its own zone. Second, there was no promise of a specific sum value of "in kind" extractions. Finally, there was no agreement to include long term annual deliveries from production in the protocol. The Soviets were left with the transfer clause and the commitment to establish a surplus level of industry. All this meant in effect that Allied reparations policy was to be applied only in the short run and almost certainly unilaterally.

Stalin interpreted the American stand on Soviet reparations policy as a rejection of his plan for a Carthaginian peace. The Soviets were convinced that the Western "ruling circles" intended to rebuild their part of Germany and exploit its power for their own use, as evidenced by their rejection of the fixed sum.³⁶¹ The Soviets interpreted Western objections as proof of an ulterior motive to avoid that

³⁶¹ Issraeljan, 406.

key political commitment, and were only further convinced of this by American nonchalance at the reduction of their figure. Everyone involved realized that the reparations protocol negated the principle of treating Germany as an economic unit and would probably lead to the division of the country.³⁶² This decision was clearly mutual, taken by each side on the basis of its own interests. The Soviets were left with Western approval of a free hand in their own zone to loot at will, and a political promise that would enable them to keep the issue alive. But the accord marked failure, because it almost certainly negated any chance that the Western powers would match the Soviets policy of the destruction of German power.³⁶³

It must be understood, however, that the Soviet failure at Potsdam was due to the political nature of the reparations problem and was largely their own fault. Reparations, like any question of power, could only be settled if there was a strong level of political confidence in the alliance. That confidence had never been present in the Kremlin. Their policy was short-sighted, based on irrational fear, and poorly executed. The change in US policy and the reversal of the Yalta promissory note was the key factor in the reparations settlement at Potsdam, and it was a direct result of the Soviets' display of confidence as expressed by

³⁶² Paterson, 40.

³⁶³ Snell, 215.

their activities in eastern Germany and their transfer of the Oder-Neisse area. Truman and Byrnes were convinced at Potsdam that Soviet reparations policy was another expression of their malevolent intentions for post-war Europe. They decided that the Soviets had to be met firmly, yet in a manner that would not precipitate a public split because this would increase American burdens in Germany and Europe and would anger domestic opinion. Byrnes considered the reparations deal a success because it put a halt to Soviet ambitions and yet its terms provided a practical screen that would alleviate the need to force a public break.³⁶⁴

In one sense, Byrnes was right, as the Potsdam settlement drew the line that ended the wartime drive to the west of Soviet power. But in another sense he was wrong, as any failure to follow through on the accord would help produce that public break which the US did not want. Technically, the deal only set out broad principles whose details would have to be applied by the Control Council. The Potsdam protocol settled the basis of all the occupation policy for Germany which the Allies would ever attempt to jointly apply.³⁶⁵ It was the essential blueprint for the problem that the logic of power made unavoidable, the post-war attempt to control Germany and settle the future of Europe.

³⁶⁴ Byrnes, 86-87.

³⁶⁵ Clay, 39.

Because the Soviets could not abandon their stress on reparations, and because of the political suspicion generated by their fear-inspired policy, the Potsdam settlement would be a cornerstone of the failure of that attempt. Stalin and Truman both left Potsdam convinced that the other was hostile. Perhaps, as Isaac Deutscher says:

Neither the east nor the west ever really wanted the other...to have any say
...in its own part of Germany.³⁶⁶

Yet neither man could avoid the necessity to work together in Germany. This proximity, coupled with the acceleration in the more genuine practical application of Soviet reparations policy that was sparked by failure at Potsdam, magnified the issue into a decisive factor in the political split that became the Cold War. Stalin's reaction to failure at Potsdam revealed the true core of Soviet reparations policy and the fact that it had indeed failed there. His own obsessions produced a self-fulfilling prophecy that ruined his long-term goals. Stalin must have been uncomfortably aware, as he left Potsdam, that only he of the wartime Big Three was now left to implement the peace. His decision to continue the short-sighted and ill-advised Soviet policy of ensuring security by direct action, coupled with his repetitious attempts to supplement this by securing the so-called guarantees of Potsdam, only ensured that

³⁶⁶ Deutscher, 545..

Soviet reparations policy would greatly contribute to the failure of that peace.

Chapter Six - Aftermath

From the day after the Potsdam conference ended, to the end of 1947, the implementation of the Potsdam accord on reparations was the major point of dispute between East and West in the larger issue of the control of Germany. The Soviets insisted that a commitment had been made which had to be fulfilled before any other issue could be settled and a final peace treaty for Germany prepared. The Soviets carried their obstinance on reparations over into the wider context of relations with the US, and made it a key issue in the deterioration of those relations. Each side saw the others' actions in Germany as proof of hostile intent, and the Soviets based their assumptions on the reparations protocol. There were two phases in the diplomatic fallout from Potsdam on the German reparations question. The first phase lasted from Potsdam to May 1946, where the issue was debated at the technical level in the Allied Control Council. The second phase lasted from May 1946 to around the end of 1947, when the reparations question returned to the highest levels and helped split East and West and produce the Cold War. Throughout this time, the reparations question retained its identity as a function of German and therefore Soviet power, in the Kremlin's eyes.

There was another side to Soviet reparations policy after Potsdam which decisively influenced the diplomatic

process and also went through two phases. This was the policy of implementing a vast centrally directed physical removal of all German material, deemed to contribute to the potential of Germany to recover her power, by Malenkov's Special Committee. This was also the policy that had caused the failure of Soviet diplomacy at Potsdam. It was a function of Stalin's fear of Germany and the long range threat she posed to Soviet security. Its implementation after Potsdam was inspired by this fear and a suspicion of Western intentions, and transformed by the Soviet domestic political situation and the deterioration of relations with the West. But more than anything, the implementation of this direct action was irrefutable proof of the negative ~~aims of Soviet~~ reparations policy.

The first phase of Soviet "reparations" looting lasted from their initial advance into Germany to the fall of 1946. It was completely dominated by the fear of Germany and the West that had so markedly affected Stalin at Potsdam. As noted, the whole effort was led by Georgi Malenkov, head of the Special Committee, who reported directly to Stalin.* As also noted in detail, Malenkov's activities had greatly influenced his colleagues' diplomatic conduct at Potsdam. Indeed, to understand Soviet reparations policy it must be understood how inextricably connected this self-defeating link between practical and diplomatic action was

* See above, Chapter 2.

in Stalin's assumptions. Stalin went to Potsdam expecting to fail in a task he felt to be too vital to abandon. He had said in April, 1945:

This war is not as in the past, whoever occupies a territory also imposes on it his own social system. Everyone imposes his own social system as far as his army can reach. It cannot be otherwise...³⁶⁷

That fatal element of dialectic Marxism in his character did not generate Stalin's ideas in this regard, but it did limit the perspective from which he assessed the problem. In this case it posed him a dilemma, because although his army might have overrun eastern Germany he had no confidence that they could stay. Thus he unleashed Malenkov in that cynical and bizarre attempt to pre-empt Allied policy, for these reasons:

The whole aim of the operation was to send the greatest possible quantity of equipment to the Soviet Union within the shortest possible time. The Soviet authorities realized that with the unconditional surrender of Germany there would probably be established a general inter-Allied administration in the defeated country and that planned reparations would then take the place of plunder...³⁶⁸

Plunder was exactly what the policy seemed to be, but this looting had a more negative motivation. The idea was not to take the victor's prerogative but more importantly, "If we

³⁶⁷ Djilas, 114.

³⁶⁸ Alexandrov, 15.

can't ship it out, better to destroy it, so that the Germans won't have it."³⁶⁹ This theme, ~~which~~ at a Special Committee meeting on July 2nd, 1945, before Potsdam, was the guiding directive of Soviet reparations policy during and especially after Potsdam. Once it was clear that the West wouldn't agree to eradicate German power by a "reparations" levy, the Soviets felt it even more imperative that they themselves do so. The Soviet zone of occupation, that 25% of 1937 Germany lying in the East and not given to Poland, was put under the control of three bodies. The Group of Soviet Forces of Germany was the army of occupation. The Soviet Military Administration was military government, under the Zone Commander. Then there was Malenkov's Special Committee. Malenkov controlled his agency directly from Moscow, and its activities were made independent of the Zone Commander. It was given the power to confiscate anything deemed necessary to accomplish its task, which was the eradication of German power.³⁷⁰

The SMA, on the other hand, was charged with operating a viable administrative area at minimum cost. The reparations priority as so widely applied seriously imperilled this mission, and there was trouble. Stalin resolved the dispute over the removals in a manner which left no doubt as to the Kremlin's priority:

Occasionally, the protests of the local

³⁶⁹ Rudolph, 41.

³⁷⁰ Nettl, 61.

German authorities, backed by the SMA prevailed but usually reparations demands were fulfilled against any protests...³⁷¹

In fact, soon nearly every Soviet official with previous experience of Germany was assigned to the Committee. GSFG was ordered to increase its "trophy" units and make "booty" its first priority. By fall 1945, 70,000 men were working in the Soviet zone under Malenkov's orders.³⁷² They carried out an officially inspired looting binge unlike any such phenomenon in modern history. This task was of course pursued with two objectives: first and most important to weaken Germany, then and if possible to strengthen Soviet power by physical acquisition.³⁷³ This looting was both vast and deep, and although focused on the chemical, heavy metallurgical and machine-building industries, went far beyond them. The list of items procured included cattle, cars, tractors, clocks, bathtubs, and even musical instruments. Army officers being transferred home were encouraged to take up to 2-1/2 tons of souvenirs with them.³⁷⁴

This dismantling was the implementation of the policy of "economic disarmament". Both Malenkov and Stalin insisted that this was the only way to guarantee that German power was reduced for all time. Yet their paranoia was so

³⁷¹ Ibid., 62, my emphasis.

³⁷² Rudolph, 26.

³⁷³ Slusser, xii.

³⁷⁴ Yershov, 3-13.

great that the whole effort was poorly executed and soon went out of control:

The dismantling of German industry which these units carried out was characterized by the almost complete absence of any over-all direction, particularly with regard to the technical questions involved in dismantling complicated equipment. The chief consideration appeared to be the speed with which the dismantling could be carried out, and the number of enterprises which could be disposed of in a given time, rather than the use to which the equipment might be put in the Soviet Union... 375

Failure at Potsdam and the perception of Western hostility only increased the urgency of this policy in Stalin's view. But there was another faction in the Kremlin that spoke out against the panicky and irrational haste which guided this imposition of "economic disarmament". Anastas Mikoyan, responsible for Foreign Trade and the fulfillment of the official Soviet reparations claim, was determined to bring the economy of the Soviet zone of Germany under his control in order to accomplish his task. Mikoyan could now no longer count on an assured value of deliveries from the Western zones, and he had never shared the assumption of the Soviets' inability to remain in Germany. This belief was practical, because without it his objective was hopeless. Mikoyan began to argue, for practical reasons, that the Soviets could control their zone for a long time, and therefore

should exploit it efficiently.

Mikoyan secured some powerful allies because of the confusion and waste caused by this imposition of two contradictory policies. Andrei Zhadanov had his own political ambitions and was charged with restoring the Party's control at home; both objectives were advanced when he adopted Mikoyan's cause. Nikolai Voznesenski was also easily persuaded to change his mind and side with Mikoyan, by the promise of efficient deliveries of advanced equipment for the fulfillment of his responsibilities at GOSPLAN.³⁷⁶ Finally, there was the great war hero Marshal Zhukov, now Zone Commander, who found his duties to be increasingly impossible due to Malenkov's policy. This group had various motives but shared one basic conviction - the hasty and irrational policy of "economic disarmament at all costs" was actually harming Soviet interests. This was a powerful argument, especially because as time passed it proved to be correct. Mikoyan stressed that the wasteful dismantling of equipment lost in transportation bottlenecks was rendering the army's job impossible, embittering the Germans, and most of all destroying material that the Soviets themselves could use.

Gradually, specific examples were brought to Stalin's attention. Zhukov pointed out that he had to fight to force Malenkov to leave a single roofing plant in Berlin for

³⁷⁶ Rudolph, 41.

official use.³⁷⁷ Mikoyan noted that the electrical industry of the Soviet zone was so devastated by the looting that nothing was left to help meet the production target allotted to cement plant production in his official reparations plan.³⁷⁸ This brought up an argument with Malenkov in the fall of 1945 that epitomized the whole debate. Malenkov insisted that it was far too dangerous to leave any large scale heavy industry in Germany for future use. Mikoyan agreed that this was a danger, but one which the Soviets had the power to control by absorbing the plants and controlling their productions as opposed to dismantling them.³⁷⁹ Mikoyan won this argument, and forced the beginning of a transition in the assumptions and execution of Soviet policy.

Mikoyan's argument was based on the view that Soviet occupation could indeed be long-term and that a rational exploitation of German production by forced annual deliveries would both ensure Soviet security and benefit Soviet recovery. Malenkov's argument rested on the assumption that Soviet occupation might be curtailed and therefore Soviet security necessitated a policy of rapid and enormous removals of German capital equipment. As 1946 wore on, Mikoyan's argument increasingly appeared to be the sounder.. Mikoyan's official reparations plan was of course based on Soviet

³⁷⁷ Ibid., 31.

³⁷⁸ Ibid., 35.

³⁷⁹ Ibid., 47.

needs, and not German capacity as was specified at Potsdam, and it failed. But Mikoyan argued that this failure was not the result of the disputes with the Western powers, which will be discussed below, but rather due to the ill advised efforts of Malenkov's committee. By the summer of 1946, the global situation had altered to the point where Stalin was ready to listen to Mikoyan. The Germans had not revolted. The Americans had not suffered a depression or provided reparations from their zone, but neither had they directly interfered with Soviet activity. In August 1946 Stalin called a meeting of the Council of Ministers to review the whole question.

At that meeting, Mikoyan stressed the advantage that could be accrued to Soviet reconstruction by rational exploitation, and argued that it was possible to Sovietize the Soviet zone and more safely ensure Soviet security. This connection between security and recovery was the crux of the argument. Reparations as perceived by Stalin had been first and foremost a security measure, with Mikoyan's official plan as a secondary technical and diplomatic initiative. Recovery was a domestic economic and political affair. The basic framework for all of Stalin's policy during this period was the forcible reimposition of the total dominance of the Communist Party in Russia and the reconstruction of the war damaged nation, primarily through her own resources. Stalin had no intention of relying on foreign loans or

reparations to rebuild Soviet power. That was the task of the Soviets own considerable heavy industrial base and vast labour force.³⁸⁰ Stalin's policy for foreign assets was to make use of them in order to facilitate and accelerate Soviet recovery, not to make it possible. The economies of the new satellite countries were integrated into the Soviet economy, by the joint stock company technique or simple absorption, and high technology assets were requisitioned, in order to accomplish this. But Stalin had felt this was far too dangerous a policy to follow in Germany because of her incredible recovery capacity. Yet Mikoyan's argument now seemed to make good political and economic sense, especially as the general situation in Germany remained surprisingly stable.

Stalin therefore decided that a more rational reparations policy could now aid Soviet recovery without imperiling her security. Mikoyan won his case, and the execution of Soviet policy was transformed from equipment removals to control of production and annual deliveries.³⁸¹ The aim did not change - reparations were still the prime method of weakening German power. But the assumptions of the policy did change. Reparations were integrated into the new long term policy for Soviet occupation, and extracted more efficiently in order to aid Soviet recovery. Malenkov's

³⁸⁰ Zaleski, 401.

³⁸¹ Rudolph, 52-54.

Committee was not disbanded until early 1947, but from August 1946 the irrational fear of Germany and an imminent capitalist threat which had inspired it was overshadowed as a critical factor in the conduct of policy. It is important to note that this transition was tactical, not strategic - the goal of Soviet policy remained the eradication of German power. But the transition itself was a function of those changes in the Soviet situation and the international system which altered Stalin's assumptions of the Soviets' long term ability to stay in Germany. The forcible re-imposition of Party dominance and that inward turn known as the "Zhadanovshchina" was stepped up that same month. Reparations were publicly linked to the "Five Year Plan" for economic recovery. And also in August of 1946, the Soviets approached General Lucius Clay, Commander of the US zone in Germany and US delegate to the Control Council, with their first request that the dismantling of German industry be halted and reparations owing to the Soviet Union be provided from deliveries from production.³⁸²

American officials had of course monitored Soviet activity throughout the year since Potsdam, and correctly interpreted this request as a shift in policy sparked by the wastage of the Soviets' looting.³⁸³ Soviet actions in Germany had continued to widen the rift in bilateral relations

³⁸² FRUS, 1946, Volume V, Washington, 1969, 593.

³⁸³ Ibid.

because of their insistence that a commitment existed which should be fulfilled unconditionally. By this time, the argument had frozen the execution of joint German policy and the whole German problem had returned to global attention as an East-West dispute. The Americans did not understand that the Soviets' interpretation of Potsdam reflected their negative aims. But the record does indicate that the split that developed in Germany between the ex-allies resulted largely from the Soviets' application of this interpretation of reparations.

As early as August 2nd 1945, Byrnes and Molotov had corresponded on the question of the new Reparations Commission, established to work under the guidance of the Control Council.³⁸⁴ The Council, composed of the Zone Commanders of the four occupying powers, was now in effective and total control in Germany. The Soviets wanted the Commission to work in Moscow in order to remove it from the evidence of looting that had stiffened US policy, but were forced to allow it to operate in Berlin. That fall, the major dispute on the reparations question was over the plan for the German Level of Industry.³⁸⁵ The debate reflected each sides view of Potsdam and reparations. The Anglo-Americans saw the plan as an agreement to remove a surplus war economy from Germany. All were agreed that this was desirable and prac-

³⁸⁴ FRUS, Potsdam, II, 937.

³⁸⁵ Carr, 199; Ratchford, B.U. and Ross, W.D., Berlin Reparations Assignment, North Carolina, 1947, 80.

tically feasible. In fact, it was discovered that despite the massive destruction and dislocation in Germany, especially in the transport industry and major cities, the actual losses inflicted by the war had merely erased the wartime expansion in the German industrial economy and left its base at approximately prewar levels.³⁸⁶ But the Soviets and the French felt that the Level of Industry plan must go beyond that and be an instrument for the long range control of Germany's economy.³⁸⁷ This dispute indicated the core of the entire US-Soviet disagreement over policy in Europe - the US was not afraid of German power and wished to rebuild Europe, while the Soviets were afraid of Germany and had no desire to see Western Europe reconstructed and communist gains halted.

That in a nutshell was the heart of the long and acrimonious dispute that erupted after the Soviets interpreted the Potsdam reparations protocol as both a commitment and as the vital issue in German policy. The Soviet side approached every round of Level of Industry talks in the same manner - they brought their own plan and demanded its adoption.³⁸⁸ Every time an attempt was made to set a level based on production figures for the key heavy industries, the Soviet bid was by far the lowest.³⁸⁹ In spite of the fact that every-

³⁸⁶ Ratchford, 185.

³⁸⁷ Ibid., 90.

³⁸⁸ Ibid., 90.

³⁸⁹ FRUS, 1945, III, 1485.

one agreed that the plan must target steel, chemical, machinery and other heavy industries as the core of the program, there was no progress toward an agreement. The Anglo-Americans insisted that the levels had to function without their financial help. By December 1945, the Soviets flatly stated:

...heavy industry should be strictly limited to what is necessary for minimum living standard decided at Potsdam; quantities beyond those needs would constitute war potential...³⁹⁰

That same month, the US embassy in Moscow warned Washington that the Soviets' economic activities in Germany and Eastern Europe were based on security considerations and that the Soviet economy would eventually rebuild itself.³⁹¹ Unfortunately, the message did not sink in.

American policy makers continued to believe that Soviet reparations policy was based on positive aims and attempted to establish a cordial relationship in Germany by giving some ground on the level of industry talks. But despite eventual agreement on a plan, the whole effort failed because of Soviet reluctance to allow a viable industrial economy to exist in Germany. It became obvious that to the Soviets "economic unity" meant receiving their share of transfer reparations from the Western zones. Control Coun-

³⁹⁰ FRUS, 1945, V, 933-936.

³⁹¹ Smith, J.E., The Papers of General Lucius D. Clay, University of Indiana, Indiana, 1974, xxix.

cil debate on the whole reparations question became absolutely deadlocked because the Anglo-Americans insisted that the Soviet claims, coupled with their unrestrained looting in the East, would ruin Germany. That was exactly what the Soviets wanted, but Clay and his superiors wanted no part of this because of the setback it would inflict on European recovery. Clay went ahead and established the Inter-Allied Reparations Agency, to extract the eventual surplus material from the Western zones, without Soviet participation. The Soviets insisted that their claim on Western zone assets be fulfilled before any other, and Clay refused. Finally, in May 1946, Clay halted all further shipment of reparations removals from the US zone pending the execution of the Potsdam accord, and blamed Soviet looting and policy for its delay.³⁹²

Clay's action effectively terminated the attempt to implement the Potsdam reparations protocol and jointly extract reparations by removals of surplus material. It was necessitated by the Soviet interpretation of Potsdam as a commitment to further action aimed at reducing German power, when the Americans realized that any such action would halt European recovery. The halt also brought the reparations issue

³⁹² It is quite true that at this time the French were equally obstructionist on the Control Council and shared the Soviets' fear of Germany. But Clay's action was aimed at Moscow, because the Soviets refused to give an account of their removals for the Level of Industry plan and a reparations claim.

into its second post-Potsdam phase, out of the technical level and back into the forefront of high level US-Soviet diplomacy. By this time, the whole tenor of the bilateral relationship had altered. The US had the atom bomb. The Soviets refused to relinquish their control in Eastern Europe. The two nations no longer shared a common aim or assumption, only a struggle to shape the international system in their own interest. The dispute over their critical contact point, Germany, reflected both their different intentions for the future of Europe and views of the others policy. The Soviets wanted reparations, security, and a weak Europe. The US wanted trade and a rebuilt Europe. How the whole complex issue fit into the evolving struggle for global primacy between the two powers was best captured by none other than George Kennan.

In January of 1946, Kennan warned that the Soviet leadership assumed further economic trouble in the West and thus expected an American attempt to exploit Germany to alleviate this. Then in early February Kennan noted that the most hostile of the recent public speeches by the Soviet leaders was that by Malenkov. He said it:

...deserves special note as manifestation of an attitude of total suspicion toward motives of outside world...³⁹³

Finally on the 22nd of February he wrote out his entire

³⁹³ FRUS, 1946, Volume VI, Washington, 1969, 694-695.

thesis of Soviet intentions in the famous "Long Telegram". Kennan argued that "at bottom of Kremlin's neurotic view of world affairs is traditional and instinctive Russian sense of insecurity".³⁹⁴ He said that the Soviets were determined to reduce capitalist power everywhere, including Germany, that truculence was a basic tenet of their policy, and that the US must repeat the firmness of Potsdam in order to halt their expansionism without a showdown. Kennan's advice not only led to his promotion and fame, it also became the basic underpinning of the Truman administration's Soviet policy.

When the reparations question returned to the political level in the summer of 1946, the Americans were no longer willing to debate the Soviets argument that a commitment was unfulfilled. On the 18th of June, former Foreign Commissar Litvinov publicly stated that Germany was the world's biggest ~~problem~~ and East and West were going to divide the country because both wanted total control of it on their own terms.³⁹⁵ In July, the Conference of Foreign Ministers met in Paris and Byrnes offered to guarantee Soviet security with a twenty-five year alliance.³⁹⁶ Molotov rejected the plan and insisted that only the economic disarmament of Germany would ensure peace. He stated that progress was "entirely unsatisfactory" and that the Soviets had been promised 10 billion dollars worth of reparations, which they

³⁹⁴ Ibid., 765.

³⁹⁵ Ibid., 842-850, 844-887.

³⁹⁶ Ibid., 776-777.

desired forthwith. Byrnes correctly insisted that no such promises had been made. Molotov cited Yalta, and Byrnes, again correctly noted that Potsdam had superceded it. Byrnes then blamed Soviet looting for ruining the "economic unit" agreement and finally rejected the whole reparations concept, the action that Truman had envisaged even before Potsdam.

When the Soviet request for deliveries reached Clay the next month, the Americans assumed that the Kremlin had accepted the abandonment of the Potsdam accord and were now trying to secure their positive aims in another fashion. They noted the beginning of the Zhdanovshchina and the turn away from co-operation with the West and believed that the thrust of Soviet policy was to rebuild Russia by weakening the West.³⁹⁷ This time they were right. Soviet diplomatic activity focused on preventing recovery in the Western zones of Germany by receiving their reparations claim. As noted, Soviet policy in their own zone now became a deliberate attempt to absorb the Eastern German economy for both negative and positive aims. All this change resulted from an increase in Soviet confidence in their ability to control Germany plus an increase in their suspicion of the hostility of the US and the imminent end of cordial relations.

The Soviet zone of Germany was fairly well balanced economically, but did suffer from one serious defect when

³⁹⁷ Ibid.

divided from its western counterpart. The zone had 35% of the German national income but only 5% of the national steel production and relatively small amounts of its heavy industry.³⁹⁸ To effectively disarm Germany, a removal or control policy had to be nationally enforced. The Soviets endeavored to fashion their own new policy of control in their zone and force the West to accede to a joint policy on their terms. Mikoyan's new rational exploitation proceeded rapidly. Joint stock companies called SAG's were established in all key industries - fuel, ore, iron, metallurgy, machinery, transport, electrical - and gave the Soviets total control of the zone economy. Reparations extractions were focused on advanced technology in heavy industry. The requisition of slave and skilled labour was extended, with the latter accounted as reparations. Within a year, Mikoyan could report that reparations from deliveries were already half again the totals of the earlier removals.³⁹⁹ Removals continued, but the emphasis was now placed on producing the goods in Germany and then shipping the finished products to the USSR as opposed to dismantling the plants.

Despite the transition from dismantling to rebuilding in the Soviet zone economy, the objective remained to reduce German power. For that purpose, the Kremlin also continued to demand reparations from the Western zones. The SMA

³⁹⁸ Nettl, 165.

³⁹⁹ Rudolph, 42.

actually had a 150 man section detailed to process deliveries of such material, which it only disbanded in the spring of 1947.⁴⁰⁰ By that point, the contention over reparations caused a definitive split in US-Soviet policy in Germany that strongly contributed to the beginning of the Cold War. After Clay had refused the Soviet request to provide deliveries from production, let alone equipment removals, Molotov insisted that the Soviet reparations claim of 10 billion dollars value had to be fulfilled before he would consider any plan for the reunification of Germany. Byrnes responded with a major speech in September 1946 in Stuttgart, in which he insisted that German economic unity took precedence over reparations and thus there would be no more deliveries.⁴⁰¹ The Americans then insisted that Soviet policy was deliberately impeding the recovery of both Germany and Europe. This led to a sustained debate that finally ended in the total rupture of bilateral co-operation.

As far as reparations were concerned, the issue was simple. The Americans felt that without German unity both German and European economic recovery would be curtailed and American burdens increased. The Soviets felt that without reparations the Western zones would be re-integrated into the capitalist economy and their security imperilled. Strangely enough, both sides were right. In October, the

⁴⁰⁰ Ibid.

⁴⁰¹ Ratchford, 195.

Americans accused the Soviets of forcibly deporting German labour and removing plants without accounting them as reparations. Of course they were right, as Soviet policy was now in a mixed removals/control of production phase. The Soviets replied that their activity was none of the Americans business. Next month, American officials in Berlin reported that the Soviets had dismantled 40% of their zones' industry, destroyed 15% of it, were extracting 60% of its production as reparations, and had directly absorbed [as SAG's] 220 plants with 35% of the aggregate capacity.⁴⁰² The Americans were convinced that this activity indicated a Soviet desire to sovietize all of Germany and reacted accordingly.

In December of 1946, the British and Americans merged their zones economies into Bizonia, in order to ease the burden of control. This move raised the nightmare spectre of a revived Germany in the Kremlin, but their protests that the merger violated the Potsdam accords were to no avail. Events, especially the intransigent Soviet stand on reparations, had now rendered Potsdam obsolete. The Control Council still functioned, and it still attempted to produce a new Level of Industry plan on which to reunite the German economy. But by now this was impossible, because the division of Germany marked the focal point of the overall dispute between East and West. The ultimate diplomatic show-

402 FRUS, 1947, Volume II, Washington, 1972, 301-303, 319, 333.

down on German reparations took place in March and April of 1947 at the Moscow Conference of Foreign Ministers. American war hero General George C. Marshall was now Secretary of State, and he and Molotov attempted one last time to settle a functional German policy and pave the way for a definitive peace treaty. Marshall found that although the Soviets now appeared confident that they could stay in Germany and compete for European hegemony with the US, they still intended to take no chances in the long run.

Molotov asked for a new and higher Level of Industry, in hopes of receiving more reparations. Marshall agreed, because he hoped to make Bizohia self-sufficient. Molotov then insisted that at Potsdam the Soviets had been promised 10 billion dollars in reparations deliveries, and their provision would have to be a prerequisite to any peace treaty.

Marshall correctly* argued that no such promise had been made and no deliveries would be made until the Soviets accounted for activity in their own zone. This impasse stymied the whole conference. Towards the end of the session, Marshall went to see Stalin to try and break the deadlock. Stalin said he still hated the Germans, whom he described as far too dangerous to play games with. Then he insisted on receiving his 10 billion dollars of pledged material still held by the West, of which only 2 billion had yet been delivered.⁴⁰³ At the last meeting on 25 April, Marshall

⁴⁰³ Ibid., 342-343.

* See above, Chapter 5.

accused Molotov of blocking the German peace treaty for selfish motives. Molotov denied this but insisted that Soviet claims had to be satisfied "to prevent any new German aggression."⁴⁰⁴ The final Soviet report articulated their bottom line on joint policy toward Germany:

The Soviet Delegation declares that it approaches the consideration of economic principles in an organic connection with the question of reparations to which, as was stated by the head of the Soviet Delegation, the Soviet Government attaches paramount importance...⁴⁰⁵

This was not the last US-Soviet attempt to resolve the problem of joint control of Germany. The Control Council did not break up until March of 1948, and at the last Conference of Foreign Ministers in June 1949 the debate still raged over German "economic unity". But this Marshall-Stalin showdown marked the effective end of Soviet attempts to secure Western support for a reparations policy and establish a working relationship for the joint control of Germany and the future orientation of Europe. Stalin's belief that only massive reparations could satisfy Soviet demands for a reduction in German power and prove Western benevolence prevented the ex-allies from establishing a working partnership before the vacuum of power pulled them into a contest for global primacy. Truman and his advisers became

⁴⁰⁴ Ibid., 389.

⁴⁰⁵ Ibid., 464, my emphasis.

convinced that Soviet policy deliberately aimed at preventing European recovery in order to expand communist power. This was partially correct, as Soviet policy did hope to impede Western European recovery, in the interest of their own security. When Soviet policy underwent a transition in August 1946, American suspicions became justified. Soviet policy now aimed to impede European recovery in order to accelerate their own and ensure their security. Reparations and the control of Germany were transformed by Soviet policy into the issue that decided the future development of Germany and Europe.

When the American government realized this, it abandoned a serious attempt to effect a durable partnership in Germany. Marshall, with help from Kennan and many others, produced the Plan that bore his name, in a deliberate reaction to the Kremlin's policy as best expressed over the issue of German reparations. American policy now became a deliberate attempt to accelerate European recovery, including Germany, and contain Soviet power. The Soviets responded in kind and again created a self-fulfilling prophecy when the West rebuilt a powerful Germany and integrated it into an anti-Soviet alliance. US-Soviet relations deteriorated until there was an almost complete lack of normal diplomatic contact, and a mutual perception that the aims and indeed mere existence of the other side were mortal threats. It is not proposed to argue that Soviet reparations policy caused

this "Cold War". But the execution of that policy and the obstinate insistence on its fulfillment in spite of the result of Potsdam, or more likely because of it, in both the practical and diplomatic arenas, created a rift in the crucial issue of the control of Germany. This split made that issue both the basic cause and battleground of that Cold War. This process was the ultimate result of a unilateral decision made by the Kremlin in tragic haste.

Notes on Historiography

In the historiography of modern diplomacy, the issue of Soviet reparations policy in 1945 is nearly always treated as an integral part of the process by which the Grand Alliance was dissolved and the Cold War ensued. There is a direct connection always made between the failure of conference diplomacy to preserve the alliance because of the members disparate intentions towards Germany and the speed and depth in the deterioration of East-West relations. But Soviet reparations policy is rarely treated as an issue in itself. It is always seen as either a secondary issue or part of a larger diplomatic endeavour. The major reason for this is that most historians fail to identify the negative aims of Soviet policy, and treat it as an attempt to facilitate Soviet recovery.

The problem of sources is partly to blame for this misconception. Primary sources are the bane of all work in the field of Soviet history, and this topic is no exception. The internal documentation that would enable a more definitive interpretation of the wellsprings of Soviet policy is simply unavailable. In the case of reparations, the internal policy discussions and debates which produced and transformed Soviet policy can only rarely be uncovered. The problem of the "Western window" - interpreting Soviet policy in reverse by the use of Western sources relating to contact

with the Soviets - is also unavoidable. That ~~having been~~ said, this problem is not as restrictive in the case of Soviet foreign policy and its wartime relations with the Western Powers. There are two major reasons for this: 1) the nature of Stalin's regime and 2) the concentration of diplomatic activity at the highest level in the conference process.

Stalin, and he alone, made all final decisions on Soviet policy. Soviet policy towards Germany could not have hoped for total success without some co-operation from the Western Powers. That co-operation could only be established at the conference table. These factors make Yalta and Potsdam uniquely valuable sources for the interpretation of Soviet policy towards the future of Europe and the international system. The guiding assumptions of Soviet policy - fear of Germany, suspicion of the West - are brought out in stark relief at Yalta and Potsdam. The closer the study is to the conferences the more accurate the conclusions can claim to be. Contact with the West has often spurred the Soviets to produce their own side of the record, and thus a clearer picture can be obtained.⁴⁰⁶ As a result, the process of

⁴⁰⁶ This picture will be enhanced with the translation of a large six volume set of documents on Soviet policy published in the early 1980's and entitled "The Soviet Union at International Conferences during the Great Patriotic War of 1941-1945." There are separate volumes for both Yalta and Potsdam. Nevertheless, although this author could not locate this source, the size of the volume and previous Soviet publications strongly indicate that only documents relating to Soviet discussions with foreigners would be included.

cause and effect on reparations is discernible. What must remain speculation is the vital question of exactly why Stalin perceived no chance of safe co-operation with the West and pre-empted his own initiative at Yalta and Potsdam by unilateral direct action.

Modern diplomatic history tends to revolve around debates on several themes: the power of individuals, the influence of elemental forces and events, the importance of perception, the influence of the domestic situations. One of the most lively of these debates and one which treats all these themes is that which absorbs the reparations issue and connects wartime diplomacy and the post-war world, the debate on the origins of the Cold War. All the issues of Yalta and Potsdam are correctly seen as not only the end of wartime solidarity but also as an essential stage in the evolution of the great split. From this basic consensus, radically divergent interpretations have ensued. The most homogenous body of literature is Soviet historiography. In the Soviet Union, history is a science which is expected to produce the politically correct interpretation of all problems. All published work reflects the current official line, which makes things very easy.

The Soviet explanation of the reparations question is very simple. Soviet policy was based on sober calculations designed to extract a realistic amount of material to pay a fraction of the war damage caused by Nazi Germany. This

policy was just and reasonable, and was deliberately stymied by the Western powers. These powers were under the control of ruling elites who intended to rebuild German power and exploit it for anti-Soviet purposes. The Yalta commitment was binding, due largely to the international prestige won by the Red Army and the unusual vision of Roosevelt. His death allowed the capitalists to recapture control of Western policy and Truman deliberately broke the commitment at Potsdam. In spite of this Potsdam was also a qualified success because it committed the West to reduce German power by transferring reparations to the Soviets. The West deliberately violated the Potsdam accords and rebuilt Germany as part of an anti-Soviet master plan. The Soviets were forced into the Cold War, despite the positive aims of their reparations policy, by a permanently hostile capitalist West.

This explanation is absurdly simple and largely fraudulent. But it is very valuable, as it reflects the same perceptions that produced Stalin's policy at the time. Every Soviet writer proffers this argument. Throughout the occasional articles of the Soviet journal International Affairs, and in the major Soviet monograph, V. Issraeljan's The Anti-Hitler Coalition, the argument remains exactly the same in every detail. It would be pointless to delve further into Soviet literature for that reason. Western literature has sometimes produced equally cut and dried interpretations, but there is a rather wide variety of interpretations,

basis of study, and schools of thought contained within that keeps the field dynamic. The great debate is between the traditionalist and revisionist explanations of the Cold War, both of which have their basic roots in wartime diplomacy. The traditionalists start with a hostile and expansionist Soviet Union, out to break the alliance and establish hegemony in Europe and forcing a Western reaction. This explanation is usually political. The revisionists begin with an aggressive, reactionary, dogmatically capitalist West, led by the US, out to exploit European weakness and expand by economic imperialism, obligating the Soviets to respond. This explanation is often ideological and economic in tenor.

From these starting points, the debate has produced arguments differing in perspective, shade, emphasis, and priority. But the ultimate result is nearly always to explain why war-time diplomacy failed to prevent the Cold War. Truly a classic traditionalist work is Sir John Wheeler-Bennett and A.J. Nicholls The Semblance of Peace. They portray a dogmatically expansionist Soviet Union attempting to settle a sphere-of-influence as a basis for further expansion. Reparations is a key issue in their German policy, but subordinate to the overall context of relations with the US. A reparations settlement depended on a general settlement, which was precluded by the justified US reaction to Soviet belligerence at Potsdam. Another traditionalist interpretation is the British official history, Sir L. Wood-

ward's British Foreign Policy in the Second World War.

Woodward portrays a strong and aggressive Soviet Union, determined to use reparations claims to weaken Germany and burden the Western Allies. British policy makers reacted correctly to this situation, and directed the initially incompetent US effort along the proper lines.

A somewhat more balanced traditionalist is Herbert Feis. Feis produces an "almost official US State Department argument" but does it well. He traces the issue in his trilogy, Churchill, Roosevelt, Stalin, Between War and Peace - The Potsdam Conference, and From Trust to Terror. Feis focuses on the individual leaders as the determinators of the course of events. Stalin does not ever trust the West, but tries to implement a two-track policy of destroying Germany and yet staying on good terms with his allies. Yalta represents a commitment to large extractions, which is rejected at Potsdam because the Americans come to see Soviet policy as aimed at restaging the precedent and expanding communist power. Reparations is important but only a part of the key issue of basic mutual trust. Soviet insistence on heavy reparations reflects their lack of such trust, a condition which leads to the final breakdown.

A classic revisionist work is Gabriel Kolko's The Politics of War. Kolko sees an ultra-reactionary ruling class conducting an aggressive US policy aimed at establishing global economic hegemony. US policy was to coerce the

Soviet Union by economic pressure, including loans and reparations. The withholding of US loans forces the Soviets to focus on reparations as an essential part of their reconstruction, which makes the issue the focal point of Allied post-war policy and future unity. Potsdam is a major defeat for Soviet policies and they are forced to retrench in their newly established sphere, which leads to the breakdown of relations. A more balanced revisionist work is John Lewis Gaddis' The United States and the Origins of the Cold War. Gaddis interprets US foreign policy as generated by the domestic political situation, and designed to improve the situation of the administration. US reparations policy was not a reaction to Soviet actions but rather settled on its own terms long before Potsdam. It was part of an effort, supplemented by loans, to coerce the Soviet leadership. The Soviets' reparations policy was positive, and became a critical issue because of the withholding of US loans.

This basic debate has produced a wave of expanded arguments and good syntheses. Some focus largely on Soviet policy. Adam Ulam, in Expansion and Coexistence, sees an exhausted Soviet Union interested only in security, and regarding Germany as the key to that security and reparations as the key to Germany. Daniel Yergin's Shattered Peace is a very good argument that Soviet policy was based on traditional balance of power concepts, with reparations being pursued equally ardently for both positive and negative

aims. Yergin depicts both the internal split on reparations in Moscow in 1946 and an independent US reparations policy, which, combined with Soviet goals at Potsdam, produced the final split. Isaac Deutscher's Stalin - A Political Biography, the best of its kind, depicts a man influenced by both traditional and ideological concepts conducting a strange dual policy. Stalin interpreted Potsdam as a Western rejection of Soviet terms for continued alliance, and consolidated his own sphere. Integration and absorption of conquered economies was the key to Soviet recovery, and reparations were pursued for negative aims. Vojtech Mastny, in Russia's Road to the Cold War, argues that although the Cold War resulted from the truculence of Soviet policy and reparations was the key issue in their German policy, the East-West split had already developed due to Soviet behaviour in Eastern Europe. Potsdam ratified an accomplished fact.

This body of literature has produced no consensus on whether or not individuals either caused or could have prevented the Cold War. Some recent works have addressed this question specifically in relation to Potsdam and reparations. Bruce Kuklick, in American Policy and the Division of Germany, extended the revisionist case and argued that an aggressive US leadership elite took control of the new President in 1945 and deliberately pursued global economic hegemony. This policy was based on a challenge to the Soviets

tendered through loans and reparations, which was met by a policy hopelessly confused by positive and negative aims.

It was combined with fear of the West yet a desire to work with it. J.H. Backer rebutted him in The Decision to Divide Germany. Although the Soviet reparations claim was justified, its clumsy and truculent presentation evoked an ad hoc US response. The initial split at Potsdam was finalized in Moscow in 1947, and Soviet obstinance became the rock that broke the German settlement and wrecked the alliance.

The best presentation of the argument that individuals decided the course of events is Charles Mee's Meeting at Potsdam. Mee's argument is nearly flawless. Stalin and Truman are realists to the core, determined to establish spheres of influence and face down the other side. Both had active reparations policies, and Truman's steadiness forced Stalin to submit and recognize a Western sphere. Reparations is the key issue in the control of Germany, and leads to the breakdown of practical co-operation. Mee makes only one serious mistake - he interprets Soviet reparations policy as primarily positive and Molotov's conduct as a haggle over prices. In spite of this, Mee captures the essential point - at Potsdam, the leaders of both sides deliberately conducted policies that determined the course of events, and reacted after the conference in a manner that accelerated and aggravated this course. Mee has recently received strong support from Ralph Levering in The Cold War 1945-

1972. Levering argues that Stalin accepted only hard physical evidence of success in diplomacy, and interpreted the reparations split at Potsdam as a failure which necessitated a break with the West.

Yalta and Potsdam each have a debatable factor over which historians and participants have long disputed as to whether or not it changed what might have been. Both, however, are red herrings. At Yalta, FDR was a very sick man. A strong Republican critique during the McCarthy period argued that FDR sold out Europe to Stalin at Yalta because he was too feeble to conduct policy. Roosevelt was ill, but his weakness did not affect the decision he had already made - to make no final commitment on German policy.* Nor could a healthy FDR have said or done anything at Yalta that would have moved the Red Army out of Poland. Roosevelt's health affected the course of history shortly after but not at Yalta. At Potsdam, Truman received the news of the first successful atomic bomb test. Some historians, such as Gar Alperovitz, have argued that this news radically stiffened Truman's policy towards the Soviets and induced him to accept the break at Potsdam. Once again, this is simply incorrect. Truman had decided long before Potsdam to stand up to Stalin's demands in Europe.** The atom bomb changed the very nature of great power diplomacy itself, but not as

* See above, Chapter 3.

** See above, Chapter 4.

early as Potsdam.

The work that most accurately interprets the thrust of Soviet reparations policy is J.L. Snell's Wartime Origins of the East-West Dilemma over Germany. Snell argues that the priority goal in Soviet post-war policy was to eradicate German power, and that reparations was the key element in the attempt. Yalta and Potsdam were a defeat for this policy and one that resulted from the Soviets' own unilateral hard-line behaviour behind their lines. Snell made good use of a 1950 work by J.P. Nettl, The Eastern Zone and Soviet Policy in Germany. Nettl focused on Soviet actions in Germany, and argued that reparations was the key to Soviet policy and the negative connotation of that policy was settled well before Potsdam. Nettl's work is expanded by a collection of papers by middle level Soviet officials edited by Robert Slusser, Soviet Economic Policy in Postwar Germany. Slusser's collection is more properly a primary source, but it is absolutely essential to the study of this problem. These officials, some of whom were actively involved in the conduct of Soviet reparations policy, present the most definitive description extant of the practical application of Stalin's "economic disarmament" vision. Some Western sources indicate the depth of this effort and some Western writers recognize its importance, but without internal glimpses such as this the essential connection between

Stalin's conduct in Germany and his arguments at Yalta and Potsdam cannot be understood.

• This connection is essential, because it determined the course of Soviet negotiation at Yalta and Potsdam. It also clearly reveals the essentially negative thrust of both tracks of Soviet reparations policy. It is this connection that Mee did not make, and thereby failed to understand exactly why reparations was so important to Stalin at Potsdam. This connection also decisively refutes the thesis that the withholding of a US loan made reparations important to Stalin. Although the link between reparations, Yalta and Potsdam, and the Cold War cannot be avoided, a failure clearly to understand that Soviet policy was the motive factor in the process, and that their reparations policy had negative aims, has led to much confusion in the historiographical assessment of reparations as an issue in great power diplomacy in 1945. Such confusion has often produced works which overlook the critical importance Stalin's perceptions of Germany and the West, as expressed in his reparations policy, had for the future of the international system. There is no danger, however, of either stagnation or an early consensus in the study of both Soviet reparations policy and the transition from wartime alliance to Cold War.

Conclusion

The wellspring of Soviet reparations policy was the tremendous devastation inflicted by the German war machine on Soviet Russia. This devastation was the product of a bitter, total war. Soviet leaders had always held practical and dogmatic views on the key role of Germany in the future of both Europe and communist power itself. The war taught them a healthy respect for German power. This respect, combined with a recognition of Germany's proven incredible recovery capacity, created a debilitating fear of Germany in the Kremlin as a long-term mortal threat to Soviet survival. Soviet leaders also held negative views of the benevolence of their Western Allies, and dialectical perceptions of the inevitable hostility of all capitalist states. They regarded the Western powers as having been forced into the Grand Alliance, and accepted only tangible physical evidence of Western cordiality while demanding co-operation on Soviet terms.

The Stalin régime did not trust Western plans for a new internationalist system. They feared that the West would inevitably reorient German power against them. The Soviet leadership decided to demand clear proof of Western recognition of the Soviet Union's right to security and status as a Great Power with a sphere of influence. This demand was formulated as a claim for heavy reparations extractions from

Germany, based on the material of heavy industry which is the physical foundation of power. This claim was to be legitimized by Western participation and a commitment to Soviet policy. Stalin himself had to decide on Soviet policy, and thus the future orientation of the Alliance was determined at the conference table. At Teheran, Stalin received Western assurances that they intended to punish Germany, and himself revealed a desire for a Carthaginian peace. Encouraged, Soviet officials developed a reparations plan designed to avoid Western objections and extract heavy reparations.

Anglo-American post-war policy was neither united nor firmly settled. As a result, there was a deliberate delay on the formulation of joint policy towards Germany. This delay aggravated the always strong Soviet suspicions that the West would not punish Germany, and would instead absorb her and orient her power against the Soviet Union. Stalin's own personality was unusually receptive to such feelings, and thus he made a unilateral decision to reduce German power in that area of Germany that the Soviets eventually overran, by physically removing the materials of her modern industrial economy and calling the initiative a reparations levy. But Stalin was so mesmerized by German power and the long term that he felt the Soviets would be unable to control Germany by themselves and therefore needed Allied help. Stalin correctly interpreted this simple power real-

ity, and determined to make the reparations issue the crucial factor in the decision of whether or not to extend East-West co-operation after the war.

Speed was essential, in order to secure a firm political commitment from the Western Allies before the Soviets' unilateral policy affected the diplomatic atmosphere. Stalin failed to secure that commitment at Yalta, but only because the Western leaders were determined not to reach a final settlement on Germany until they had ascertained general Soviet intentions from their attitude on Eastern Europe. The Soviets received only an agreement to extract as much in reparations as proved possible, based on heavy industrial material. Roosevelt's death and the end of hostilities removed the strongest binding forces in US-Soviet relations. This factor, combined with the effects of Soviet behaviour in Germany and an obstinate Soviet refusal to change policy, produced a decisive reaction in US policy. The US leadership decided that Soviet policy threatened to force them again to pay for Germany's welfare by devastating her economy, and thus to reverse the Yalta commitment. Washington then extrapolated Soviet stands on reparations and Eastern Europe as part of a hostile policy designed to expand communist power, and decided at Potsdam to draw the line to halt this process in Germany.

The change in Western policy provoked by Soviet policy doomed the latter to failure. The Western leaders incor-

rectly believed that the Soviets needed reparations for reconstruction and therefore proffered huge claims. Overall war damage in the USSR was later set at almost 400 billion dollars.⁴⁰⁷ The Soviet reparations claim of 10 billion, of which only 3.5 billion was actually ever received, was simply a drop in the bucket.⁴⁰⁸ Despite this confusion, Western policy foiled the Soviets' aims because the US leaders interpreted the Soviet desire to weaken Germany as aimed at themselves. Stalin and Truman settled on a reparations accord at Potsdam that split Germany in two, in regard to practical relations, and presaged the division of Europe.

The Soviets clung to their negatively oriented policy after Potsdam and insisted that the West provide massive reparations. In the Soviet zone, German industry was pillaged with reckless abandon. This policy was changed to one of rational exploitation after the Soviet leadership gained confidence in their ability to control Germany, but the ultimate objective remained the destruction of German power. The Soviets' obstinate insistence that Germany had to be economically disarmed by heavy reparations prevented the establishment of a working relationship between East and West in Germany, the pivotal control centre of Europe. This contributed to the growth of mutual hostility that resulted in a total collapse in cordial relations. The West became

407 Backer, 67.

408 Zaleski, 346.

convinced that the Soviets wanted to weaken Germany and Europe in order to expand communist power. The Soviets believed that the US now intended to rebuild Germany and integrate it into an anti-Soviet alliance. Soon just exactly that happened, and East and West went their separate ways.

It did not have to be that way. Nor did Soviet reparations policy itself destroy the wartime alliance. But Soviet reparations policy reflected the dark and paranoid vision of the world that dominated the Stalin regime. In the end, reparations, as well as all other diplomatic problems in Soviet eyes, was a question of power. There was never any trust or political confidence present in the Kremlin, only an appreciation of power. Soviet security came first, last and always and reparations was the issue they used to gauge Western intentions towards future German and Soviet power. Stalin received what he had implicitly asked for, when Truman reacted to the blatant and unilateral Soviet display of mistrust in the West by settling reparations and the future itself on the basis of power. There was indeed hostility toward the Soviets in Western leadership circles. But Western policy was never completely arbitrary and never rigidly predetermined. Soviet policy was. Stalin never made the effort truly to ascertain whether diplomacy and co-operation could succeed. Instead he resorted to force, and received it in return.

Appendix 1 - The Yalta Reparations Protocol
(11 February 1945)

"Protocol On The Talks Between
the Heads of Three Governments
at the Crimea Conference on German
Reparations in Kind"

"The Heads of the Three Governments have agreed as follows:

1. Germany must pay in kind for the losses caused by her to the Allied nations in the course of the war. Reparations are to be received in the first instance by those countries which have borne the main burden of the war, have suffered the heaviest losses and have organised victory over the enemy.
2. Reparation in kind is to be extracted from Germany in three following forms:
 - a) Removals within two years from the surrender of Germany or the cessation of organized resistance from the national wealth of Germany located on the territory of Germany herself as well as outside her territory (equipment, machine-tools, ships, rolling stock, German investments abroad, shares of industrial, transport and other enterprises in Germany etc.), these removals to be carried out chiefly for purpose of destroying the war potential of Germany.
 - b) Annual deliveries of goods from current production for a period to be fixed.
 - c) Use of German labour.
3. For the working out on the above principles of a detailed plan for exaction of reparation from Germany an Allied Reparation Commission will be set up in Moscow. It will consist of three representatives - one from the Union of Soviet Socialist Republics, one from the United Kingdom and one from the United States of America.
4. With regard to the fixing of the total sum of the reparations as well as the distribution of it among the countries which suffered from the German aggression the Soviet and American delegations agreed as follows:

"The Moscow Reparations Commission should take in its initial studies as a basis for discussion the suggestion of the Soviet Government that the total sum of the reparation in accordance with the points a) and b) of the Paragraph 2 should be 20

hillion dollars and that 50 percent of it should go to the Union of Soviet Socialist Republics." The British delegation was of the opinion that pending consideration of the reparation question by the Moscow Reparation Commission no figures of reparation should be mentioned.

The above Soviet-American proposal has been passed to the Moscow Reparation Commission as one of the proposals to be considered by the Commission."

Appendix 2 - The Potsdam Reparations Protocol
(2 August 1945)

IV - Reparations from Germany

"In accordance with the Crimea decision that Germany be compelled to compensate to the greatest possible extent for the loss and suffering that she has caused to the United Nations and for which the German people cannot escape responsibility, the following agreement on reparations was reached:

1. Reparations claims of the Union of Soviet Socialist Republics shall be met by removals from the zone of Germany occupied by the Union of Soviet Socialist Republics [settled 29 July] and from appropriate German external assets [settled 1 August].
2. The Union of Soviet Socialist Republics undertakes to settle the reparation claim of Poland from its own share of reparation [settled 31 July].
3. The reparations claims of the United States of America and the United Kingdom and other countries entitled to reparations shall be met from the Western zones [settled 29 July] and from appropriate German external assets [settled 31 July].
4. In addition to the reparations to be taken by the Union of Soviet Socialist Republics from its own zone of occupation, the Union of Soviet Socialist Republics shall receive additionally from the Western zones [settled 31 July]:
 - a) 15% of such usable and complete industrial capital equipment, in the first place from the metallurgical, chemical and machine manufacturing industries, as is unnecessary for the German peace economy and should be removed from the Western zones of Germany, in exchange for an equivalent value of food, coal, potash, zinc, timber, clay products, petroleum products, and such other commodities as may be agreed upon.
 - b) 10% of such industrial capital equipment as is unnecessary for the German peace economy and should be removed from the Western zones, to be transferred to the Soviet Government on reparations account without payment or exchange of any kind in return.Removals of equipment in a) and b) above shall be made simultaneously.
5. The amount of equipment to be removed from the Western zones on account of reparations shall be determined

within six months from now at the latest [settled 31 July].

6. Removals of industrial capital equipment shall begin as soon as possible and shall be completed within two years from the determination specified in Paragraph 5. The delivery of products covered by 4 a) above shall begin as soon as possible and shall be made by the Union of Soviet Socialist Republics in agreed installments within five years of the date hereof. The determination of the amount and character of the industrial capital equipment unnecessary for the German peace economy and therefore available for reparations shall be made by the Control Council under policies fixed by the Allied Reparations Commission with the participation of France, subject to the final approval of the zone Commander in the zone from which the equipment is to be removed [settled 31 July].
7. Prior to the fixing of the total amount of equipment subject to removal, advance deliveries shall be made in respect of such equipment as will be determined to be eligible for delivery in accordance with the procedure set forth in the last sentence of Paragraph 6 [settled 1 August].
8. The Soviet Government renounces all claims in respect of reparations to shares of German enterprises which are located in the Western zones of occupation in Germany as well as to German foreign assets in all countries except those specified in Paragraph 9 below [settled 1 August].
9. The Governments of the United Kingdom and the United States of America renounce their claims in respect of reparations to shares of German enterprises which are located in the Eastern zone of occupation in Germany, as well as to German foreign assets in Bulgaria, Finland, Hungary, Rumania, and Eastern Austria [settled 1 August].
10. The Soviet Government makes no claims to gold captured by the Allied troops in Germany."

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