

Institution: London School of Economics and Political Science
Unit of Assessment: 30: History
Title of case study: Lessons for Greece from Germany, the world's biggest debt transgressor of the 20th century
<p>1. Summary of the impact (indicative maximum 100 words)</p> <p>LSE research on German debts after the two World Wars has received considerable public attention since the start of the Eurozone crisis. By raising awareness of Germany's own debt history between the Wars, Professor Albrecht Ritschl has influenced public opinion on Germany's harsh debt policies towards Greece. Ritschl has influenced public opinion in Germany and internationally by using the media and public engagement opportunities to emphasise that Germany's own post-war recovery under the Marshall Plan was, in essence, the result of debt forgiveness, and that a similar approach to recovery will be needed for Greece. His argument has also influenced political debate in Germany.</p>
<p>2. Underpinning research (indicative maximum 500 words)</p> <p><i>Research Insights and Outputs:</i></p> <p>The underlying research of this impact case study has, at its core, Professor Ritschl's new interpretation of the post-war Marshall Plan. Contrary to widespread public perceptions, U.S. transfers under the Marshall Plan to Europe, including to West Germany, were remarkably small. What gave the Marshall Plan its lasting effect was a combination of sweeping debt relief for Germany and a far-reaching political agenda for European integration. Germany was freed of internal and external debt of close to 400% of her 1950 GDP [1]. This debt forgiveness laid the foundation for Germany's fast post-war recovery. Germany was reconstituted as an export-led economy, committed to orthodox fiscal and monetary policies. Fiscal and monetary conservatism, greatly facilitated in its implementation by the debt relief, served to curb domestic consumption and generate persistent trade surpluses [2]. These affected the resource transfers to Western Europe that reparations after World War I had failed to generate.</p> <p>Professor Ritschl's research characterizes the post-World War II order as the result of lessons learnt from the failed post-war settlement after World War I [3, 5]. Keen to withdraw quickly from the battlefields after 1918, America had left it to the Europeans to deal with an enemy that had not been fully 'knocked out'. America's European allies sought to complete, by economic means, what military action had left unfinished. The limits of this policy became apparent in the German hyperinflation of 1923 and the French occupation of the Ruhr, which failed to discipline Germany [3]. As a response, America stepped in to stabilize Germany under the Dawes Plan of 1924, bankrolling its currency and providing fresh credit. This exercise of dollar diplomacy led to a German borrowing binge, causing the U.S. to indirectly fund Germany's reparations to Europe for the rest of the 1920s. Attempts were made to tighten credit conditions again and force Germany to pay out of surpluses. But instead of restoring stability the austerity policies now imposed on Germany brought about her entry into the Great Depression, an ignominious end to reparations, a sovereign debt default, and the collapse of democracy [4]. This was an experience that the Americans were determined to avoid repeating post-1945.</p> <p>The formula found, after considerable infighting, was a tacit arrangement by which West Germany would be 'readmitted to humanity' on the condition that she curbed her own consumption in favour of exports to her former victims in Europe. To make this incentive acceptable to Germany, large parts of these transfers were financed through private capital exports, allowing the Germans to rebuild their foreign asset position. To incentivise the Europeans to play along, the provision of Marshall Aid was made conditional on the recipient countries' acceptance of a debt moratorium for Germany, which was formalised after the Marshall Plan expired.</p> <p>For the first sixty years of its existence, this system worked with remarkable smoothness. West</p>

Germany, and after 1990 unified Germany, became the principal underwriter of Europe's economic integration and also its major capital exporter. However, persistent international imbalances risk running into trouble when the accumulated debts reach critical levels. In the European debt crisis since 2010, private capital flows from Germany to the European periphery experienced a sudden stop, throwing the historical arrangements underlying Europe's integration into disarray.

Professor Ritschl's research has also highlighted the provisional nature of the debt relief given to Germany after World War II. A significant portion of the historical claims against Germany was to be settled after a future unification. Importantly, this included Germany's foreign World War II debt, as well as reparations. But no such settlement took place when German unification arrived in 1990. The unification treaty, carefully worded as a final settlement with respect to Germany, did not mention debts or reparations. According to Professor Ritschl's estimates, Germany's World War II debts nearly equalled her GDP of 1938, the last pre-war year [1]. A debt principal equal in size to Germany's GDP today would compensate easily for any bad debts incurred by the European periphery. This insight caused a minor media sensation in 2011 and again in 2012, with far reaching implications for the direction of the public debate both in Germany and abroad. Ritschl's radical interpretation [3,4] of Germany's policy of deflation and budget stabilisation in the years preceding Hitler has, for some, foreshadowed the Greek economic crisis. His argument that the deflation policies adopted by Germany in the 1920s were not the result of misguided policy doctrine, but were really the austerity response to pressure from Germany's external creditors, has made Greece's mounting debt crisis sound eerily familiar to many observers.

Key Researcher: Professor Ritschl has been at LSE since 2007.

3. References to the research (indicative maximum of six references)

1. Ritschl, A. (2012), "The Marshall Plan, Postwar Germany, and the Historical Roots of the Eurozone Debt Crisis", Paper Presented at the *Social Science and Policy Forum*, University of Pennsylvania, November 2.
http://www.history.upenn.edu/economichistoryforum/docs/ritschl_12.pdf
2. Ritschl, A. and B. Eichengreen (2009) "Understanding West German Economic Growth in the 1950s," *Cliometrica* 3: 191-219. DOI: 10.1007/s11698-008-0035-7
3. Ritschl, A. (2012) "The German Transfer Problem, 1920-1933: A Sovereign Debt Perspective," *European Review of History* 10: 943-964. DOI: 10.1080/13507486.2012.739147
4. Ritschl, A. (2013) "Reparations, Deficits, and Debt Default: the Great Depression in Germany," in Nicholas Crafts/Peter Fearon (eds.), *The Great Depression of the 1930s*, Oxford: Oxford University Press, 110-139. Available from LSE on request.
5. Ritschl, A. and T. Straumann (2010) "Business Cycles and Economic Policy, 1914-1945", in: Stephen Broadberry/Kevin O'Rourke (eds.), *Cambridge Economic History of Modern Europe Vol. 2*, Cambridge: Cambridge University Press, 156-180. LSE Research Online ID: 32432

Evidence of quality: peer-reviewed publications in top journals and the CEHME.

4. Details of the impact (indicative maximum 750 words)

Nature of the Impact: This ICS is claiming impact in terms of public discourse and policy debates as specified in Table D 1 of Section D 3 of the Panel Criteria and Working Methods guidelines. Professor Ritschl's work on Germany's interwar debt crisis and the debt forgiveness that fostered post-war Germany's economic miracle has had a strong impact on public discourse and policy debates about Greece, both within Germany and abroad.

In June 2011, Christiane Giesen, a journalist from *Deutschlandradio Kultur* [A] contacted Professor Ritschl specifically to discuss his new interpretations of Germany's deflationary policy in the years preceding Hitler as an austerity policy imposed by her foreign creditors. The interview explored the

possible risks to Greece's society and economy of imposing similar austerity policies. Ritschl argued the only way to prevent political destabilisation in Greece was a major debt haircut, the sooner the better.

The next day, Yasmin el-Sharif from *Spiegel Online*, the largest German-speaking news website, contacted Ritschl for a similar interview, specifically to place Greece's threatening bankruptcy in an historical and international context. Over the course of the extended interview, Ritschl also mentioned how Germany's various debt defaults easily made her the largest debt defaulter in the 20th century, a remark that the interviewer promptly turned into the headline.

This interview appeared on 21 June 2011 [B] and caused a minor media sensation. The morning it was published, el-Sharif contacted Ritschl to report that over 100,000 readers had clicked on it; later in the day, the tally had more than doubled. During the day, Ritschl was contacted by *The Guardian* for an op-ed piece summarizing his views [C].

Other interview requests came in starting on the same day, including from Greece's leading newspaper, *To Vima* [D]. This paper has since been a major catalyst of the debate, with many interviews and mentions. During the 12 months up to July 2013, this outlet mentioned or interviewed Ritschl eight times. An avalanche of similar interview requests followed [samples in E]. These interviews covered public concerns such as, "Is there a way out of the debt crisis through austerity? Will the Eurozone break up? Would the technocratic governments of Monti, Papademos and others bring stability to Southern Europe and achieve a turnaround? Could political extremists be kept at bay?" [typical sample F].

Such concerns, buttressed by the public impact of Ritschl's historical evidence on Germany's own past as a debt defaulter, also led to a political rift in the German government, which became apparent in 2011. Discussions within the Economics Ministry's advisory board (of which Ritschl is an active member) were bringing about a consensus that some sort of insolvency process for Greece should be initiated. The minister, Philipp Roesler, took this to the public in September 2011 and started an open spat with Schaeuble, the German finance minister. Schaeuble's harsh answer provoked an open letter by prominent academics [G] from the advisory boards of both Ministries, as well as a related plan for debt writedowns by Germany's Council of Economic Advisors (Sachverstaendigenrat).

Sharp rises in transfers to Southern Europe within the ECB's Eurosystem payment facility, Target-2, caused some concern amongst members of the advisory board of Germany's economics Ministry. At a meeting of that board in September 2011, Bundesbank president Helmut Schlesinger pointed out a suspicious increase in the short-term Target-2 balances of the Bundesbank. Ritschl drew parallels with the Reichsbank's short term clearing balances from World War II, which also reflected substantial current account imbalances, just with signs reversed. Hans-Werner Sinn, also present at the meeting, weeks later presented the first of a series of warnings against the transfers to southern Europe in this system. This culminated in an op-ed in the *New York Times* in the summer of 2012 [H] in which Sinn charged that, through Target-2 and other programmes, Greece had already received more financial assistance than Germany under the postwar Marshall Plan.

Ritschl was invited by *The Economist* to respond. Ritschl's op-ed pointed out a fundamental fallacy in Sinn's argument: Sinn had forgotten to include the large amounts of debt forgiveness, inter alia on its World War II clearing balances, which Germany received after World War II as a dowry to her postwar reconstruction [I]. The angry exchange that followed [J] again caused a spike in interest with Ritschl's media mentions doubling [K-Reference from LSE media mentions].

Ritschl reiterated his calls for an orderly Greek debt workout in an interview with Germany's Frankfurter *Allgemeine Zeitung* (FAZ) in February of 2012, which was again widely reported in the European press and led to another spike in his press mentions.[K]. Ritschl has twice appeared at European Parliament conferences, has featured in a German TV documentary on Germany's postwar reconstruction [L] centring on Ritschl's narrative and with him as the lead expert, and he has been interviewed by major international media outlets.

Ritschl's influence has been described as 'immense' [M] by the honorary head of the British-Hellenic chamber of commerce and his influence and predictions have been cited in a survey of leading economists [N].

5. Sources to corroborate the impact (indicative maximum of 10 references)

All Sources listed below can also be seen at https://apps.lse.ac.uk/impact/case_study/view/75

A. Interview 'Athens going down the way of the Weimar Republic', *Deutschlandradio Kultur*, 16 June 2011, <http://www.dradio.de/dkultur/sendungen/thema/1480975/> Source file: <https://apps.lse.ac.uk/impact/download/file/699>

B. Interview 'Economic Historian: Germany Was Biggest Debt Transgressor of 20th Century'. *Spiegel Online International*, 21 June 2011,

- in German: <http://www.spiegel.de/wirtschaft/soziales/euro-krise-deutschland-ist-der-groesste-schuldensuender-des-20-jahrhunderts-a-769052.html>

- in English: <http://www.spiegel.de/international/germany/economic-historian-germany-was-biggest-debt-transgressor-of-20th-century-a-769703.html> [Including all related emails]. Source file: <https://apps.lse.ac.uk/impact/download/file/701>

C. Ritschl: 'Germany owes Greece a Debt'. *The Guardian*, 21 June 2011,

<http://www.theguardian.com/commentisfree/2011/jun/21/germany-greece-greek-debt-crisis> Source file: <https://apps.lse.ac.uk/impact/download/file/702>

D. Email *Christian Science Monitor*; Email *To Vima*; Email *Greek National Radio*; *To Vima* Searches 2012:9-2013:9. Source file: <https://apps.lse.ac.uk/impact/download/file/703>

E. Sources from Greece and Southern European papers (Interview, *Makedonia*, 26 June 2011; Interview request *Kosmos*, 27 June 2011; Interview request *Athens International Radio*, 7 July 2011; Interview *To Vima*, 21 Aug 2011. Source file: <https://apps.lse.ac.uk/impact/download/file/704>

F. Sample of Interview: 'The Wisdom of Socrates', *BBC Business Daily*, 29 June 2012, http://www.bbc.co.uk/iplayer/episode/p00trrn7/Business_Daily_The_wisdom_of_Socrates/ Source file: <https://apps.lse.ac.uk/impact/download/file/707>

G. <http://www.faz.net/aktuell/wirtschaft/eurokrise/insolvenz-griechenlands-in-betracht-ziehen-oekonomen-unterstuetzen-wirtschaftsminister-roesler-11228684.html>

H. Sinn: "Why Berlin is Balking On A Bailout", *New York Times*, 12 June 2012,

<http://www.nytimes.com/2012/06/13/opinion/germany-cant-fix-the-euro-crisis.html?hp> Source file: <https://apps.lse.ac.uk/impact/download/file/710>

I. Ritschl: "Germany, Greece and the Marshall Plan", *The Economist – Free Exchange*, 15 June 2012, <http://www.economist.com/blogs/freeexchange/2012/06/economic-history> Source file: <https://apps.lse.ac.uk/impact/download/file/712>

J. Sinn: <http://www.economist.com/blogs/freeexchange/2012/06/economic-history-1;>

Ritschl: <http://www.economist.com/blogs/freeexchange/2012/06/economic-history-2;>

Sinn: <http://www.economist.com/blogs/freeexchange/2012/06/economic-history-3> Source file: <https://apps.lse.ac.uk/impact/download/file/719>

K. LSE press mentions data, e.g. spikes correlate with interview: 'Like Chancellor Bruening in the Weimar Republic' (in German), *Frankfurter Allgemeine Zeitung*, 6 Feb 2012,

<http://www.faz.net/aktuell/wirtschaft/europas-schuldenkrise/wirtschaftshistoriker-albrecht-ritschl-ueber-griechenland-wie-reichskanzler-bruening-in-der-weimarer-republik-11640103.html> Source file: <https://apps.lse.ac.uk/impact/download/file/1315>

L. Documentary featuring interview: 'History on Channel One: Our Economic Miracle. The True Story' (in German), *German TV Channel One (ARD)*, 15 July 2013,

<http://www.daserste.de/information/reportage-dokumentation/dokus/sendung/wdr/wirtschaftswunder-100.html> Source file: <https://apps.lse.ac.uk/impact/download/file/717>

M. Email British Hellenic Chamber of Commerce. Source file:

<https://apps.lse.ac.uk/impact/download/file/716>

N. "Top Economists: Eurozone Crisis Is Not Over Yet" (in German), *Frankfurter Allgemeine Zeitung*. Source files: <https://apps.lse.ac.uk/impact/download/file/715>