

BRITISH ATTITUDES TO THE
GERMAN ECONOMIC MIRACLE,
1948 to circa 1971

This dissertation is submitted for the degree of Doctor of Philosophy in History from
the
University of Cambridge

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I hereby declare that my dissertation entitled ‘British Attitudes to the German Economic Miracle, 1948 to circa 1971’ set out in this document below:

- is the result of my own work and includes nothing which is the outcome of work done in collaboration except as declared in the Introduction and specified in the text;
- is not substantially the same as any I have submitted, or, is being concurrently submitted for a degree or diploma or other qualification at the University of Cambridge or any other University or similar institution except as declared in the Introduction and specified in the text.

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In accordance with the Faculty of History’s guidelines, this dissertation does not exceed the relevant length prescribed by the Regulations of the PhD examination, namely 80,000 words.

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British Attitudes to the German Economic Miracle,
1948 to circa 1971

Abstract

This doctoral dissertation examines British attitudes to the German ‘economic miracle’ in the years 1948 to circa 1971 principally through the eyes of politicians, officials, businessmen and informed commentators. Britain had poor productivity, balance of payments difficulties, inflation and, more than anything else, growing industrial disruption. The question is asked as to what extent Britain compared itself to Germany, the most dynamic of the European economies? Did the British think there were lessons which might have been learned particularly in the all-important area of industrial relations which went from bad to worse in Britain but in Germany were described by one British economist as ‘almost idyllic’?

Post-war economies were about the efficient mass production of goods, at which the Germans were widely considered to excel but the British much less so than before. The British cursed their debts, their problems with sterling’s international role and their global military commitments but the underlying problem judging by contemporary voices was the failure of Britain to organise itself in the workplace and achieve the level of exports it needed to compete.

This dissertation looks at contemporary British perceptions of the German economy, its industrial relations, and some of the irritations which arose in British-German economic relations for what they say about Britain.

There were in the period a surprising number of these irritations, each made worse for Britain by Germany’s growing economic strength. Britain was obliged to write-off German debts to help the German economy at a time when it felt weighed down with its

own debts. Germany's huge export success in Europe embarrassed Britain at a time when its traditional Commonwealth trade was stalling. Germany's build-up of huge reserves produced a so-called 'financial disequilibrium' making worse Britain's struggles with its inflation, balance of payments, 'stop-go' policies and industrial relations. The costs of Britain's garrison in Germany was an unwelcome burden on the balance of payments for which Britain clamoured for reimbursement. When Britain, in a change of tack, decided its future lay in Europe, it was convinced that 'Germany held the key', only after years of negotiation to be disappointed when it found Germany provided little worthwhile help.

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Abbreviations

AGEC	Anglo-German Economic Committee
ASSET	Association of Supervisory Staffs, Executives and Technicians
ASLEF	Association of Locomotive Engineers and Firemen
BAOR	British Army <i>of</i> the Rhine
BDI	<i>Bundersverband der Deutscher Industrie</i> , the German employers organisation
Bizone	the British and American zones of western Germany in the years 1947- 1949
Bodleian	Bodleian Library and Archives, Oxford
British Zone	the British zone of western Germany in the years 1945-1949
CCG	Control Commission of Germany
CDU/ CSU	Christian Democratic Union and the Christian Social Union, or Christian Democrats
CIR	Commission of Industrial Relations
CPC	Conservative Political Centre
CRD	Conservative Research Department
DEP	Department of Employment and Productivity (1968-1970)
DGB	<i>Deutscher Gewerkschaftsbund</i> – the umbrella organisation of German trade unions
DM	Deutsche Mark (the anglicisation ‘deutschmark’ is generally used in this dissertation)
ECA	Economic Cooperation Administration
ECSC	European Coal and Steel Community
EDC	European Defence Community (proposed in early 1950s)
EEC	European Economic Community
EFTA	European Free Trade Area
EPU	European Payments Union
EMA	European Monetary Agreement

FBI	Federation of British Industries
FTA	Free Trade Area
FO	Foreign Office
FRG	Federal Republic of Germany
ICFTU	International Conference of Free Trade Unions
IEA	Institute of Economic Affairs
IMF	International Monetary Fund
ILO	International Labour Organisation
IR	Industrial Relations
IRD	Industrial Relations Department, Ministry of Labour
LDA	London Debt Agreement 1953
MRC	Modern Records Centre, Warwick
NATO	North Atlantic Treaty Organisation
NBER	National Bureau of Economic Research
NEDC	National Economic Development Committee
NIESR	National Institute of Economic and Social Research
OEEC	Organisation for European Economic Cooperation
PEP	Political and Economic Planning
RAND	RAND Corporation; Royal Commission on Trade Unions and Employers' Commission Associations 1965-1968
SPD	<i>Sozialdemokratische Partei Deutschlands</i> , or Social Democrats
The Six	the six original members of the Common Market
TNA	The National Archives, Kew
TUC	Trades Union Congress
UK	United Kingdom
US	United States

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Vicky [Victor Weisz]

Daily Mirror, 21 February 1956

“In the fifties and sixties when you could sell anything, we went on using obsolete machines and paid the unions whatever they asked for while the Krauts were investing in new technology, and hammering out sensible agreements. When times got hard it paid off”

Nice Work by David Lodge (1985), p.195

Introduction

The contrast between Germany's exuberant growth and Britain's relative economic underperformance in the 1950s and 1960s was galling for many in Britain as Germany seemed to be pulling ahead so easily.¹ Reviewing progress in a special supplement on Germany in 1966, the *Economist* noted that the British and Germans saw each other as "extraordinarily similar not only in size of population, geographical area, natural resources [but also] ... similar products ... entwined commercial culture and ... a common commercial nous."² In fact it saw Britain and Germany as "peas in a pod"³ who would naturally differentiate themselves from others on the basis of their superior mercantile practices. However, it was alarmed that since the early 1950s "the German pea was burgeoning much more successfully" and it warned:

The fact had better be faced that Germany is a country which has quite recently got ahead of Britain down the development road, and which is now advancing away from us at a disturbing speed.⁴

It pointed to the large difference in performance:

Between 1950 and [October 1966] the average annual growth of real incomes in the Federal Republic has been between 6 and 7 per cent; in Britain it has been between 2 and 3 per cent. In the same period, Germany's share of the world market of

¹ References in this thesis to 'Germany' are to West Germany unless a contrary intention is indicated.

² *Economist*, 'The German Lesson, A Survey by *The Economist* of West Germany's economic experiences during these last two remarkable decades, and their implications for Britain', 15 October 1966, p.iii.

³ *Ibid*, p.iii.

⁴ *Ibid*, p.iii.

manufactured exports has grown from under 10 per cent to just under 20, while Britain's has declined from over 21 per cent to only about 13.⁵

The German recovery was proclaimed an 'economic miracle' not just by Germans but across the western world including in Britain.⁶ A wholly different rhetorical construct emerged in Britain, one of decline, and talk of the 'sick man of Europe'.⁷ Whereas Germany was benefitting from peaceful industrial relations, steady prices, productivity growth, export success, large surpluses and a rising standard of living, Britain on the other hand seemed burdened with poor industrial relations, poor productivity growth, higher inflation, exchange controls, balance of payments difficulties and disruptive 'stop-go' economic policies. However, Britain was not in absolute decline and indeed its growth was in fact on a par with its historical rate of about 2 per cent. But in the twenty-five or so years after the war it did not keep up with the record rates of economic growth in Germany (or, for that matter, in much of western Europe which was following fast in Germany's economic slipstream).⁸

The discrepancy between the rates of economic growth in Germany and Britain raised the question for contemporaries whether the strong growth in one might be contributing to the poor performance in the other as it certainly seemed that way given that Britain seemed to be doing so poorly at things where Germany seemed to excel. Was Germany's success therefore at the expense of Britain? In principle, fast economic growth in one country which is importing goods from its neighbours to support that growth will normally, by virtue of the principles of 'comparative

⁵ Ibid, p.iii.

⁶ *The Economist* regularly referred to the German recovery as "an economic miracle:" see the following *Economist* articles: 'Miracle explanation', 18 October 1952; 'German Boom-German Miracle goes on', 13 August 1955; 'Key elements in the German Miracle', 20 July 1957; 'End of the German Miracle?' 20 February 1960; 'Shadows over the Miracle', 28 July 1962.

⁷ Peter Clarke and Clive Trebilcock, *Understanding Decline: Perceptions and Realities of British Economic Performance* (Cambridge, 1997); Jim Tomlinson, 'Inventing "Decline": The Falling Behind of the British Economy in the Post-war Years,' in *Economic History Review*, 49 (1996), pp.731-757.

⁸ Nicholas Crafts, *Forging Ahead, Falling Behind and Fighting Back: British Economic Growth from the Industrial Revolution to the Financial Crash* (Cambridge, 2018), p.84.

advantage', also lift the growth of the neighbours.⁹ With its potentially strong manufacturing sector and its place at the heart of Europe, many hoped Germany would become a locomotive of European growth and so it proved. Nearly all Germany's neighbours benefited especially Austria, Italy and France but Britain much less so.¹⁰ There were years when British exports to Germany rose sufficiently for the Board of Trade to express satisfaction at the out-turn, particularly in the later 1950s, but Britain never performed as strongly as its German competitor, indeed it often felt more a victim of German success. A great fuss was made about the German exporters attacking Britain's traditional markets. As one commentator admitted: "They don't wait for world trade. They go and get it with better products, lower prices and modern methods".¹¹ Germany was seen to pursue a 'cult of exports', receiving more than 10 per cent of the exports of every western European country by value, except the United Kingdom and Portugal.¹² Whilst British exports to Germany increased between 1951 and 1958 by 147 per cent, this was less than the rate of increase of Germany's other neighbours. As one of Europe's two largest manufacturing countries it would have been reasonable to have expected British exports to Germany to have been much greater.¹³ Once the Common Market was established, Britain risked falling even further behind in benefitting from the German growth engine.

⁹ Erik Reinert, *How Rich Countries Got Rich...and Why Poor Countries Stay Poor* (London, 2017), p. xxiv.

¹⁰ Alan S. Milward, *The European Rescue of the Nation State* (London, 1992), p.137.

¹¹ *Western Mail*, Margaret Lewis Jordan, 3 September 1957.

¹² Milward, *European Rescue*, p.137.

¹³ The percentage increase of other countries over this period was 257 per cent (Austria), 185 per cent (Italy), 174 per cent (Switzerland), 168 per cent (France), 126 per cent (Netherlands), 121 per cent (Belgium-Luxembourg) and 68 per cent (Sweden). (Source: *OEEC, Statistical Bulletins of Foreign Trade, Series IV*).

Scope of the dissertation

This dissertation is not concerned with describing the ‘economic miracle’ or explaining its place in German history.¹⁴ Rather, it is about what the British thought about their trading rival’s so-called ‘economic miracle’ at its peak in the years between 1948 and about 1971. It examines British attitudes and reflections on the successful German economy including why they thought they were not doing as well, and indeed whether they saw lessons that might be learned.

The main focus is on the attitudes of British policy-making officials, politicians and economic opinion-formers, that is, journalists, economists, businessmen and pamphleteers, and their attitudes to the German ‘economic miracle.’ Amongst the general public there was undoubtedly astonishment at the speed of the German recovery but the dissertation does not focus on the attitudes of the ‘man-in-the-street’. Most British people, tabloid and broadsheet reader alike, were well aware from newspaper headlines, as early as 1950, that Germany was thriving economically.¹⁵ The *vox populi* tended to explain Germany’s recovery in terms of a stereotypical national characteristic of hard work and military discipline, rather than the underlying differences in national economic philosophy and organisation. David Charles in a lecture on attitudes to Germany quotes one British visitor to Germany in 1957 as saying: “Everything seemed new and clean, everything functioned. England by contrast appeared complacent, untidy and in decline”.¹⁶ This was similar to the attitude expressed in the best known post-war British novel in which the German economic miracle featured:

¹⁴ For a useful introduction: Christian Glossner, *The Making of the German Post-war Economy: Political Communication and Public Reception of The Social Market Economy after World War Two* (London, 2010).

¹⁵ As early as January 1950, newspaper reports announcing that Germany was enjoying a strong economic recovery were appearing in Britain (see Chapter 1 for details of some of the early press reports).

¹⁶ David Childs, ‘The Wirtschaftswunder? British Views on the German Economy and the Germans’ in Franz Bosbach, John R. Davis and Andreas Fahrmeir (eds.) in *The Promotion of Industry: The Anglo-German Dialogue* (Munich, 2009).

The machines were odourless, brightly painted and highly polished. It was all very different from the stench and dirt and heat and noise of a real factory. More like a moving toyshop for grown men.¹⁷

The British elite did not in the main engage in German stereotyping in the same way as the tabloid press or ‘the man in the street’ but accepted the ‘economic miracle’ as a rather painful fact of life and went about in their dealings with the Germans in the usual business-like way expected of professional and commercial circles. However, they were often deeply concerned about Britain’s poor relative performance vis-à-vis Germany and it is their response which is at the heart of this study. British officials might have sometimes displayed exasperation with what they saw as the reluctance of the Germans to ‘play ball’ with British initiatives but whatever private misgivings they may have had about some individual German officials they did not generally slip into the same type of stereotyping of national characteristics that so often filled ordinary public discourse, inflamed by the persistent memorialisation of World War II in books and films and tabloid newspaper headlines.

The dissertation is in three parts each representing a separate theme. The theme of the first part is British attitudes to the German economy and its recovery. The theme of the second part is British attitudes to the all-important system of German industrial relations which both British and German contemporaries thought was Germany’s greatest success, and Britain’s main failure, and explained the two countries different outcomes as exporting and trading countries. The theme of the third part is British attitudes to the various economic issues which arose in British-German relations in the period which seemed to be made so much more complicated than they need have been largely because Germany was doing so well when Britain was not. A surprising number of awkward economic issues arose in the period which seemed to have

¹⁷ David Lodge, *Nice Work* (London, 1988).

Germany at the bottom of them and dominated Britain's international economic relations in the period.

The theme of the first part, on economic aspects, involves what was made of the official information available to ministers and officials in the period. First, there was the new comparative international economic data which for the first time allowed comparative rates of growth, gross national product per head, and the growth of productivity to be compared internationally and this left no doubt for British ministers and officials about the relative performance of the British and German economies. Regardless of its low starting-point, Germany, of all the OEEC countries, achieved the highest rates of growth, and in effect became an international economic benchmark. The economic data was backed-up by the official reports on the performance of the German economy originating from the Bonn Embassy as well as the testimonies of British businessmen and others travelling in Germany.

Secondly, there was the published articles of journalists and economists writing about the German economy. At the time, newspapers did not have the teams of economics reporters that they have now. Broadsheet journalism was largely restricted to factual reportage of international economic developments and events, all without much analytical commentary. However, in the 1950s, *The Financial Times* began to employ financial journalists such as Andrew Shonfield, Robert Heller and Sam Brittan who began to turn out articles which inevitably included pieces on Germany as Europe's most dynamic economy.¹⁸ *The Times* began to take a greater interest in Germany from the mid-1960s when it started regular Thursday reports. The principal commentary on the German economy though was the *Economist* which, as a pro-free market journal, regularly reported on Germany's progress. Indeed, it became something of a regular cheerleader publishing over 900 items touching on the German economy in the period. The professional economists who wrote on the German economy included Thomas Balogh, Graham Hallett and, after he left *The Financial Times*, Andrew Shonfield. All of them were in favour of some form of managed

¹⁸ David Kynaston, *The Financial Times: a Centenary History* (London, 1988), p.213.

economy and particularly a planned economy so there were few paeans of praise for what they saw as a market economy although they recognised it had been successful.¹⁹ It was difficult for them as Keynesians to believe that it had in fact been as successful as it had been without the purposive target-led national planning advocated by the Macmillan and Wilson governments in Britain. They believed the publication of explicit targets was essential for a successful economy and were puzzled Germany appeared to be successful without them.²⁰

Thirdly, there were the exchanges British ministers had with their German opposite numbers and what they had to say about the success of the German economy. There was no minister more willing to talk about his economic policies than the German Minister of Economics, and later Chancellor, Ludwig Erhard, widely credited with being the ‘architect’ of the ‘economic miracle’. On his regular visits to London over the eighteen years he held office he was always happy to explain his ‘social market economy’ philosophy to British audiences. He arranged for the three books he wrote on economic philosophy whilst Minister of Economics to be specially published in Britain where some reviewers thought them ‘propagandist.’²¹ Mark Spicka has shown how successful Erhard and his colleagues were in selling the idea of a consumer society as an alternative to the social democratic approach in Germany.²² There are parallels with the Conservatives in Britain who also wished to point the way to a consumer society but were bedevilled by ‘stop-go’ cycles and could never achieve the same resonance. Although having initially been written off as a reckless free marketer, Erhard gradually came to be held in Britain by both Conservative and Labour ministers in the very highest regard for having presided over Europe’s most

¹⁹ Thomas Balogh, *Germany -An Experiment in ‘Planning’ by the Free Price Mechanism* (London, 1950); Graham Hallett, *The Social Economy of West Germany* (London, 1973); Andrew Shonfield, *Modern Capitalism: The Changing Balance of Public and Private Power* (London, 1966).

²⁰ See Chapter 2 in relation to the question of whether there was planning in Germany.

²¹ See, for example, the *Economist*, 7 March 1959; Ludwig Erhard, *Germany’s Comeback in the World Market: The German ‘Miracle’ Explained by the Bonn Minister for Economics* (London, 1954); *Prosperity through Competition* (London, 1958) and *The Economics of Success* (London, 1958).

²² Mark Spicka, *Selling the Economic Miracle-Economic Reconstruction and Politics in West Germany 1949-1957* (New York, 2007).

successful economy.²³ The records of his meetings therefore provide an insight into what Erhard and other German ministers were saying to their British counterparts, but it becomes only too clear that translating what British ministers heard into valuable ideas for the British economy was an altogether different matter and perhaps a step too far.²⁴

Fourthly, senior officials attended the Anglo-German Economic Committee which met biannually over a period of 17 years prior to the United Kingdom's admission to the EEC. It was a forum for Treasury, Foreign Office, Bank of England and Board of Trade officials to meet with their German colleagues for informal discussions over a couple of days on the economic issues facing their two countries. Although the activities of the committee were known to ministers and officials, its proceedings were not intended for publication, so it presented an excellent opportunity for British delegates to discretely explore in private the reasons for Germany's economic success and ponder any lessons that might be learned.²⁵

The theme of the second part of this study examines the all-important subject of industrial relations. For every prime minister in the period, from Churchill to Heath, finding a new *modus vivendi* with the trade unions was one of their top priorities. The solutions varied from appeasement (Churchill and Eden), tripartite discussions with employers and trade unions (Macmillan and Home), modernisation (Wilson) and legal sanctions (Heath) but each successive approach had no greater effect than the previous, despite the increasingly radical nature of each measure.²⁶ A surprising number of officials and commentators in Britain in the post-war period were interested

²³ TNA T229/179, Cripps Meeting with Erhard, 26 November 1948 when Erhard was dismissed by Cripps and his officials as a reckless marketeer.

²⁴ See, for example: TNA FO 371/104031, 13 May 1953; PREM 11/3800, 26 January 1962; PREM 11/4817 15 January 1964.

²⁵ See, for example, TNA FO 371/127186, AGEC meeting 1/3 July 1957; TNA FO 371 133213/4, AGEC meeting 27/29 January 1958; TNA T 236/6573, AGEC meeting, July 1961.

²⁶ For Churchill, see: Andrew Roberts, *Eminent Churchillians* (London, 1994); for Macmillan, see Keith Middlemas, *Politics in Industrial Society: The Experience of the British system since 1911* (London, 1979) and TNA LAB 10/3241 Conservative Approach 1951-64, 3 July 1969; for Wilson, see Andrew Crines and Kevin Hickson, *Harold Wilson: The Unprincipled Prime Minister? Reappraising Harold Wilson* (London, 2016); for Edward Heath, see John Campbell, *Edward Heath: A Biography* (London, 1993).

in German labour relations not least because of the important part Britain had played as military occupiers supervising the reintroduction of trade unions into the British zone, which included the Ruhr industrial heartland. Even after the occupation was over, the British continued throughout the 1950s to take a close interest with the Bonn Embassy regularly circulating labour relations newsletters to its Whitehall contacts and others including the TUC and individual trade unions.²⁷ British ministers and officials were therefore familiar with Germany's orderly state of industrial relations and the rarity of strikes unlike in Britain. It is therefore not surprising that contemporaries in both Britain and Germany shared a widely held view that the most significant difference in performance between the two countries lay in their workplace relations.

The *Economist* thought Britain was not doing enough to overhaul its system of industrial relations and thought it a delusion "to think Britain could advance permanently by productivity bargains with the trade unions".²⁸ What it believed was needed in Britain was "a wholly compulsory re-structuring of the trade union movement" by reducing the number of trade unions to about a dozen and imposing compulsory secret ballots. The *Economist's* central recommendation was for a new breed of trade unions, which it suggested should be richer, larger and employing more qualified staff.²⁹ It was a case of wishing the British trade unions to be like their German counterparts. The Bonn Embassy thought much the same and believed a thoroughgoing overhaul of industrial relations would help in Britain. The Ambassador, Sir Frank Roberts, was fulsome in his praise of German industrial relations which he put at the heart of Germany's 'economic miracle', recommending it should be given a "good look".³⁰ His experienced Labour Attaché, E.C.M. Cullingford, was convinced that labour relations were the key to the successful

²⁷ See, for example, the following Bonn Embassy newsletters on labour relations- TNA FO 1005/1826, Newsletters 1947-9; TNA FO 1005/1826, Newsletters February/March 1948; TNA LAB 13/1962, Labour Events and Trends, 1964.

²⁸ *Economist*, German Lesson, p.xxxi.

²⁹ *Economist*, German Lesson, p.xxxi.

³⁰ TNA, LAB 13/2129, Memo, Sir Frank Roberts, 'The German Economic Miracle: How Do They Do It?', 18 January 1965.

German economic recovery and over a period of nearly 20 years filed numerous memoranda with Whitehall departments praising the German industrial relations system.³¹ The *Times* Bonn correspondent was another impressed by the German system and suggested that “most economists would take one reason as of paramount importance [for Germany’s economic performance]: good labour relations” and the *Financial Times* carried similar articles identifying the key importance of industrial relations.³²

Informed contemporaries were therefore widely in agreement that the major reason for German success was industrial relations. Graham Hallett in writing about the German ‘social market economy’ thought the German system of industrial relations had been “extremely successful in dealing in a human way with the problems of industrial change”.³³ The Germans were thought to be simply so much better organised in the workplace and as a result could produce greater quantities of quality goods at competitive prices and as a result could out-export the British. Industrial relations is therefore taken in this dissertation as a key case study in examining British attitudes to the German economic miracle. The Germans had no obvious natural or technical advantages over the British other than better organisation.³⁴ The interesting point about this period is that most of the products which the two economies were making and selling were not novel in technological terms. Manufacturers were largely making the same products as before the war but on a larger mass market basis. These were typically home appliances such as radios, washing machines, refrigerators, food mixers and other consumer durables and straightforward mechanical items such as valves, pumps, motors and capital goods. The products were not particularly high-tech such as the computers and mobile telephones, with their sophisticated instrumentation and electronic controls, that drives the consumer markets today.

³¹ TNA LAB 13/3147, Cullingford, Note on German Economic Outperformance, 27 October 1965.

³² *The Times*, Labour Relations the Key to German Success, 11 February 1965.

³³ Graham Hallett, *The Social Economy of West Germany* (London, 1973), p.99.

³⁴ HMSO, Department of Science and Technology, ‘A Brief Review of Science and Technology in Western Germany’, October 1955.

The Germans were recognised as making products that were good quality, reliable and good value and, though not particularly innovative, they were usually better designed than the British equivalent.³⁵ They turned out great quantities of relatively standard goods, but manufactured them more efficiently than other producers. As the better organised, the Germans could take a fairly uninteresting car such as the Volkswagen Beetle, which had in fact been designed in the 1930s, and under the legendary Heinrich Nordhoff who was appointed in 1948 and so impressed the military authorities, began to steadily improve its design and produce it ever more efficiently, and ended selling a world-record beating 15m units by 1975.³⁶ Whilst the well organised German car makers grew rapidly, the poorly organised often craft-based British car-makers struggled and indeed their share of the world car market declined inexorably from almost 50 per cent in 1949 to 20 per cent in 1958 and 15 per cent by 1962 as British cars became a by-word for unreliability.³⁷ When a delegation of British trade unionists visited Volkswagen's Wolfsburg plant in 1959, they were shocked to find how well organised everything was. Three production lines had been established in three shifts operating 24 hours a day, seven days a week, with each line being taken out of service in rotation for a full maintenance check.³⁸ Nothing similar was to be found in British car plants or indeed in other plants in Britain. It was a level of organisation which had arisen with shop-floor consent expressed through works councils, not by compulsion as British commentators sometimes assumed. Change was much more readily embraced by both workers and their trade unions in Germany than in Britain.³⁹ As one British study of the German car industry put it: "in the mid-

³⁵ Paul Betts, *The Authority of Everyday Object: A Cultural History of West German Industrial Design* (Berkeley, 2004).

³⁶ Markus Lupa, *Ivan Hirst: British Officer and Manager of Volkswagen's Post war Recovery* (Wolfsburg, 2003); Geoffrey Owen, *From Empire to Europe: The Decline and Revival of British Industry since the Second World War* (London, 1999), p.223

³⁷ Organisation Internationale de Construction d'Automobiles (OICA), *World Motor Vehicle Production by Country and Type* (accessed 2019); see also, Roy Church, *The Rise and Decline of the British Motor Industry* (Cambridge, 1994).

³⁸ MRC 292/943/10, Trade unions visit to Germany, February 1959.

³⁹ Eric Jacobs, Stanley Orwell, Peter Paterson and Friedrich Weltz, *The Approach to Industrial Change: Britain and Germany: A Comparative Study of Workplace Industrial Relations and*

1950s, the UK motor industry was broadly in step with productivity in Germany but by 1970, German productivity was two thirds greater than in Britain partly because German plants were much larger, better organised and made far better use of scales of production”.⁴⁰

German businesses were envied for their skilled and co-operative work forces by the different British delegations that visited Germany.⁴¹ Some British commentators assumed the Germans worked particularly long hours. The journalist Fyfe Robertson had claimed the Germans had “a new secret weapon – namely hard work” but he also wondered if the British “were not giving ‘a fair day’s work for a fair day’s pay’ ”.⁴² The *Economist* in its 1966 special supplement on Germany found that they worked if anything slightly fewer hours than British workers were so much better organised in the workplace.⁴³ What made the difference in Germany was the well-constituted institutional structure of industrial relations which produced its co-operative work patterns.

What other factors besides industrial relations did contemporaries think might have contributed to the German success? Ironically, some British economists believed

Manpower Policies in British and West German Enterprises (Anglo-German Foundation for the Study of Industrial Society), 1979, p.115.

⁴⁰ D. Jones and S. Prais, ‘Plant -Size and Productivity in the Motor Industry: Some International Comparisons’ in *Oxford Bulletin of Economics and Statistics*, 40, 2, (1978) p.149; see also: D. Davies, S.Hitchens, and A.D.Smith, *International Industrial Productivity: A Comparison of Britain, America and Germany* (Cambridge, 1982); S.Parkinson, *New Product Development in Engineering: A Comparison of the British and West German Machine Tool Industries* (Cambridge, 1984); A.D.Smith, and D.Hitchens, *Productivity in the Distributive Trades: A Comparison of Britain, America and Germany* (Cambridge, 1985); H.Steedman, and K.Wagner, *Productivity, Machinery and Skills: Clothing Manufacture in Britain and Germany*, NIESR (London, 1987); W.Carlin, ‘West German Growth and Institutions 1945-90’, in *CEPR Conference, The Economic Performance of Europe after the Second World War* (London, 1993); Bart Van Ark and Dirk Pilat, *Productivity Levels in Germany, Japan and the United States: Differences and Causes*, Brookings Paper on Economic Activity: Microeconomics (Washington, 1993); M.O’Mahony and K.Wagner, *Changing Fortunes: An Industry Study of British and German Productivity Growth over Three Decades* (London, 1994); S.N.Broadberry, *The Productivity Race: British Manufacturing in Industrial Perspective, 1850-1990* (Cambridge, 1997).

⁴¹ See, for example, MRC 126/FC/3 General Secretaries Visit to Germany, January 1959; MRC 292B/943/20 General Council Visit to Germany, March 1969; MRC 292 B/943 17 Journal Editors Visit to Germany, 25 August 1970; MRC 292/943/10 Trade Unions Visit to Volkswagen, August 1970.

⁴² David Kynaston, *Family Britain 1951-57* (London, 2009), p.616.

⁴³ *Economist*, German Lesson, p.xi.

Britain should have become the more successful post-war economy because it was prepared to embrace national planning to a greater extent than Germany but there was little evidence in practice of this making a difference. The availability of finance might have been a critical factor. Germany's family owned mittelstand companies relied on long-standing relationships with their bankers and as a result enjoyed greater stability. They also took a longer-term view of investments than public company shareholders in Britain. However, there is no evidence that these differences in ownership structure explained the marked difference in economic performance. In fact the British would normally have expected family-owned or bank-owned firms to be over-protected and lack the necessary incentives to become as well-organised as was so evidently the case in Germany.

Might Germany's lack of 'friendly' overseas markets have been a factor in the different performance? The Germans had nothing comparable to British imperial preference or the sterling area where an inconvertible sterling could only be used to buy British goods. The Germans having lost their eastern markets as they fell under the control of the Soviet Union had a strong incentive to build up overseas markets elsewhere in the world and the British were surprised to find how energetic they were in pursuing new markets in the Middle East, Asia and South America. The diplomat Sir Christopher Steel made this point saying the loss of its East European markets had been the incentive for Germany's post-war export drive.⁴⁴ However, it is difficult to see how these developing patterns of trade necessarily led to any greater efficiency in the German firms, whereas their better industrial relations system certainly did.

Erhard's 'social market economy' policies were intended to encourage greater business competition. Might Germany's emphasis on competition have somehow instilled greater organisation in the workplace? It is possible competition may have had a galvanising effect and sharpened business disciplines in the workplace. In Britain, Conservative governments also thought greater competition was needed.

⁴⁴ TNA T 236/6556, Minutes of 10th AGECE Session, 13/15 July 1960; Sir Christopher Steel was the Bonn Ambassador 1963-1968.

Businessmen in 1950s Britain were often inclined, as one cabinet committee found, to explain Germany's greater exporting success as "its greater readiness to cut prices so as to obtain sales".⁴⁵ However, that begged the question whether the Germans were selling below cost or were just more efficient producers. Without much understanding of the way the Germans organised themselves at work, in particular the complex institutional structures of collective bargaining and the relationships between trade unions and employers' associations, the British only too often relapsed into the usual stereotypical myths of hard-working semi-militaristic German workers. Only very slowly did the British come to realise that the real difference was that in the main the Germans simply produced better quality goods with better after-sales service.⁴⁶ This was to become only too apparent in Britain after it joined the EEC in 1973 when the tariffs on imports began to fall and the British demand for German goods began its inexorable rise.

For British commentators, the most interesting aspect of the German economic miracle was its industrial relations as this was far and away the most significant advantage German business had over its British competitors and therefore the greatest of the 'lessons' which post war Germany had for Britain. Industrial relations underpinned Germany's strong manufacturing and export success and in turn its low inflation, export growth, productivity and rapid economic progress. Although British governments were only too well aware of the urgent need for the modernisation of the economy and realised industrial relations lay at the heart of this, there often seemed a reluctance to investigate the lessons the German model of industrial relations might have to offer.

The theme of the third part of this dissertation is British attitudes to the surprising number of frustrating issues which arose in British-German economic relations. There were six main issues which inevitably affected Britain's attitude to the German 'economic miracle' itself, not least because of the disparity in economic

⁴⁵ TNA CAB 130/88, Minutes of the Working Party on Export Trends, 11 January 1954.

⁴⁶ *Economist*, The German Lesson, 15 October 1966, p.vi: Anthony Nicholls, *Freedom with Responsibility: The Social Market Economy in Germany 1918-1963* (Oxford, 1994).

performance between the two countries which made each of the issues harder to resolve. The first of these issues was Britain having to write off some of the pre-war and post-war German debts to help kick-start the German economy which it was pressed to do by its American ally. It had been bitterly disappointed by the post-war financial assistance Keynes secured from the Americans in the Anglo-American Loan Agreement of 1946, and felt it could also have done with some of its debts being written off like the Germans in the 1953 London Debt Agreement. A second issue was that Britain became increasingly concerned about its ability to compete with Germany in overseas export markets, a fear driven home as Germany secured its ever-growing share of world exports which was often at the expense of Britain. Thirdly, as a result of the German export success, it built large trading surpluses and reserves, causing what Britain called 'financial disequilibrium' as it found it far harder to manage sterling as a reserve currency, and balance its budget, leading it into 'damaging stop go' cycles. Matters were in Britain's view only aggravated by Germany's reluctance to revalue what seemed an undervalued deutschmark. Fourthly, since the war Britain had set its sights on restoring the convertibility of sterling to support its role as a financial centre only to find Germany was ready for convertibility much earlier, in fact by 1952, when Britain was not finally ready until 1958. The British felt their delay was caused in part by the difficulties which the success of the German economy caused Britain. Fifthly, the British agreed to station troops in Germany as a contribution to western defences but were increasingly exercised by what they described as 'the foreign exchange costs' which they saw as an unfair contribution to Germany's balance of payments and wished for some form of recompense which was never to be forthcoming, at least to the extent they would have liked. Sixthly, after Macmillan's government decided it wished to benefit from the faster rates of growth in Europe, Britain looked to the Germans for help. The British hoped Germany would persuade France to agree to Britain's applications for an industrial free trade area to include Britain, the EEC countries and the seven outer OEEC countries; and then, when that failed, looked to Germany again for help when it made applications for admission to the EEC. However, Britain's belief that

Germany ‘held the key’ to unlock access to a closer involvement in Europe never materialised to the frustration of British policy-makers.⁴⁷

To the frequent frustration of the British, German economic success seemed to make the various issues which arose in British-German economic relations more complicated than Britain thought they need be; it was a situation which inevitably led to a number of British resentments about the Germans. For British policy-makers, it was hard to avoid the consequences of the German ‘economic miracle’ however much they would have liked to have done so.

Historiography

German and British economic historians alike have all accepted the existence of a dynamic post-war German economic recovery and have generally conferred on it the label of an ‘economic miracle’ on account of it starting from a low base, and continuing for a remarkably long period with the fastest rate of growth in the world. However, the phenomenon has presented different issues to German and British historians. Whilst German historians have been concerned to identify the drivers of the rapid economic growth and how it came about, the British have largely taken it for granted that it was an economic miracle and have simply noted the awkward consequences Germany’s success had for Britain and the way it sought to manage these consequences.⁴⁸

It has been said that British economists focused on full employment whilst German economists focused on inflation in both cases as a result of their “searing experiences” of the interwar period and this may well have been the case and provided the context in which British economists thought of themselves as more sophisticated

⁴⁷ Hermutt Philippe, *“The Germans Hold the Key”: Anglo-German Relations and the Second British Approach to Europe* (Augsburg, 2007); Martin Schaad, *Bullying Bonn: Anglo-German Diplomacy on European Integration, 1955-61* (New York, 2000).

⁴⁸ See: Graham Hallett, *The Social Economy of West Germany* (London, 1973).

and Keynesian and bigger planners than their German opposite numbers who certainly worried about inflation and tended to be dismissed as more market-orientated ordo liberals than the British thought it was prudent to be.

Christian Democratic propagandists and in particular Germany's economics minister, Ludwig Erhard, often described as the 'architect' of the boom, claimed recovery was the result of the party's liberal economic policies known as the 'social market economy' and in particular the currency reforms of 1948. These it was claimed had wiped out much of the excess liquidity in the economy, bringing about price stability, and ushering in an extraordinary level of investment and an export boom.⁴⁹ For the 30 years after the war, the dominant interpretation was that the high growth was the product of high levels of investment.⁵⁰ However, other more nuanced interpretations by a variety of German historians began to emerge from the 1970s which jostled with the conventional interpretations without ever displacing it. Ferenc Jánossy and Werner Abelshauser argued the case for the contribution of the reconstruction of the German economy to the high levels of growth in the decade to the mid 1950s.⁵¹ This was, they argued, the effect of war-shattered economies automatically recovering their long-run productive potential following the lifting of war-time restrictions. The five million dwellings built between 1951 and 1961 was undoubtedly a major factor in propelling domestic economic growth in the 1950s but the fact that economic growth spurted upwards in the 1960s after the formation of the Common Market indicates the primacy of trade expansion and export-led growth which continued for so much longer than was expected. Ludger Lindlar argued that the growth came from the technological catch-up rather than post war reconstruction.⁵² The large scope for transferring labour from agricultural production to manufacturing

⁴⁹ See: Henry Wallich, *The Mainsprings of the German Revival* (New Haven, 1955); Karl Roskamp, *Capital formation in West Germany* (Detroit, 1965).

⁵⁰ Tamás Vonyó, *The Economic Consequences of the War: West Germany's Growth Miracle after 1945* (Cambridge, 2018), p.4.

⁵¹ Jánossy Grillschaal Ferenc, *The End of the Economic Miracle* (New York, 1969); Werner Abelshauser, *Wirtschaft in Westdeutschland, 1945-1948* (Stuttgart, 1975); Vonyó, *Economic Consequences*, p.4.

⁵² Vonyó, *Economic Consequences*, p.5

and service sectors in Germany was identified by others as a driver of growth through greater industrialisation.⁵³ Eichengreen has pointed to a social contract between employers and employees on the division of profits between labour and capital so that employers had the confidence to invest and labour knew that its exercise of moderation of wage demands would allow for high and stable returns from investment although this raises the question of how such a bargain came about and this dissertation suggests below that this was as a result of the institutional structures of industrial relations established after the war.⁵⁴

The most recent self-proclaimed revisionist is Tamás Vonyó who argues on the basis of World War II United States strategic bombing surveys that the destruction of Germany's industrial infrastructure as distinct from its transport system was much lighter than it might have seemed and as a result Germany was able to take the best possible advantage of the opportunities presented by post-war reconstruction. Although he accepts that until the mid 1950s growth was driven by the rise in exports thereafter he ascribes it to a "a dramatic shift towards expansionary fiscal policy and rapid real wage growth from the late 1950s which made the domestic market more attractive for German manufacturers."⁵⁵ He notes that exports surged "in the 1960s at a still remarkable average rate of 10.6 per cent" and went on to observe that "it is, therefore, not without justification that scholars often interpreted the West German miracle as the consequence of an even more remarkable export miracle" and that "this view certainly accords with the impression foreign observers would have made at the time".⁵⁶ He argues that the more important factor was the high levels of wartime investment and that the ensuing growth more or less took place in the same geographical places as the war had taken place in and so his conclusion is that "the

⁵³ Edward Denison, *Why Growth rates differ: Postwar experience in nine western countries* (Washington, 1967); Charles Kindleberger, *Europe's Post War Growth: the role of labour supply* (Cambridge, 1967); Carin Martiin, Juan Pan-Montojo and Paul Brassley (eds.) *Agriculture in Capitalist Europe: from food shortages to food surpluses* (London, 2016), p.12.

⁵⁴ Barry Eichengreen, *The European Economy since 1945: co-ordinated capitalism and beyond* (Princeton, 2007), p.32

⁵⁵ Vonyó, *Economic Consequences*, p.14

⁵⁶ *Ibid*, p.130

staggering growth of the West German economy and its dramatic divergence ... during the early post-war years was not engineered by the Social market Economy or by the new institutions of a new international order. They were primarily the economic consequences of the war and wartime levels of investment, If this were so one wonders why Britain didn't experience much the same instead of the legacy of rather old fashioned and run-down industrial districts British historians normally point to in the years immediately after the war.⁵⁷

There are no works which examine in depth the attitude of British opinion-formers to the German economic miracle, the nearest being a short lecture which was published looking at the views of the 'man in the street' on post-war German prosperity.⁵⁸ The lecture is disappointing though in that it says little more than that British people were impressed with the scope and speed of the German recovery without examining the issues in any depth, or thinking about the wider implications. Most of the literature on British attitudes to Germany thankfully rises above the poisonous wartime propaganda of Lord Vansittart's *Black Record* but inevitably such sentiments lingered on in public discourse after two world wars involving Germany but none of this kind of anti-German literature is of interest in this study.⁵⁹

However, a huge amount has been written in recent years on post-war German politics and economics though without specifically considering what the British may have thought about it.⁶⁰ It is to this literature we need to turn in search of material which gives us clues as to what the British thought and, more importantly, did as a

⁵⁷ David Kynaston, *Austerity Britain 1945-51*, p.399.

⁵⁸ David Childs, 'The Wirtschaftswunder? British Views on the German Economy and the Germans' in Franz Bosbach, John R Davis and Andreas Fahrmeir (eds.) in *The Promotion of Industry: The Anglo-German Dialogue* (Munich, 2009).

⁵⁹ Lord Robert Vansittart, *Black Record: Germany's Past and Present* (London 1941); See for more measured depictions of the tensions and rivalries in Anglo-German relations: James Hawes, *Englanders and Huns: The Culture Clash which led to the First World War* (London, 2014); Matthew Stibbe, *Germany, 1914-1933: Politics, Society and Culture* (Abingdon, 2010) and Philip Oltermann, *Keeping Up with the Germans: A History of Anglo-German Encounters* (London, 2012).

⁶⁰ On the post-war German economy generally, see: Graham Hallett, *The Social Economy of West Germany* (London, 1973); J. Leaman, *The Political Economy of West Germany, 1945-85: An Introduction* (London, 1988); A. Kramer, *The West German Economy, 1945-1955* (New York, 1991).

result of German developments. There are works which have examined particular economic issues such as the story of post-war reconstruction, how the German economic recovery came about, the meaning of Germany's 'social market economy', whilst others have assessed the German economic miracle as an economic phenomenon.⁶¹ Germany's successful economy in the post-war period exercised a particular fascination for British commentators as it performed the role of a benchmark against which British progress could be measured. This may have been the effect, as we have seen above, of commentators in Britain thinking the British and German economies were so similar in structure that they naturally called for comparison. However, German success induced in many British commentators a despondency about the performance of the British economy which they felt was noticeably slipping behind Germany and indeed most of its neighbours, a phenomenon which came to be known as 'declinism' which produced its own rich genre of literature.⁶² The German

61 On the post-war reconstruction, see: I.D. Turner (ed.) *Reconstruction in Post War Germany: British Occupation Policy and the Western Zones, 1945-1955* (Oxford, 1989); James C. Van Hook, *Rebuilding Germany: The Creation of the Social Market Economy 1945-1957* (Cambridge, 2004). On theories about how the German recovery came about, see: Henry Wallich, *Mainspring of the German Revival* (London, 1955); H-J Braun, *The German Economy in the Twentieth Century* (London, 1990); Christian Glossner, *The Making of the German Post-War Economy: Political Communication and Public Reception of the Social Market Economy after World War Two* (London, 2010).

On the Social Market Economy, see: Alan Peacock and Hans Wilgerodt (eds.), *Germany's Social Market Economy: Origins and Evolution* (London, 1989) which presents an ordoliberal view of the development of the Social Market Economy; Anthony Nichols, *Freedom with Responsibility: The Social Market Economy in Germany 1918-1963* (Oxford, 1994); W.G. Gray, ' "Number One in Europe": The Startling Emergence of the Deutsche Mark, 1968-1969' in *Central European History*, 39, (2006), pp 56-78.

On the German economic miracle, see: Alan S. Miward, *The European Rescue of the Nation-State 1945-1951* (London, 1992); Herbert Giersch, Karl-Heinz Paqué and Holger Schmieding, *The Fading Miracle: Four Decades of Market Economy in Germany* (Cambridge, 1992); Marcel Fratzscher, *The German Illusion: Between Economic Euphoria and Despair* (Oxford, 2018) which reviews the economic miracle as it developed in later years.

62 On British fears of declinism, see: W. Beckerman (ed.), *Slow Growth in Britain: Causes and Consequences* (Oxford, 1979); Correlli Barnett, *The Audit of War: The Illusion and Reality of Britain as a Great Nation* (London, 1996); Jim Tomlinson, 'Inventing Decline: The Falling Behind of the British Economy in the Post-war Years', *Economic History Review*, 49, (1996), pp. 731-757; R. Middleton, *The British Economy since 1945* (Basingstoke, 2000); G.L. Bernstein, *The Myth of Decline: The Rise of Britain since 1945* (London, 2004). For a contrary view, Lawrence Black and Hughbert Pemberton, *An Affluent Society? Britain's Post-War 'Golden Age' Revisited* (Aldershot, 2004); see also: Catherine Schenk, *The Decline of Sterling: Managing the Retreat of an International*

economy came to serve as the comparator for declinism but when it came to looking for ideas about improving the economy, the country which attracted most interest as a model for the mainstream of British economists was not Germany, but France, on account of its preference for national economic planning, whilst on the left in Britain it was Sweden and, for a minority, the Soviet Union.⁶³ The successful Japanese and American economies have been, like the German economy, largely ignored as a model for the reform of the British economy. It is nevertheless surprising that, with its role as a comparator for British declinism, there has been no thoroughgoing study of what British opinion-formers specifically thought about the German economy and whether they thought there were any lessons in it for Britain, or indeed whether anything was ever done about any such lessons.

The British and Germans certainly had different ideas on how to manage their economies. The principles of the ‘social market economy’ which were behind the Christian Democrat policies in Germany attracted some academic interest in Britain although mostly not until after our period.⁶⁴ Austrian neoliberal ideas based on the collective of economists who were members of the Mont Pèlerin Society percolated into British conservative thinking in the 1970s, influencing British politicians such as Keith Joseph and Margaret Thatcher, but Conservatives struggled to fit this brand of neo-liberalism into the party’s economic thinking on the economy and it failed to have

Currency 1945-1992 (Cambridge, 2010); Jim Tomlinson, *Managing the People, Managing the Economy: Narratives of Economic Life in Britain from Beveridge to Brexit* (Oxford, 2017).

⁶³ The University of Birmingham National Economic Policy Unit, for instance, produced a number of studies on French national planning: David Liggins, *Notes on French Economic Planning Institutions and related Organisations* (Birmingham, 1971) and David Liggins, *The Preparation of the Sixth French Plan* (Birmingham, 1972); William Harbold, *The Monnet Plan: the French experiment in national economic planning* (Cambridge, Mass, 1953); see also Geoffrey Denton, Murray Forsyth and Malcolm MacLennan, *Economic Planning and Policies in Britain, France and Germany* (a PEP book, London, 1968).

⁶⁴ Graham Hallett, *The Social Economy of West Germany* (London, 1973); Alan Peacock and Hans Willgerodt, *Germany’s Social Market Economy: Origins and Evolution* (London, 1989); A.J.Nicholls, *Freedom with Responsibility: The Social Market Economy in Germany, 1918-1963* (London, 1994); Stephan Sorin Muresan, *Social Market Economy-The Case of Germany* (Mannheim, 2014).

a lasting impact, although it was later taken up by a variety of social democratic politicians who fitted it into a more ‘social’ focus.⁶⁵

As we have seen, there are works by British economists which give some hint of what they thought about the German economy. Graham Hallett felt that the Germans were inclined to rely too much on competition, holding prices down, and promoting exports and therefore assumed the Germans were not as ‘advanced’ or ‘Keynesian’ as the British who relied more on budgetary measures and national plans.⁶⁶ Glen O’Hara reviewed policy-making in Britain and concluded that the German model had been ‘mainly silent’ in Britain.⁶⁷ This raises a conundrum about British attitudes to the German ‘economic miracle’ which has not been explored in any detail to date by scholars. The British were uncomfortable about the German success and often displayed indifference to Germany and the Germans and some irritation at how the former enemy was seemingly doing so much better and this tension was only resolved by throwing in their lot with the Germans by joining them in the Common Market.

Erhard, an anglophile, and architect of the German economic miracle, was always keen to promulgate his ideas in Britain. It is surprising, given how important his part was in the economic recovery of Europe, that there has not been more written by British authors about his relationship with successive British governments other than Martin Schaad’s diplomatic study examining the frustrations of the Macmillan government in dealing with Adenauer and Erhard over the British free trade proposal.⁶⁸ Apart from this there is nothing which touches Britain’s relationship with Erhard more generally, or how Erhard’s ideas were received in Britain. The only biography of Erhard published in Britain, Alfred Mierzejewski’s *Ludwig Erhard, A*

⁶⁵ Philip Mirowski and Dieter Plehwe, *The Road from Mont Pèlerin: The Making of the Neoliberal Thought Collective* (Harvard, 2009); Daniel Stedman Jones, *Masters of the Universe, Hayek, Friedman, and the Birth of Neoliberal Politics* (Princeton, 2013).

⁶⁶ Graham Hallett, *The Social Economy of West Germany* (London, 1973), p.67.

⁶⁷ Glen O’Hara, *Governing Post-War Britain: The Paradoxes of Progress, 1951-1973* (London, 2012).

⁶⁸ Martin Schaad, *Bullying Bonn: Anglo-German Diplomacy in European Integration 1955-61* (Basingstoke, 2000).

Biography is a translation which barely mentions Britain let alone explores the relationship between British ministers particularly Erhard and successive British governments.⁶⁹

The Anglo-German Economic Committee involved Treasury and Foreign Office officials of the two countries meeting together biannually over about 15 years to discuss economic issues and was an important source of information for British officials on the economic thinking of German economic officials. However, no study has ever been made of these discussions and they are barely mentioned by historians. Whilst the BDI met regularly with its French counterparts, there was no pattern of regular meetings of the BDI and the FBI which speaks of a lack of appetite on the part of British businessmen for learning from the German competition.

Germany's great success was its industrial relations. The 1945 Labour government was keen to trumpet its part in establishing Germany's democratic trade unions and system of collective bargaining after the war.⁷⁰ However, there is no scholarly work which examines the programme of restoring labour relations which in the years 1945-9 involved hundreds of British officials from the Manpower Division operating in Germany. It was a programme that was arguably more important than the denazification programmes in paving the way for a democratic Germany. The involvement of the Manpower Division in post-war German labour relations barely gets a mention in the leading work on post-war reconstruction, James C. Van Hook's *Rebuilding Germany: The Creation of the Social Market Economy, 1945-1957*. How the Germans managed to establish their distinctive system of industrial relations and collective bargaining under the noses of the sceptical British occupiers would make a fascinating study. The British did not disguise their dislike of many of its features such as the legal enforceability of collective agreements and the emergence of works councils but were not prepared to put their foot down to stop it.⁷¹

⁶⁹ Alfred Mierzejewski, *Ludwig Erhard: A Biography* (North Carolina, 2004).

⁷⁰ HMSO, *Industrial Relations in Germany 1945-1949: an account of the post war growth of employers' and workers' organizations in the British Zone of Germany*, Foreign Office, 1950.

⁷¹ Beate Ruhm von Oppen (ed.), *Documents on Germany under Occupation 1945-1954* (Oxford, 1954); Mark Roseman, *Recasting the Ruhr, 1945-1958: Manpower, Economic Recovery and Labour*

Post-war German industrial relations have been studied mainly by international economists in the context of the many international comparative studies of labour relations, productivity performance and how redundancy and industrial change have been handled in different countries.⁷² These studies are not the work of historians but rather economists studying comparative international industrial performance, but they still give useful clues about why British economists thought German industrial performance exceeded Britain's. There is only one British study of the post-war development of German trade unionism and its system of collective bargaining and that was a short work published by E.C.M. Cullingford in 1976. He had been the Bonn Labour Attaché in the 1960s and his relatively concise book written after retirement is an intelligent insider's view rather than a scholarly work but is nevertheless revealing of British attitudes especially those of the Bonn Embassy.⁷³

There is no narrative account of the negotiations for the 1953 London Debt Agreement which relieved Germany of about half its international debts, though ironically, there has recently been some interest in the topic as a result of the Greek financial crisis of 2008.⁷⁴ Historians have therefore largely ignored the significance of the LDA with the result there is no full historical study and the only short study that has been published does not even examine the effect of the debt write-off on Britain and certainly does not cover how the British felt about it.⁷⁵

The panic British politicians and officials got into in the mid-1950s about the German trade competition has also not received scholarly attention. The post-war

Relations (New York, 1992); James C. Van Hook, *Rebuilding Germany: The Creation of the Social Market Economy, 1945-1957* (Cambridge, 2004); Armin Grünbacher, *The Making of German Democracy: West Germany during the Adenauer Era 1945-1965* (Manchester, 2010).

⁷² Karl Koch, *The German System of Industrial Relations: a Model for Britain?* (London, 1996); Herbert Spiro, *The Politics of German Codetermination* (Harvard, 1958); Bo Strath, *The Organisation of Labour Markets, Modern Culture and Governance in Germany, Sweden, Britain and Japan* (London, 1999).

⁷³ E.C.M. Cullingford, *Trade Unions in West Germany* (London, 1976).

⁷⁴ Kenneth Dyson, *States, Debt and Power: 'Saints' and 'Sinners' in European History and Integration* (Oxford, 2014); Lynn Matthew, *Bust: Greece, the Euro and the Sovereign Debt Crisis* (London, 2010).

⁷⁵ Timothy Guinnane, *Financial Verangenschaftsbewältigung: The 1953 Debt Agreement, Economic Growth Centre, Discussion Paper, 880, Yale University* (http://econ.yale.edu/growth/pdf/cdp_880.pdf) (accessed October 2018).

strategy of developing Commonwealth trade failed to bring about the required expansion of Britain's exports. The British realised the Germans were doing so much better than themselves in world export markets, including those which had been traditional British markets. Whilst Germany's manufactured exports were two thirds that of Britain in 1953 they were increasing at a rate which would exceed Britain's by the end of the decade. A committee of Treasury and Board of Trade officials under Cabinet Office auspices was set up to monitor export trends and its anxiety about the German competition was soon widely picked up in both the popular and broadsheet press, especially in the *Economist*, as well as in parliamentary questions, by economic commentators and it continued for some four or five years.⁷⁶ The panic only seemed to subside once the decision was taken to get closer to the Germans in some form of free trade area.⁷⁷ Worries about the German competition in the 1950s and the effect it had on propelling Britain's turn towards Europe so as to share some of Germany's economic growth has not received as much attention from historians as might have been expected.

There is no study of how the British felt about Germany's conservative international financial policies creating what they called 'financial disequilibrium' with high interest rates, an undervalued deutschmark and the building of huge reserves which British politicians and officials felt made great difficulties for overseas countries particularly Britain.⁷⁸ Whilst British irritation with the Germans is well known, historians have not told the story of the British efforts to persuade the Germans to become 'good creditors' and play a more 'responsible' role in the management of

⁷⁷ Press, e.g., *Daily Mirror*, 27 April 1962; *Economist*, The German Competition, 15 October 1957. Parliamentary questions, e.g., House of Common Debates, Oral Questions, 10 March 1953, 2 April 1953, 8 April 1953, 16 April 1953, 12 November 1953, 19 November 1953 and 17 June 1954. Economic commentators e.g., PEP, *Competition from Germany*, 21 June 1954.

⁷⁸ TNA FO 371/104031 Minutes of a Meeting between The President of the Board of Trade and the German Chancellor, 13 May 1953 ; see: Harold James, *International Monetary Cooperation since Bretton Woods* (Oxford, 1996); Barry Eichengreen, *Globalising Capital: A History of the International System* (Princeton, 1996); Markus Brunnermeier, Harold James, Jean-Pierre Landau, *The Euro and the Battle of Ideas* (Princeton, 2016); Barry Eichengreen, Arnaud Mehl and Livia Chitu, *How Global Currencies Work* (Princeton, 2018).

the deutschmark, or indeed what the British even felt about the Germans dragging their feet over it all.

The economic issue which probably most often raised its head in parliamentary questions, as well as ministerial and official meetings, was Britain's efforts to obtain reimbursement from the Germans of the foreign exchange costs of the BAOR and Britain's pressing the Germans to buy more of its arms production with a view to easing Britain's balance of payments problems. Hubert Zimmermann, has written about the steps taken first by the British and later by the Americans to obtain some reimbursement from the Germans but he says very little about how the issue came to assume the enormous significance it had in British politics or indeed how the British viewed the German reluctance to pay. For successive prime ministers, it was a deeply significant issue which they were determined to resolve, but their failure to obtain complete satisfaction became a long-running and very frustrating saga.⁷⁹

There have been numerous diplomatic studies of Britain's efforts between 1957 and 1972 to first form a European-wide Free Trade Area and, subsequently, when that failed, to apply for membership of the EEC. Apart from Martin Schaad's study of the free trade negotiations⁸⁰ the focus has primarily been on the EEC rather than specifically Germany. However, the context in which joining Europe emerged as a priority was the early success of the German 'economic miracle' which persuaded the British that in order to benefit from its high rate of growth Britain needed to join by taking the fullest possible advantage of its connections with Ludwig Erhard and German business, only in the event to find that the Germans were not able to give them the help for which they long hoped. The focus in this study is specifically on the German rather than the Common Market angle.

The historiography of British attitudes to the German economic miracle is therefore patchy and there are significant gaps. This study therefore seeks to bring

⁷⁹ Hubert Zimmermann, *Money and Security: Troops, Monetary Policy, and West Germany's Relations with the United States and Britain 1950-1971* (Cambridge, 2002).

⁸⁰ Martin Schaad, *Bullying Bonn: Anglo-German Diplomacy on European Integration, 1955-61* (London, 2000).

together the different elements in the existing historiography and to fill some of the gaps to produce a more comprehensive study of the attitudes of British opinion-formers towards the ‘economic miracle’.

Methodology

This is a dissertation about British attitudes to the post-war German economic resurgence. It is therefore a study of British history, not German. It is about what British actors thought about Germany and the German economy. As a study of attitudes, it is not concerned with the question of whether the British actors correctly understood what was happening in Germany, only what they thought or believed was happening there, and generally what they made of it. If the British actors believed Germany’s economic growth was very high and amounted to an ‘economic miracle’ then that has its own verisimilitude and we do not need to check whether they were right or wrong in their assessment. There were of course many actors who were expressing their views on Germany and inevitably they were not always consistent with each other and so it is necessary to take different views into account, but it is remarkable that there was a great deal of consistency in what people had to say on German matters.

The study is not a narrative history in any conventional sense nor an analysis of cause and effect. The topics for study are selected as a result of listening as carefully as possible to what the British actors said in meetings, papers, newspapers, books and in broadcast items on Germany. The British actors in effect identified the topics for this study because of the choices of subjects they made upon which to comment on the Germany economy. The subjects upon which comments were most regularly made included Germany’s rising exports and the threat this posed to Britain’s

own exports, and on the stability of the German currency and how as a result Germans were assumed to be living more comfortably and were better housed and better fed and indeed were travelling more even if these perceptions were not always necessarily true, but those making the comments nevertheless felt they were; they were frustrated at how Germany's debts seemed to have been written off at the expense of the British; they worried about Germany's accumulation of massive trading surpluses and the so-called 'financial disequilibrium' to which this all gave rise; and they were upset about the costs of stationing British troops in Germany which seemed an affront to Britain's sense of fair play especially as they felt a wealthy Germany should shoulder a bigger share of the burden of the defence costs on their eastern border; and they were worried Germany was shooting ahead economically especially when the Common Market took off. But the topic where they felt there was the biggest gap between Britain and Germany was industrial relations where the British were greatly frustrated by their increasingly dysfunctional system compared to the efficiency and effectiveness of the German system. The comparison between Britain's disrupted and Germany's peaceful industrial relations was the principal subject on which the British chose to comment yet they never took the conversation to the point of understanding why the German system worked so much better. Industrial relations was the area in which all recognised that reforms were most desperately needed but it proved by far the most intractable problem to tackle successfully. Ministers and officials were unsure whether they needed to wield the scalpel or offer encouraging bromides, employers protested they had an inviolable 'right to manage' yet much of the time said they felt largely helpless to bring about any improvements, and were gradually succumbing to reliance on the palliative of using ever greater legal penalties; the trade unions simply blamed the employers for the falling productivity which held back their members' wages rises without being prepared to make the changes in practice that were so desperately needed; whilst the public at large were heartily sickened at hearing how the Germans seem to have managed to steal such a march on Britain and were doing just so much better. For whilst many in Britain had a lot to say about France and its general ambience, or about Italy with its culture or later Spain as a tourist playground, the

focus in conversations about Germany was generally much more narrow, limited to its successful economy and how the country had recovered so well. Along with Switzerland, it was seen as a symbol of efficiency and modernity with everything seeming to work.

The period covered in this study is from 1948 to about 1971 and much of the the material for this study comes from the archival sources relating to key ministers and officials to be found in The National Archives, the Modern Records Centre and the Bodleian as supplemented by extracts from the press, parliamentary debates and other contemporary sources including the biographies and papers of the key players and commentators as well as the relevant historiography.

1948 was a pivotal year in the German economic revival. The currency reform of that year involved the introduction of the deutschmark and the writing off of excess liquidity. The reforms came to be seen as very successful and were credited with reviving the economy and, in Christian Democrat eyes, acquired a ‘founding myth’ status. It did not bring about, as some in Germany feared, another bout of hyperinflation as after the first world war.⁸¹ Instead, conditions fell into place for German manufacturers to begin successfully producing and exporting again. Erhard’s economic reforms, based on his ordoliberal philosophy, introduced trade liberalisation and greater competition ushering in Germany’s booming economy. 1948 also marked the point at which the allies began to step back from military occupation, paving the way for the new Federal Republic in 1949 which was to assume control of the economic recovery. It is therefore the natural starting point for this study.

As for the most appropriate end-date, that would naturally be when the high rate of economic growth returned to a more ‘normal’ rate. The German economic miracle seemed unstoppable throughout the 1950s and most of the 1960s though British commentators were often quick to see any minor set-back in the German economy as a sign of its end. The German recession in 1966/67 was the first significant

⁸¹ Frederick Taylor, *The Downfall of Money: Germany’s Hyperinflation and the Destruction of the Middle Class* (London, 2013).

pause in the high rates of growth and would have marked an appropriate end-point for this study had it not been for the wider context. The key issue in this dissertation is Britain's crisis-ridden industrial relations and its attitude to Germany's successful system as evinced in the Royal Commission Report of 1968, and the Labour government's attempt to impose a more radical approach to industrial relations in the form of *In Place of Strife* and the Conservative government's short-lived 1971 industrial relations legislation which unsuccessfully attempted to introduce the law into collective agreements.⁸² The optimum end-point of this thesis is therefore circa 1971 by which time it had become clear that admiring as they were of Germany's industrial peace and economic revival there were in fact few lessons the British were inclined to take on board on the key issue of industrial relations. It was also the end of the Bretton Woods system and is broadly the end of the period of stable growth before the unsettling events of the oil price shock.

The thesis therefore spans the period 1948 to circa 1971. It is a study of British attitudes towards Germany even when those attitudes were bound-up with attitudes to the EEC. The Macmillan government decided in the late 1950s that it wished to get closer to Europe, not just on account of the large European market it could better access, but more importantly, the chance to get closer to Germany which was the dynamic heart of the European economy. The government was only too well aware of the impact the German economic recovery was having and how it had become the major driver of European growth, and it feared Germany might shoot ahead economically leaving Britain straggling behind.

This study takes an 'empirical analytical' approach which examines real-world empirical and mentality questions and the ways in which institutions structure and shape behaviour and outcomes. The three themes, namely, economics, industrial relations and the difficulties in British-German relations are each explored in broadly historical sequence but without a single linking narrative story.

⁸² HMSO, Report of the Royal Commission on Trade Unions and Employers' Associations 1965-1968, Cmnd. 3623, June 1968. HMSO, 'In Place of Strife: A Programme for Action,' Cmnd. 3888, January, 1969. Industrial Relations Act 1971.

In the limited space afforded by a dissertation, it is necessary to be selective in the selection of the topics to be discussed. It would have been interesting, for instance, to have included British attitudes to German social welfare policies, an area which has attracted much comparative historical interest from historians, or attitudes to industrial design and technology, or attitudes to German banking, or attitudes to German competition law, or attitudes to German internal taxation, or attitudes to German education, management and industrial training, all of which had some effect on Germany's economic success.⁸³ Germany's training schemes, particularly industry's ability to train huge numbers of apprentices, indeed ten times as many as in Britain, and the 'two schools' approach to education and training whereby apprentices split their time between academic school and industrial training up to the age of 18, were much admired by educationalists in Britain, and prompted Britain to take some steps to reform its own system of industrial training though on a less successful basis than Germany.⁸⁴ Given the limited space available, the topics selected are those directly related to Britain's attitude to Germany's 'economic miracle'. In general, this means that the topics that have survived the cut are only those which the British opinion-formers chose to talk about as directly impinging on Germany's economic success.

Original Sources

⁸³ Wolfgang Mommsen and Wolfgang Mock, *The Emergence of the Welfare State in Britain and Germany 1850-1950* (London, 1981); E.P. Hennock, *British Social Reform and German Precedents: The Case of Social Insurance 1880 to 1914* (Oxford, 1987); E.P. Hennock, *The Origins of the Welfare State in England and Germany, 1850-1914: Social Policies Compared* (Cambridge, 2007); Deborah Cohen, *The War Comes Home: Disabled Veterans in Britain and Germany, 1914-39* (Berkeley, 2001); Jochen Clasen, *Converging Worlds of British and German Social Policy* (Oxford, 2011). Peter Senker, *Industrial Training in a Cold Climate* (London, 1952). Paul Betts, *The Authority of Everyday Objects: A Cultural History of West German Industrial Design* (Berkeley, 2004), p.35.

⁸⁴ Senker, *Industrial Training*.

The British government issued a number of official documents relating to Germany during the period. It is unusual for a government in one country to issue reports about the domestic affairs of another but so pleased was the Labour government with its role in the re-establishment of democratic trade unions in Germany that in 1950 it published, with obvious self-satisfaction, a command paper giving a full account of industrial relations developments in Germany during the military occupation. It made clear it did not necessarily agree with some of the directions taken by the Germans such as the legal enforceability of collective agreements and the promotion of works councils even though they pre-dated the First World War but which they nevertheless thought a threat to the trade unions.⁸⁵ The key source on British attitudes to German industrial relations in the post-war period are the Report and the Minutes of Evidence published by the Royal Commission on Trades Unions and Employers' Associations (the Royal Commission).⁸⁶ Whilst the Report only examines the German experience in the context of the question of workers on company boards, the voluminous oral and written evidence reveals much about what businessmen, academics, journalists and particularly trade unionists thought about the German system of industrial relations. Many of the business witnesses made it known they were impressed by what they had seen of German industrial relations, but the majority of trade unionist and academic witnesses as well as the majority of the Commissioners themselves, as largely disciples of the prevailing voluntarist school of trade unionism, showed little or no enthusiasm for the successful German model.

A 1955 report published by the Department of Science and Technology showed just how nervous government was about German science and technology. The report was a lengthy (though described as 'brief') review of German scientific and

⁸⁵ HMSO, *Industrial Relations in Germany 1945-1949, an Account of the Post-War Growth of Employers' and Workers' Organisations in the British Zone in Germany*, Cmd. 7923, January 1950: see also Foreign and Colonial Office, *A Report on Industrial Relations in Germany*, 1980.

⁸⁶ HMSO, *Report of the Royal Commission on Trades Unions and Employers' Associations, 1965-1968*, Cmnd. 3628.

technological innovation, published to shame British business into competing harder with their German counterparts.⁸⁷

Two command papers were issued about the agreement on German debts reached at the 1952 London Conference. Neither said anything about the policy objectives behind the agreement such as clearing the deadweight of old debts to kick-start the German economy. By its reticence, the British government showed its lack of enthusiasm for the agreement which it considered yet another burden originating in Germany.⁸⁸

Various Board of Trade Journal articles showed just how nervous the British government had become by the mid-1950s about the threat of German competition. A cabinet office committee, the Working Party on UK Export Trends, was established to monitor the situation and it produced numerous reports which were almost wholly devoted to the German competition. These reports formed the basis of the Board of Trade's articles which were designed as a 'wake-up' call to British industry.⁸⁹ The complaint about Britain's poor exporting record vis-à-vis the Germans was followed up in the 1960s in another command paper on export competition published under the auspices of the NEDC.⁹⁰ Once again, the concern was German competition.

Duncan Sandys 1957 Defence White paper proposed a reduction in Britain's worldwide defence expenditure. It provided the background to the persistent attempts of the British government to obtain reimbursement of the BAOR costs.

The approach to Europe involving proposals for a possible Free Trade Area and later the applications for membership of the EEC produced a succession of command papers which provide useful background material to these initiatives although there is little said about the means by which the British intended to realise their aims which

⁸⁷ HMSO, Department of Science and Technology, *A Brief Review of Science and Technology in Western Germany*, October 1955.

⁸⁸ HMSO, *Report on the Conference on German External Debts*, Cmd, 8653, February–August 1952; HMSO, *Agreement on German External Debts*, Cmd. 8781, 27 February 1953.

⁸⁹ See: Board of Trade Journal articles, 28 July 1956 and 18 August 1956.

⁹⁰ HMSO, NEDC, *Export Trends*, 1963.

was to invoke German assistance to press France to agree to British admission, the French being, as so often the case, the ‘elephant in the room’.⁹¹

The National Archives hold a multitude of official minutes, memoranda, correspondence and other papers relating to the management of economic relations with Germany. The files of the German Department of the Foreign Office are the primary source but other Whitehall Departments were also much involved with German issues and important papers are to be found in the files of the Cabinet Office, Treasury, Board of Trade, Ministry of Labour as well as the Bank of England. In particular, on industrial relations, the Manpower Organisation papers in the 1940s and the papers of the Bonn Labour Attachés in the 1960s are particularly important sources. For much of the period, the Bonn Labour Attachés issued a stream of lengthy newsletters on German industrial relations which were circulated widely around Whitehall Departments. The widespread dissemination of the Bonn Embassy’s newsletters and memoranda attest to the high level of interest in Whitehall in German labour relations.⁹² The Bonn Labour Attachés provided reports explaining, sometimes extolling, Germany’s economic organisation and particularly its successful system of industrial relations which they believed drove the ‘economic miracle’.

For original documents on the attitudes of British trade unionists about Germany, the various delegations of TUC and trade union leaders that visited their German counterparts, the Modern Records Centre at Warwick holds much useful information in the form of TUC minute books, correspondence and papers.⁹³

⁹¹ HMSO, *A European Free Trade Area: United Kingdom Memorandum to the Organisation for European Economic Co-operation*, Cmnd. 72, February 1957; HMSO, *Negotiations for a European Free Trade Area: Report on the Course of Negotiations*, Cmnd. 648, 30 January 1959; HMSO, *Negotiations for a European Free Trade Area: Documents Relating to Negotiations from July 1956 to December 1958*, Cmnd. 641, 30 January 1959; HMSO, *Stockholm Draft Plan for a European Free Trade Association*, Cmnd. 823, 1959; HMSO, *The United Kingdom and the European Economic Community*, November, 1961, Cmnd. 1565; HMSO, *The United Kingdom and the European Economic Community*, August 1962, Cmnd. 1805; HMSO, *The United Kingdom and the European Communities*, November 1962, Cmnd. 1882; HMSO, *The United Kingdom and the European Communities*, December 1962, Cmnd. 1910.

⁹² These were published under various titles: In MRC 292B/943/3 are to be found: ‘Labour Events and Trends’, ‘Review of Labour Events’ and ‘Labour Attaché Review’.

⁹³ See, for instance: MRC, 126/PC/3 General Secretary Visit to Germany, 1959.

On Conservative thinking about trade union reform, in the period they were in opposition from 1964 to 1970, recourse must be made to the Conservative Party Records held at the Bodleian. The Labour government commissioned the Royal Commission Report and then attempted its own more radical reform in a command paper *In Place of Strife* and documents on this can be found in the papers of the Cabinet Office and the Department of Employment held in The National Archives.

House of Commons Debates are also an important source on attitudes to the German economy. The volume of questions asked on any topic usually indicated its saliency in political discourse. On economic issues by far the most common issue raised in the mid-1950s was the German competition.⁹⁴ Thereafter the topic on which government ministers were pressed most frequently was the reimbursement of the foreign exchange costs of the BAOR and later the Approach to Europe. The Treasury invariably made sure that senior ministers and officials were briefed to raise the issue of the BAOR's foreign exchange costs in any meetings they had with their German counterparts and indeed it was a perennial item on the agendas of the biannual meetings of the Anglo-German Economic Committee.⁹⁵ The foreign exchange costs of the BAOR was a long-standing thorn in the side of both Conservative and Labour ministers as they were so easily taken to task by their own as well as opposition MPs over their apparent inability ever to reach a satisfactory conclusion.

Another invaluable source is the contemporary press and both the *Financial Times* and *The Times* ran regular news stories on the German economy and so occasionally did *The Daily Telegraph* although comment in the broadsheets of the period was mostly limited to leader columns with few in-depth analyses. News from Germany tended to be reported much more matter-of-factly than today. The *Economist* carried more international economic news and analysis than any other newspaper or journal and it probably ran as many articles on Germany as on any other country. Its

⁹⁴ See, for instance: Hansard, House of Commons Debates, 12 November 1953, Col 1127, Export trade (Foreign Competition).

⁹⁵ See, for instance: Hansard, House of Commons Debates, 25 March 1955, Col. 209, Germany (Occupation Costs; also: TNA 371/171492, AGEC Session, July 1963, Briefing Paper by Officials on Stationing Costs.

24-page 1966 special supplement ‘The German Lesson’ was the most important British journalistic contribution on the ‘economic miracle’ and no similar supplement was run on any other country. The *Spectator* ran only eight articles on Germany in the period despite the engagement of a free-lance political correspondent in Bonn.⁹⁶ These included articles of praise for the German economy by Conservative politicians: Nigel Birch was impressed by Ludwig Erhard’s ‘dash for growth’ whilst controlling public expenditure, his opposing of a universal welfare state and his building up of reserves. On the other hand, his colleague, Jock Bruce-Gardyne, was more impressed by the SPD’s Schiller “rendering Keynesian management of the economy respectable for the first time in post-war Germany”.⁹⁷ Other items in the *Spectator* followed the usual Conservative line in criticising the German reserves and the cost of the BAOR.⁹⁸ *The Listener* published the transcripts of some 25 BBC broadcasts about Germany but the great majority of them were political rather than economic and usually by Germans living in London.⁹⁹ Often the pieces expressed great anguish about Germany. A common phrase used, which had come from a *Times* leader, was that Germany was “an economy looking for a nation” which rather patronisingly implied that despite great economic success there was something hollow about German culture and the German state. Hugo Buschmann warned that: “Not everything in the German garden is lovely...we have a workable economy, but what [the Germans] do not have is a politically conscious society.”¹⁰⁰ *Encounter* ran a special German number which

⁹⁶ Sarah Gainham and then Konrad Ahlers but both limited themselves to political issues.

⁹⁷ Nigel Birch was a Conservative MP 1945-1970 who as Economic Secretary to the Treasury in 1958 famously resigned with Peter Thorneycroft and Enoch Powell. Nigel Birch, ‘A Dynamic Economy Without Inflation’ in *The Spectator*, 14 February 1958. Jock Bruce-Gardyne was a Conservative MP 1964-1983 who was a key aide to Edward Heath, but later became a well-known monetarist. Jock Bruce-Gardyne, ‘A Spectator’s Notebook’ in *The Spectator*, 23 February 1968

⁹⁸ *The Spectator*, ‘The Irresponsible Germans’, 11 August 1967 and ‘In the Shadow of the Crash’ 22 November 1968.

⁹⁹ For instance, the following *Listener* articles: Carl Amery, ‘What is Wrong with Germany?’ 24 April 1958 and ‘Why does Germania Weep?’; Karl Robson, ‘The Changed German’, 14 May 1959; Friedrich Burschell, ‘The Malaise of the German Intellectual’ 31 July 1958; Alexander Mitscherlich, ‘Germany’s Problem of Collective Shame,’ 10 March 1960; J.K.Zeidler, ‘Is Business Stability Suspect’, 14 May 1964; Theo Somner, ‘Letter from Germany’, 2 January 1969.

¹⁰⁰ *The Spectator*, Hugo Buschmann, ‘There is no German ‘economic miracle’, 14 January 1960.

showed the interest which had arisen about Germany but it had nothing much to say about the 'economic miracle.'¹⁰¹

There were only very few books published in Britain in the 1950s which offered an analysis of the German economic recovery. Henry Wallich published a book about the German recovery which was widely reviewed in Britain.¹⁰² The fullest expositions about the economic miracle which were published in Britain in the 1950s were in fact Ludwig Erhard's own polemical books on the German success: *Germany's Comeback in the World Market* and *Prosperity through Competition*.¹⁰³ It was not until 1966 that a British academic, Richard Hiscocks, published a work for the general reader on Germany's economic revival.¹⁰⁴ This was followed shortly afterwards in 1968 when PEP published an analysis of the German economy as part of a comparative study of the British, French and German economies which had as its primary aim an investigation of the extent to which the three countries pursued economic planning.¹⁰⁵

British books which covered the German economic miracle only turned from a trickle to a torrent in the 1990s, thirty or so years after the event, perhaps a testament to the reluctance of the British to study the subject until it became a part of history. The Oxford historian, Anthony Nicholls, published a book on the social market economy in Germany in 1994 and this was a forerunner of a steadily growing literature over the next twenty-five years.¹⁰⁶ By the 1990s, memoirs were beginning to appear which described post-war Germany. Edward Heath, for instance, mentions visiting Dusseldorf in 1950 and in his memoirs wrote that he was:

¹⁰¹ *Encounter*, Germany-a Special Number, April 1964, Vol. xxii (4).

¹⁰² Henry C. Wallich, *Mainsprings of the German Revival* (Yale, 1955). Henry Wallich was a U.S. central banker from a German banking family. He was involved in the debates over Bretton Woods and was a member of the U.S. Council of Economic Advisers in the 1950s.

¹⁰³ Ludwig Erhard, *Germany's Comeback in the World Market: The German 'Miracle' Explained by the Bonn Minister for Economics* (London, 1954) and *Prosperity through Competition* (London, 1958).

¹⁰⁴ Richard Hiscocks, *Germany Revived: An Appraisal of the Adenauer Era* (London, 1966).

¹⁰⁵ G. Denton, M. Forsyth and M. MacLennan, *Economic Planning and Policies in Britain, France and Germany* (a PEP book, London, 1968).

¹⁰⁶ Anthony Nicholls, *Freedom with Responsibility: The Social Market Economy in Germany 1918-1963* (Oxford, 1994).

staggered by what I saw there ... the entire city had been rebuilt from its state of utter destruction, shops were flourishing and once again there were open-air cafés along the canal, thronged with young people drinking beerit was as though the war had never taken place.¹⁰⁷

In this thesis, therefore, official papers published by the government and original documents to be found in The National Archives, the Modern Records Centre and the Bodleian provide the main archival sources. Newspapers and journals, as well as Hansard and published works supplement these.

Synopsis

As explained above, the substantive part of the dissertation consists of three themes and these are examined in respectively Parts I, II and III.

Part I deals with British Perceptions of the Economic Miracle. Chapter 1 (Germany's Economic Recovery) examines how the British learned about Germany's impressive economic recovery and what they made of it. It looks at how the new international economic data that became available after the war revealed to politicians, officials and interested commentators how much better Germany was doing than Britain and in effect established Germany as a benchmark for Britain, and indeed other countries, to assess their own performance. The German success was hammered home by the favourable official reports and analyses of German economic performance filed by the Bonn Embassy. Chapter 2 (the Social Market Economy) examines what contemporaries thought about the German economic ideas known as the 'social market economy' and how much British politicians and officials and commentators were influenced by them in their perception of the 'economic miracle'. In Chapter 3

¹⁰⁷ Edward Heath, *The Course of My Life: My Autobiography* (London, 1998).

(Ludwig Erhard's visits to Britain) the meetings of Ludwig Erhard with British ministers over the 17 years he was in office as Minister of Economics and Chancellor are examined to assess what he had to say to British politicians and officials about his economic ideas and their reactions to it, particularly whether they thought they could learn from Erhard's economic philosophy. Chapter 4 (The Anglo-German Economic Committee) looks at the record of the biannual meetings of the Anglo-German Economic Committee, comprising the most senior economic and financial officials of the two countries, to see how interested British officials were in learning from their opposite numbers about what was going well with their handling of the German economy.

Part II looks at the central issue of industrial relations which both the British and, for that matter, German contemporaries, regarded as the crucial factor in Germany's economic success. Chapter 5 (Attitudes during the British Military Occupation) looks at the first five years after the war when the Germans re-established democratic trade unions and a new system of industrial relations on a completely different model to that in Britain. German trade unionists demanded a single powerful trade union but after a great deal of debate with the British compromised on 16 industry-based trade unions, as well as legally-enforceable collective agreements through an industrial court system and a system of works councils intended to resolve local grievances. The works councils drew inspiration from a long-standing demand of German trade unionists and were very different from Britain's experience of wartime joint production committees and the Whitley Councils established in the post-war period mostly in the public services.¹⁰⁸ There was little about the new system of industrial relations set up by the Germans after the war which had not commended itself to the sceptical military authorities. What did the large contingent of British labour relations advisers stationed in Germany and the stream of TUC representatives and trade unionists which the Labour government encouraged to visit Germany have to say about the institutional structures of the new German industrial relations system?

¹⁰⁸ Daniel Todman, *Britain's War: A New World 1942-1947* (London, 2020), p.385.

Chapter 6 (Germany's Remarkable Industrial Peace) looks at what the British thought about Germany's system of industrial relations once it had been successfully established by the early 1950s with its the near absence of industrial disruption of which the British were only too well aware. Chapter 7 (The Royal Commission) looks at what the Royal Commission on Trade Unions and Employers' Associations made of Germany's model of industrial relations. Appointed in 1965 after more than a decade of growing concern in Britain about the poor state of industrial relations – particularly the growing number of strikes, inflationary wage demands, shop steward activism, wildcat strikes, closed shops and demarcation disputes – the Royal Commission offered an excellent opportunity to rethink industrial relations. There was also the question of how British employees could be made more willing to embrace change in the workplace, as German employees were often said to do, and how British employers could be persuaded to move away from their readiness to impose redundancies and instead learn to retain and redeploy their workforces with retraining as the Germans were more prepared to do. In Chapter 8 (The Conservative Approach) the Conservative's alternative approach to industrial relations which involved the introduction of the law and greater sanctions is examined. On the face of it, there were similarities to the German model with legally enforceable collective agreements, but it turned out to be very much less successful. If the Conservatives had studied the German model in more detail they would have realised that it was the coherent institutional structures that brought about good industrial relations rather than the imposition of penalties and sanctions. In Chapter 9 (Co-determination) British attitudes to German co-determination, in particular the system of works councils, is examined, and whether the British thought there might be a role for them in Britain. The Callaghan government, encouraged by its SPD contacts in Germany, made a determined effort to introduce 'industrial democracy' in Britain in the 1970s in a last ditch effort to bring about an improvement in British industrial relations by agreement with the trade unions, but were stopped this time by the widespread opposition of the

employers.¹⁰⁹ Again, the question arises as to how far the British researched the German model and how carefully they had thought about how the German ideas might be applied successfully.

Part III examines by means of a number of case studies why German economic successes so often seemed to the British to be complicating things. After an Introduction in Chapter 10, Chapter 11 (Debts) considers British attitudes to the wartime allies' proposal to write off some of Germany's debts in order to create the conditions for a revival of German trade, and how Britain felt about writing off those debts when it had large debts of its own. In Chapter 12 (Competition from Germany) British attitudes to the growing German competition are examined and how it planned to respond. Chapter 13 (Financial Disequilibrium and Convertibility) examines British attitudes to the large trading surpluses built up by Germany on the back of its successful exports, and considers what Britain wanted Germany to do about them, and the problem it identified of 'financial disequilibrium'. Britain's aim throughout the 1950s was to achieve sterling convertibility as soon as reasonably possible but it was clear that Germany was prepared for it much sooner than Britain and British attitudes to this are examined. In Chapter 14 (Stationing Costs) an examination is made of British attitudes to an issue which seemed to cause more irritation to British ministers than almost any other, the costs Britain incurred on account of its stationing troops on the Rhine. In the Paris Accords of 1954, Britain had committed to stationing four divisions and its second tactical air force on the front line in Germany. The Germans had agreed to rearm and make available up to twelve divisions to the NATO effort. Ministers felt Britain's commitment was a heavy burden and complained that the stationing of British troops in Germany amounted to an unfair contribution to Germany's balance of payments. Britain they said was the country with the balance of payments difficulties and the contributions only made matters worse. The British resented not only the foreign exchange costs of the garrison but also the reluctance of the Germans to purchase more British armaments as compensation and the tardiness

¹⁰⁹ HMSO, *Report of the Committee of Inquiry on Industrial Democracy*, Cmnd. 6706, 1977.

it felt the Germans were displaying about fulfilling their commitment to rearm. The issue rumbled on for some 15 years or so until it was buried as Britain's priority became joining the Common Market. In Chapter 15 (The Approach to Europe) British attitudes are examined when British foreign policy began to pivot in favour of Europe first by establishing a free trade area in Europe and then three applications for membership of the EEC. The British attitude alternated between bullying Germany to try and get its way and laying on diplomatic blandishments in the hope of encouraging the Germans to put the maximum pressure on its new partner, France, to agree to the admission of Britain. It seems that for many in Britain, joining the EEC was perhaps the best way to overcome all the irritating diplomatic issues which had arisen in British-German relations. No problem it was thought would be as great if Britain and Germany were in the same economic grouping. All the various issues therefore were linked in British minds.

The dissertation ends with a short Conclusion.

Part I Perceptions of the German Economy

Chapter 1: Germany's Economic Recovery

Anecdotal reports of an 'economic miracle' spread rapidly. As early as 1950, newspaper headlines were talking of Germany having a remarkable recovery that was "rapid and dramatic" and spoke of the Germans as "beating us hollow".¹ There were reports of Bonn planning to "abolish all price controls and petrol rationing" well before Britain.² Newspaper readers read of the Germans "eating too much off lavish tables" and that "food prices were dropping in an unrationed Germany".³ The *Economist* posted a large number of items heralding the economic miracle with headlines such as "German Exports Soar" and "Germans Embarrassed by Prosperity".⁴ In an article at the time of the 1953 German election, which saw a marked improvement in support for the Christian Democrats, the *Economist* noted that "a flood of money is seeping through the German economy as a result of the continuous excess of exports over imports".⁵ Germany's low rate of inflation was widely noted.⁶

Hard data was soon available to confirm the anecdotal reports of strong economic growth in Germany. Politicians and officials in the 1950s were presented for the first time with new international datasets and statistics which came from the new international institutions set up after the war to encourage the liberalisation of trade and the integration of the European economies, namely, the OEEC, United Nations and IMF. They all began producing international data comparisons of income, productivity, inflation, employment,

¹ *Gloucestershire Echo*, 18 April 1950, p.1. *The Post*, 18 June 1950, p.1.

² *Aberdeen Journal*, 21 June 1950, p.1.

³ *Ibid*, p.1.

⁴ *Economist*, 12 January 1952. *Economist*, 14 June 1952; see also the following *Economist* articles: 'New Phase of German Recovery' (11 April 1953); 'German Economy Set Fair' (18 September 1954); 'Unruffled Boom- Germany' (2 February 1965) and 'Germany-Export Boom Again' (31 July 1966).

⁵ *Economist*, 'Germany's Economy before the Election', 22 August 1953, p.515.

⁶ In the 1950s, the British rate of inflation ran on average at about 3.5 per cent which was over two and a half times the rate in Germany (Source: *Office of National Statistics, Retail Prices Index, Long Run Series and Trading Economics, Germany Inflation Rate, 1950-2000 Data*).

wages, exports, reserves and indeed all aspects of economic performance. It became much harder for post-war politicians to shrug off poor performance because of the greater availability of this data. During the 1950s most of the data pointed in the same direction: Britain was only doing half as well as Germany or for that matter in time its other continental neighbours.

The bare facts of Germany's economic recovery in the post-war period were impressive on any reckoning. It had the greatest rate of growth amongst the leading western economies between 1950 and 1973 as the table below shows:

Table 1 *Rates of growth of the leading western economies 1950 to 1973 (average per annum)*

Germany	5 per cent
France	3.8 per cent
UK	2.1 per cent
US	2.1 per cent

(Source: Bolt et al., *Maddison Project, Version 2018* – <http://www.rug.nl/ggdc/historical-development/Maddison/releases/Maddison-project-database-2018>, accessed March 2019)

The effect of the rapid economic growth in Germany compared to Britain was evident from the relative swing in national fortunes which took place over the twenty-five years after 1948. It saw Germany recover from a very low base and overtake Britain's GDP per head, as the following table shows-

Table 2 *British GDP per head as a percentage of Germany's GDP per head*

1950	171 per cent
1955	118 per cent
1960	103 per cent
1965	98 per cent
1970	95 per cent
1975	90 per cent

(Source: Bolt et.al., *Maddison Project*, 2018)

British farmers had traditionally regarded German farms as peasant-based enterprises compared to themselves. However, agriculture's contribution to German GDP dropped from 10.2 per cent in 1950 to 5.75 percent in 1968, indicative of its resurgent manufacturing sector. Agricultural efficiency was transformed as the proportion of the working population in agriculture fell from 25 per cent to 13.75 per cent in the period though still not comparable to the 6 per cent in Britain but enough to turn Germany's post war food scarcity into overproduction and move it significantly closer to the level of British performance.⁷

The figures for GDP showed that western Europe grew more than twice as fast between 1950 and 1973 as it did at any other time during either the nineteenth or twentieth centuries, earning for that period the sobriquet "the golden years".⁸ In particular, Germany's rate of growth was, as the economist Alan Milward has noted, the stand-out

⁷ Carin Martiin, Juan Pan-Montojo and Paul Brassey, *Agriculture in Capitalist Europe, 1945-1960: From Food Shortages to Food Surpluses* (London, 2016), p.237; Robert Cecil, *The Development of Agriculture in Germany and the UK: 1. German Agriculture 1870 -1970* (Ashford, 1979), p.40.

⁸ Barry Eichengreen, *The European Economy since 1945: Coordinated Capitalism and Beyond* (Princeton, 2007), p.15.

performance of any western country in an era of unusually high growth by historical standards.⁹

For the British, the German coal, iron and steel industries in the 1950s still stood out as the dominant industrial sectors but engineering and investment goods industries were seen as the principal drivers of economic growth along with chemicals, consumer goods and other manufactured products.¹⁰

Contemporaries widely recognised the German economy as notably export-orientated and indeed by 1959 it had overtaken Britain for the first time as the world's second largest exporter of manufactured goods after the United States.¹¹ Germany continued to have stable and competitive prices whilst maintaining above normal levels of gross fixed investment as a share of GDP. The figures for gross fixed investment, excluding investment in housing, in Britain, Germany and France were as follows-

Table 3 *Gross fixed investment as a share of GDP in leading European Nations, 1950 - 1973*

	1950s	1960-1973
Britain	12 per cent	15 per cent
Germany	17 per cent	18 per cent
France	14 per cent	17 per cent

(Source: Bolt et al., *Maddison Project, Version 2018* – <http://www.rug.nl/ggdc/historical-development/Maddison/releases/Maddison-project-database-2018>, accessed March 2019)

⁹ Alan Milward, *The European Rescue of the Nation-State* (London, 1992), p.134; Stephen Broadberry and Nicholas Crafts, 'British Economic Policy and Industrial Performance in the Early Post-War Period', *Business History*, 38, 4, pp. 65-69.

¹⁰ Norman Pounds, *The Economic Pattern of Modern Germany* (London, 1963), pp. 61-94.

¹¹ J. Leaman, *The Political Economy of West Germany, 1945-1985: An Introduction* (London 1988), p.107; Barry Eichengreen, *Europe's Post-war Recovery* (Cambridge, 1995), p.40.

Britain's rate of non-residential investment in the 1950s was in fact the lowest in western Europe and only Spain and Portugal came close. Britain's annual average total factor productivity per worker during these years was as follows-

Table 4 *Average total factor productivity growth per worker by country, 1950-1973*

Germany	1.11 per cent
France	1.00 per cent
United States	0.83 per cent
Britain	0.29 per cent

(Source: Bolt et al., *Maddison Project*, Version 2018 – <http://www.rug.nl/ggdc/historical-development/Maddison/releases/Maddison-project-database-2018>, accessed March 2019)

The success of the German export-orientated economy was inevitably reflected in rising reserves compared to the largely stagnant level of reserves in Britain, as the following table shows-

Table 5 *Official German and British Reserves, 1950-1958 (in US \$m)*

	German Reserves	Official Sterling Reserves
1950	274	3,300
1951	518	2,335
1952	1,190	1,846
1953	1,956	2,518
1954	2,636	2,762
1955	3,076	2,120
1956	4,291	2,133

1957	5,644	2,273
1958	6,321	3,069

(Source: IMF, *International Financial Statistics*, August 1959).

The impression of German recovery provided by the hard data from the international organisations was reinforced by the reports filed by the Bonn Embassy about the German economy. In one report under the title “The German Economic Miracle: How Do They Do It?” the Bonn ambassador, Sir Frank Roberts, in a long memorandum reviewed the range of factors that may have contributed to the German economic success and found that its “root cause lies in their own efforts to organise themselves effectively at worker, management and Government level”.¹² He dismissed the idea that German workers worked harder than their British counterparts and accepted that “the convenient absence of a defence burden, the influx of labour from the East and even the Marshall Plan had assisted the re-equipment of German industry in the post-war years” but he thought none of these would “alone or in combination” have produced “today’s result”.¹³ He found that as a result of Germany’s membership of the EEC, her exports to other member states had risen 126 percent between 1958 and 1963 and at the same time the opening of the German market to intra-Community imports provided a “further stimulus to cost and price competitiveness” so that “the Common Market is to an ever increasing extent the premise of German industrial planning.” He found there was “no significant difference in material standards of living between [Germany and the United Kingdom], although wages and the volume of spending have risen over the past few years at a much faster rate in Germany”.¹⁴

On the critical issue of industrial relations, he was full of praise for the institutional shape of the trade unions and their co-operative system of collective bargaining noting that collective agreements were legally enforceable and unofficial strikes were “an

¹² TNA, LAB 13/2129, Memo, Sir Frank Roberts, ‘The German Economic Miracle: How Do They Do It?’ 18 January 1965.

¹³ Ibid, p.4.

¹⁴ Ibid, p.4.

unknown phenomenon in modern Germany” as were “restrictive practices and stoppages resulting from demarcation disputes or arguments over the principle of the closed shop”.¹⁵ What he found different in Germany though was the “close relationship between labour and management built into the structure of post-war German industry as a requirement of law” particularly through the works council legislation.¹⁶ The result of all this he found is that “factory level management and labour are forced to keep in close and constant touch” allowing for a “high intensity of effort at industrial management level... which explains the drive to penetrate and expand in overseas markets and the urge to sell abroad”.¹⁷ His conclusion was that “Germans, at most levels and in most spheres of activity, whether in private or in state employ, have a deep sense of participation in, and responsibility for their post-war economic achievement”.¹⁸

What explanation did other contemporary commentators give for the exceptional economic growth? The *Economist* in 1957 suggested there were three principal reasons, first, Erhard’s ‘economic liberalism’ by which it meant his reductions in tariffs and quotas as well as his efforts over a number of years to produce greater competition especially by clamping down on cartels; secondly, Germany’s large tax incentives to its exporters and traders though when Germany and Britain came to examine their respective records on this it did not seem that either country was much different to the other; thirdly, and probably what it thought the most important reason, was the firm monetary policy of the Bundesbank which in the early 1950s had been under the chairmanship of Wilhelm Vocke who was immensely popular with the German public on account of his financial orthodoxy and was described by the *Financial Times* as “the guardian of the deutschmark”.¹⁹

Ten years later when the *Economist* published its special supplement on Germany, ‘The German Lesson,’ written by its deputy editor, Norman Macrae, it took a more considered view of the reasons. It had nothing to say on export incentives and much less

¹⁵ Ibid, p.5.

¹⁶ Ibid, p.5.

¹⁷ Ibid, p.6.

¹⁸ Ibid, p.7.

¹⁹ Simon Mee, *Central Bank Independence and the Legacy of the German Past* (Cambridge, 2019). *Financial Times*, ‘Vocke – Guardian of the D-Mark’ 19 June 1956.

to say on the trade liberalisation if only because by then all national economies were following a similar path. It did not emphasise the financial orthodoxy of the Bundesbank as it had before, although Macrae was impressed by the role of the commercial banks as bankers and shareholders in supporting business. He rejected as a myth the notion that the economy was so successful because of fanatically hard working employees – working hours he noted were in fact no longer in Germany than in Britain - and he rejected what he described as equally common myths that public spending and taxes had been kept low.²⁰ In fact, he found taxation took 40 per cent of GNP whereas in Britain it took 33 per cent and that the balance of taxation was different in Germany in that the burden fell more on labour unlike Britain which taxed income more.²¹ He was surprised to find that Germany in fact had a bigger welfare state than Britain.²² Germany in the words of one of its most senior civil servants who he spoke to had simply ‘muddled through’ and quite by accident adopted a series of policies which had turned out to be very successful. These he identified as the currency reform, the institutional structure of the trade unions, the advantageous conditions for the export boom, which was given an additional boost by the Korean War, and the advantageous capital market conditions under which the banks could provide steady long-term finance.

Macrae then turned to consider the changes needed in Britain to bring its economy up to the same level as the German economy and he considered this would involve “Britain attaining something like Germany’s structure”.²³ In particular a rebalancing of the British economy so as to increase its export-competitive capital goods industries by about 10 per cent and so build up its export business which he thought would put Britain well on the way to success. However, Macrae’s strongest praise was reserved for what he called Germany’s ‘Twentieth Century Trade Unions’ and the enormous advantages Germany “secures from its system of labour relations and training.” He recommended “the British trade union movement ... be redrafted almost from scratch” by imposing on

²⁰ *Economist*, German Lesson, *ibid*, p.iii.

²¹ Bodleian, CRD 2/73/3, 1968, The Economist Intelligence Unit, Report on Taxation; Martin Daunton, *Just Taxes: The Politics of Taxation in Britain 1914-1979* (Cambridge, 2002).

²² *Economist*, German Lesson, *ibid*, p.v.

²³ *Ibid*, p.xxxi.

it institutional reforms to make them effectively more like German trade unions.²⁴ He wanted bigger, richer and more professional trade unions but no more than about a dozen of them, all with similar institutional structures to those in Germany to determine collective agreements and resolve local grievances in the workplace.

Economic historians are nearly all in agreement that the dynamism of the German economy was central to the growth of the European economy in the period and this begs the question as to what drove the German economy. Various factors behind this growth have been identified including technological catch-up, heavy levels of investment and particularly the growth of external and internal competition whilst the amount of co-operation between management and workers seems to have been progressively downplayed in the past fifty years even though the *Economist* and others at the time considered it the key. Kevin O'Rourke has recently suggested that: "Chief among [the reasons for its fast growth] was Europe's technological backwardness vis-à-vis the US, which implied that the continent could grow rapidly simply by importing new technologies that had already been developed elsewhere." He thought the Europeans and in particular the Germans were in this way able to enjoy a period of productivity catch-up with the United States which had enjoyed rapid economic growth during the war years. However, despite the rapid growth there were in the post-war period surprisingly few innovative new technologies or inventions which boosted growth and the growth really came from the efficient production of vast numbers of mass-produced consumer goods which were based on largely pre-war technologies or improved versions of them. If anything, the growth came more from expanding as well as streamlining or 'Americanising' the production processes in factories and workplaces rather than finding new technologies.²⁵ As Ludwig Erhard was fond of saying, "the consumers really needed to learn that refrigerators are not luxuries."²⁶

²⁴ Ibid, p.iii.

²⁵ Kevin O'Rourke, *A Short History of Brexit: From Brentry to Backstop* (London, 2018), p.79; see also: Volker Berghahn, *The Americanisation of West German Industry* (Cambridge, 1986); Barry Eichengreen, *The European Economy Since 1945: Coordinated Capitalism and Beyond* (Princeton, 2007) p.24.

²⁶ Mark Spicka, *Selling the Economic Miracle: Economic Reconstruction and Politics in West Germany, 1949-1957* (New York, 2007), p. 233.

More recently, economic historians have tended to prefer the argument that the impetus behind the economic growth lay in increased competition. Barry Eichengreen saw Germany as the pacesetter in increasing production without state intervention because, in his opinion, there was a “competitive environment in which producers could react to market opportunities - one in which they *had* to do so to survive.”²⁷ As far as Britain was concerned, economic historians have recently been reluctant to place the blame for Britain’s poor economic performance at the feet of poor industrial relations. Alan Milward was one of the first to argue that a low level of competition held Britain back and Jim Tomlinson has agreed with this asserting that the low level of competition in Britain was more damaging than its poor state of industrial relations.²⁸ Stephen Broadberry and Nicholas Crafts were others who believed the poor productivity in Britain was caused by the low level of external competition.²⁹ Crafts suspected that in Britain there was a compact whereby trade unions did not press for higher wages in exchange for business exercising restraint on dividend policy.³⁰ Eichengreen thought that the non-competitive environment in Britain had been bequeathed by the system of tariffs and acceptance of cartels that existed before the Restrictive Trade Practices Act 1956, and to a lesser extent afterwards, with the result that British companies were simply not exposed to the same level of competition that prevailed in Germany.³¹ Whilst unit labour costs in Britain rose by about 50 per cent in the course of the 1950s, in Germany they barely changed even though wages rose at much the same rate as in Britain and without the inflation that prevailed in Britain.³²

Businesses in modern capitalist states operate in a competitive environment but this does not mean they are in a position to take advantage of the business opportunities that arise. Taking advantage needs the availability on appropriate terms of sufficient finance

²⁷ Eichengreen, *European Economy*, p.93.

²⁸ Alan Milward, *The European Rescue of the Nation State* (London, 1999).

²⁹ Stephen Broadberry and Nicholas Crafts, ‘UK Productivity Performance from 1950 to 1979: A Restatement of the Broadberry-Crafts View,’ in *Economic History Review*, 56, pp.718-735.

³⁰ Nicholas Crafts, *Forging Ahead, Falling Behind and Fighting Back: British Economic Growth from the Industrial Revolution to the Financial Crisis* (Cambridge, 2018) p.98; see also Nicholas Kaldor, *Causes of the Slow Rate of Economic Growth of the United Kingdom* (Cambridge, 1966).

³¹ Eichengreen, *European Economy*, p.126.

³² *Ibid*, p.96.

capital, a plentiful supply of labour with the right technical skills and attitudes as well as a legal and regulatory system which supports enterprise. The banking systems in both Britain and Germany were in their different ways the most advanced in Europe and able to meet the needs of industry for finance and indeed the needs of consumers who wished to buy the goods it produced though the greater entwinement of the German banks with their customers was thought to provide longer-term support. The legal and regulatory systems were obviously adequate as would be expected of two commercial nations. The difference between the two countries lay more in the cooperation and flexibility of their respective workforces. German businessmen were seen as much more confident than their British counterparts and their workers more prepared to adapt and support changes in the workplace. This had consequences, in particular, the much lower level of long-term investment made by British businesses as seen in Table 3 above. British businessmen had greater fears of the disruption of their business plans by industrial conflict than their German counterparts.

Germany's high level of investment at a time of rapidly growing world markets brought increased profitability. As O'Rourke put it, investment was profitable because "companies were increasingly free to sell beyond their national frontiers" and this explains why "European economic integration was so important to the national growth strategies of the period".³³

No country was thought more ruthlessly export-orientated than Germany but it could not have succeeded as well as it did without being well organised. Eichengreen has suggested the high levels of investment were facilitated by "the corporatist bargains of the period whereby management and workers co-operated in order to ensure that not only were there high profits, but those profits were reinvested so everyone gained".³⁴ O'Rourke has more recently shifted from his earlier view that Britain's lack of competition primarily explained Britain's sluggish growth and now thinks it was not just

³³ O'Rourke, *A Short History*, p.79.

³⁴ Eichengreen, *European Economy*, p.32.

the lack of competition but also because “labour relations were much less consensual in Britain than on the continent”.³⁵

Britain ended the war with the urgent need to re-equip, modernise and make industry as productive as possible. Much of Britain’s manufacturing industry had been turned over to munitions and needed to be converted back to peacetime activity which involved massive investment and modernisation which as it turned out was not made on anywhere near the scale needed. The views of contemporary commentators who put their finger on industrial relations as the reason for Germany’s success and likewise for Britain’s relative decline need to be accorded their proper importance. Germany’s good industrial relations meant it was able to finance high levels of investment and produce high volumes of exports whilst maintaining stable prices. On the other hand, Britain’s poor industrial relations brought with it higher inflation, low investment and ‘stop-go’ crises so that Britain never enjoyed high rates of growth. America too had only average long-term rates of growth in the period but it had started after the war with a highly advanced and productive manufacturing industry based on large scale production.³⁶

³⁵ O’Rourke, *A Short History*, p.80.

³⁶ Charles Maier, ‘The Politics of Productivity: Foundation of American International Economic Policy after World War II’ in *International Organisation*, 31, 1977, pp. 707-33.

Chapter 2: Perceptions of the Social Market Economy

British attitudes to the German economic miracle in the post-war period were inevitably shaped by their understanding of Germany's economic philosophy. Britain and Germany had different experiences of war and peace. The Germans had been traumatised by inflation in the 1920s, had turned to totalitarianism in the 1930s, only to be led into a catastrophic war which they lost so that, in the post-war period, they only wished to put the centralised state behind them. The Germans in the 1950s embraced the Christian Democratic offer of a more a-political free market consumerist economy.³⁷ On the other hand, the British had seen a collectivised state win a war and hoped a planned economy could support a welfare state as promised in the Beveridge Report and avoid a resurgence of mass unemployment.³⁸ As the Labour Prime Minister, Clement Atlee, wrote in the *Economic Survey of 1947*: "The government alone cannot achieve success. Everything will depend upon the willing co-operation and determined efforts of all sections of the population".³⁹ The British put their faith in the collective will, accepting for a time the 'prosperity campaigns' and 'productivity efforts' of the Labour government and the rationing and controls and the 'fair shares' for all it entailed.⁴⁰ Although the British increasingly tired of rationing and controls, they continued to put much faith in what the state could do for them even after the Conservatives came to power in 1951 committed to ending controls.

The Christian Democrats promoted their programme under the banner of the 'social market economy'. They distinguished it from laissez-faire capitalism by believing in a strong state but only for the limited and specific purpose of ensuring a level-playing field

³⁷ Mark Spicka, *Selling the Economic Miracle: Economic Reconstruction and Politics in West Germany, 1949-1957* (New York, 2007).

³⁸ HMSO, *Report into Social Insurance and Allied Services*, Cmnd. 6404, 1942 (Beveridge Report).

³⁹ HMSO, *Foreward, 1947 Economic Survey*, Cmnd. 7046.

⁴⁰ Jim Tomlinson, *Managing the Economy, Managing the People: Narratives of Economic Life in Britain from Beveridge to Brexit* (Oxford, 2017), p.23.

in which businesses competed, avoiding the highly cartelised and monopolistic economy associated with the Nazis. They also distinguished their policies from the Social Democrats who adhered to state planning and intervention which Erhard condemned as “a controlled economy” in which inevitably arose “the soulless tyranny of a wanton bureaucracy”.⁴¹

The Christian Democrats avoided any commitment to full employment as Labour had made in Britain and which the Conservatives had also followed.⁴² Instead, they arranged a different economic underpin in the shape of the Bundesbank’s commitment to the most stringent anti-inflationary policies in the OECD, determined as they were to avoid any repetition of the hyper-inflation of the Weimar era.⁴³ The Christian Democrats also had no intention of committing themselves to a welfare state in the same way as in Britain despite Germany’s long tradition of social welfare, though the 1957 Pension Act substantially increased welfare spending, at a time when it could be better afforded.⁴⁴

As Christian Glossner has noted, the concept of the ‘social market economy’ was “by no means the most elaborate or well defined socio-political or economic idea to be presented to the German public at that time; in fact it was more a *mélange* of socio-political ideas” which nevertheless as a result of constant repetition became “accepted as the economic model for post-war Germany”.⁴⁵ The Christian Democrats presented the ‘social market economy’ as offering modernity in the shape of a “levelled middle class society”.⁴⁶ However, the concept always remained rather vague allowing interpretations which sometimes emphasised the ‘social’ and at other times the ‘market’ aspects. The ambiguity of the concept led the *Economist* at one time to applaud Erhard’s “undeviating faith in *laissez-faire*” and at another time, in a book review, assert that the German

⁴¹ Ludwig Erhard, *Prosperity through Competition* (London, 1958), p.42.

⁴² HMSO, *Employment Policy, 1944*, Cmnd. 6527.

⁴³ Simon Mee, *Central Bank Independence and the Legacy of the German Past* (Cambridge, 2019), p.2.

⁴⁴ HMSO, *Social Insurance and Allied Services, 1942*, Cmnd. 6404 (Beveridge Report). W.J Mommsen and Wolfgang Mock, *The Emergence of the Welfare State in Britain and Germany, 1850-1950* (London, 1981).

⁴⁵ Christian Glossner, *The Making of the German Post-War Economy: Political Communication and Public Reception of the Social Market Economy after World War Two* (London, 2013).

⁴⁶ Spicka, *Selling the Economic Miracle*, p.18.

recovery would “disappoint anyone who believed in undiluted liberalism”.⁴⁷ It was Ludwig Erhard’s colleague, the ordo-liberal Alfred Müller-Armack, who first suggested the label ‘social market economy’.⁴⁸ He saw it as the synthesis of a free market economy and the regulation needed to ensure a level playing field and the control of monopolies although, in contrast to Erhard, he envisaged a role for a social security net. The ordo-liberal thinker Walter Eucken believed regulation should be the organising principle of society as it would ensure production became more efficient and the goods produced more likely to meet the consumer’s needs. Excess profits and the exercise of undesirable economic power had to be avoided. In this way, he argued, the ‘social market economy’ was a ‘social’ phenomenon in that the state made sure there was competition and then the ‘market’ did the rest with no need for the state to intervene in the economy.⁴⁹

The theoretical model behind the ‘social market economy’ was therefore different from the collectivist ‘big state’ ideas still preferred in Britain in the post-war period. The Christian Democrats portrayed consumerism as a central axiom of the Federal Republic and this struck a particular chord with the German people who in the aftermath of war were, as Volker Berghahn has argued, only too willing “to retreat into their private domestic world surrounded by the attractive and well-designed products that came quickly on offer in post-war Germany”.⁵⁰

So, just how far did the concept of a ‘social market economy’ register in Britain? Glen O’Hara has written how “the German [economic] model” was “relatively silent” compared to other models such as the French and Swedish amongst British economic policymakers which he saw as arising from three factors: first, Germany did not assume first rank diplomatic sway in the 1950s despite its acknowledged economic efficiency;

⁴⁷ *Economist*, ‘Economic Dogmatism in Germany: social market-eschewing state intervention’ 11 March 1950. *Economist*, Review of Henry C. Wallich, *Mainsprings of the German Revival*, 18 February 1956, p.461.

⁴⁸ Alfred Müller-Armack, ‘The Meaning of the Social Market Economy’ in Alan Peacock and Hans Willgerodt (eds.), *Germany’s Social Market Economy: Origins and Evolution* (London, 1989), p.82 (the article was first published in 1957 in *Handwörterbuch der Socialwissenschaften*, Vol 90).

⁴⁹ Walter Eucken, *Die Grundlagen der Nationalökonomie* (Godesberg, 1947) and *Grundsätze der Wirtschaftspolitik* (Tübingen, 1952).

⁵⁰ Volker Berghahn, ‘Recasting Bourgeois Germany’ in Hanna Schissler (ed.), *The Miracle Years: A Cultural History of West Germany, 1949-1968* (Princeton, 2001).

secondly, Germany's response on European matters was always predictable, unlike France, which therefore held many of the cards particularly under Charles de Gaulle; and thirdly, and, more fundamentally, the British underestimated the lessons the German economic success might have had for them. He thought the British in a rather superior way looked down on the Germans and "perceived themselves ... to be more 'advanced' and more 'Keynesian' than the Germans".⁵¹ Whilst economists on the continent of Europe were exploring ordo-liberal ideas in groups such as The Mont Pèlerin Society (founded in 1947) which was given much encouragement by the Christian Democrats' assumption of power in Germany, in Britain in the post-war years ordo-liberalism in conservative circles was largely ignored and there was much more of a preference for some form of economic consensus and a 'big state'. As one commentator has written: "In academic circles [in Britain] the arguments between the proponents of economic liberalism and Keynesian intervention had also tilted decisively in favour of Keynes ... The government's ability to plan and run the economy had been tried and tested in the exceptional circumstances of war. For many, the idea of an unfettered free market seemed both out-dated and out of date".⁵² In an interview with Anthony Seldon in 1995, the Treasury veteran Eric Roll commented that: "with variations the Keynesian ideas continued up to the Thatcher government ... although I would maintain ... that even after 1979 ... the residue of economic management, via the main instruments of fiscal policy and monetary policy, remained very largely in place".⁵³

The economist and Labour Party adviser, Thomas Balogh, in a treatise published in 1950 was appalled by Erhard's advocacy of the 'free price mechanism'.⁵⁴ He declared "the miracle is considerably exaggerated" and forecast it would all collapse in a surge of inflation in the absence of the controls he believed were needed. He did not in any event believe it was the currency reform and the lifting of controls which had kick-started the

⁵¹ Glen O'Hara, *Governing Post-War Britain: the Paradoxes of Progress, 1951-1973* (London, 2012), p.16.

⁵² Christopher Muller, 'The Institute of Economic Affairs: Undermining the Post-War Consensus' in *Contemporary British History*, 10, 1 (1996), p.89.

⁵³ Lord Roll in interview with Anthony Seldon, 'The Influence of Ideas on Economic Policy' in *Contemporary British History*, 10, 1 (1996), p.193.

⁵⁴ Thomas Balogh, *Germany - An Experiment in 'Planning' by the 'Free Price Mechanism'* (London, 1950).

German economy. He suggested “the economic improvements in Germany were down to the fortuitous increase in coal production, recent mild winters, an increase in cheap industrial raw materials and the moderation of the trade unions which had held back wage demands”.⁵⁵ He lamented that the currency reform had reduced the greater part of the population to penury and that the entrepreneurial class had, in his view, got most of the benefit. He summed up what he saw as an unjust situation by saying: “having given birth to an iniquitous new German economic and social system [the allies] were now condemned to observing the consequences of their actions, actions the import of which most of the ‘actors’ in Germany and their ‘masters’ in London never comprehended”.⁵⁶

The principal advocate in Britain of Germany’s economic policies in the 1950s was none other than Ludwig Erhard himself. For both the 1953 and 1957 German elections he published populist books in Germany promoting his economic philosophy and afterwards made arrangements for English editions to be published in London. The first of these was *Germany’s Comeback in the World Market*.⁵⁷ In it Erhard explained how the 1948 currency reform was critical in awakening “entrepreneurial impulses”, acknowledged the part played by post-war foreign aid and celebrated how Germany was leading the way in liberalising foreign trade and building a market economy and mused on the possible benefits there might be from a partnership with the sterling area and greater integration of the European market. The reviewer in the *Economist* acknowledged the important part played by Erhard and his determination to liberalise the European market and though in his view “the book is not, as its jacket claims, an explanation of the German ‘miracle’ ” he nevertheless thought that “Professor Erhard should have full credit for the part he has played in carrying out [his liberal policies] for the good of Germany and the world”.⁵⁸

In the second book, *Prosperity through Competition*, Erhard made even plainer his economic philosophy and his belief in the centrality of competition and how it benefits

⁵⁵ Ibid, p.12 and p.69.

⁵⁶ Ibid, p.70.

⁵⁷ Ludwig Erhard, *Germany’s Comeback in the World Market* (London, 1954).

⁵⁸ *Economist*, Review of *Germany’s Comeback in the World Market*, 20 November 1954.

everyone as consumers.⁵⁹ “Competition” he wrote “is the most promising means to achieve and to secure prosperity. It alone enables people in their role as consumers to gain from economic progress. It ensures that all advantages which result from higher productivity would eventually be enjoyed”.⁶⁰ He proclaimed the importance of economic growth saying “the cake must get larger” and how essential it was to avoid any “squabble over the distribution of wealth”.⁶¹ The fundamental economic rights he explained were, first, the freedom of the individual to live life as he wishes and, secondly, the freedom of a producer to sell what he chooses. These freedoms could only be underpinned by a stable currency which he said was “a basic human right which every citizen can demand from his government”.⁶² The book which only referred to ‘the market economy’, ignoring the word ‘social’, contained a detailed historical review of the economic numbers that he considered were testament to the success of his policies on prices, employment, wages, productivity, imports, exports, currency and so on, and set out his views on the economic policies he felt should be followed. Erhard believed that a ‘market’ economy was a ‘social’ economy because where a competitive economy meant goods could be widely acquired at an affordable price by as many people as possible that in effect satisfied the requirements for a ‘social’ economy. The *Economist’s* reviewer felt that in the constant refrains about competition, price stability and high investment, all of which it felt were fair points, Erhard was nevertheless overlooking the effects of the huge migration from the East, the Korean war boom and the general impact the recovery from war had on the growth of the German economy.

A third book, *Economics of Success*, was compiled from a variety of speeches made on miscellaneous economic topics and again an English translation quickly appeared.⁶³ It included a critique of planning, socialism, the importance of competition, the damage caused by cartels, Germany’s economic policies, the welfare state, economic policy as a

⁵⁹ Ludwig Erhard, *Prosperity through Competition* (London, 1958).

⁶⁰ Erhard, *Prosperity*, p.1.

⁶¹ Erhard, *Prosperity*, p.3.

⁶² Erhard, *Prosperity*, p.7.

⁶³ Ludwig Erhard, *Economics of Success* (London, 1963).

component of social policy and Erhard's belief in the importance of overseas aid and an assertion of his view that England was an essential part of Europe.

It was not until the mid-1960s that Erhard's economic policies began to attract any academic interest amongst economists in Britain. However, as most of them were enthusiastic national planners they could not believe that Germany's economy could thrive as much as it appeared to do unless in reality there was an underpin of much more planning than had been admitted. There were two prominent analyses of Germany's 'social market economy' which appeared in the 1960s and both set out to uncover the hidden planning they were convinced was taking place.

The first was Andrew Shonfield's 1965 investigation of the modern forms of capitalism and the relationship between governmental planning and business.⁶⁴ This included two chapters on the German model which he thought should be categorised as a market economy. The other analysis was by the political think tank, Political and Economic Planning (known as PEP), which was dedicated to promoting national planning.⁶⁵ It had commissioned a report comparing economic planning policies in Britain, France and Germany and included a chapter on Germany's 'Competitive Order' which investigated the claim that the success of the 'social market economy' did not depend on planning and investigated whether there was in practice more planning in Germany than met the eye.⁶⁶ What therefore did these writers make of the 'social market economy'?

Andrew Shonfield believed that modern capitalism unavoidably involved a more complex web of connections between the state and business than there had been in the past. He began by observing that Germany had "no enthusiasm for the increasingly organised pattern of economic behaviour, replacing the older methods of arriving at decisions through the autonomous if haphazard movement of the market."⁶⁷ He thought:

⁶⁴ Andrew Shonfield, *Modern Capitalism: The Changing Balance of Public and Private Power* (Oxford, 1965), p.239.

⁶⁵ Political and Economic Planning was a think tank which had been founded in 1931 and produced numerous tracts many of them arguing for greater planning.

⁶⁶ Geoffrey Denton, Murray Forsyth, Malcolm MacLennan, *Economic Planning and Policies in Britain, France and Germany* (PEP-London, 1968).

⁶⁷ Andrew Shonfield, *Modern Capitalism*, p.239.

There is a popular image of the post-war German economy as the nearest European approximation to the American way of life. Private initiative is always preferred to public, and the state is kept vigorously in its place... Public enterprise and central planning under the aegis of the government both firmly rejected.⁶⁸

Whilst he accepted that Germany had made a remarkable economic recovery and saw Germany's laissez-faire policies were a way "of cutting down overwhelming public power to size" he made clear he did not see the German model as the way forward for Britain as he thought it would be like going backwards to the Victorian era. He much preferred centralised economic planning along the lines of the French state and he felt that somehow Germany was trying to make an understandable but nevertheless wrong turning.

He suggested there was an irony in that until the war the German economy had been the most notable out of all European economies for its interwoven relationships between business and the state, but in the post-war era had, on the face of it, flipped and changed so that it now purported to have much looser ties between them. This idea has more recently been taken up by Brunnermeier and other scholars.⁶⁹ They suggested that the brutal Nazi period pushed Germany away from a state-centred tradition to a rules-based liberalism. However, as far as Shonfield was concerned, he had been reluctant to admit Germany could have flipped quite so dramatically and suggested all was not as it seemed and that in fact business and the state were still very much interwoven. He did not believe fundamental behavioural traits could be easily changed and he thought the Germans had simply reverted to type and had quietly gone back to their old familiar centralised ways which implied central planning even if they were still protesting free market credentials. So he thought that "when the Germans began to reconstruct their economy, they built upon their familiar foundation and plan".⁷⁰ Although the 1949

⁶⁸ Ibid, p.265.

⁶⁹ Marckus Brunnermeier, Harold James, Jean-Pierre Landau, *The Euro and the Battle of Ideas* (Princeton, 2016).

⁷⁰ Shonfield, *Modern Capitalism*, p.240.

constitution reflected the allies' plan to devolve decision-making to the Lander and the policies of breaking-up the large industrial enterprises and replacing nationwide banks with smaller Land-based banks, he believed the German instinct was nevertheless still to centralise economic decisions.

What evidence did Shonfield adduce for Germany having (as he called it) a more 'collaborative culture' than it professed? He believed that despite government policies favouring the small and medium-sized companies of the *mittelstand*, nevertheless there had in fact been a growing concentration of economic power amongst the larger firms, with the largest firms responsible by 1960 for nearly 40 per cent of total industrial turnover and employing one in every three workers in industry. In the banking sector, Shonfield argued that despite the break-up of the three big banks after the war, by 1957 they had managed to regain complete control of their traditional networks. He saw considerable collaboration in the way the peak business organisation (Bundersverband der Deutscher Industrie or BDI) operated; he considered there was a very hierarchical structure in which the top part of the organisation exercised control by handing down directions to the lower parts of the organisation in what he called a 'guided private enterprise'.⁷¹ Shonfield believed that "German institutions and habits produce a climate which favours industrial collaboration".⁷² The case he used to illustrate this was a 'forced loan' of DM 1.2bn raised by the BDI in 1960 to fund the new German aid programme for underdeveloped countries. The BDI had agreed with the Federal government that it would take responsibility for raising the money through the voluntary donations of its members and the fact that this had proved remarkably successful convinced Shonfield that it could only be explained by the existence of some form of 'central guidance'.

In his view, the huge German all-purpose banks "had always seen it as their business to take an overall view of the long-term trends in any industry" and to "act as the grand strategists of the nation's industry". Banks in Britain he thought were not capable of laying down strategy in the same way as the German banks which were not only much larger but did not restrict themselves just to lending as they made investments

⁷¹ Shonfield, *Modern Capitalism*, p.244.

⁷² *Ibid*, p.246.

in their customer's businesses and appointed directors to their boards. The three big banks – Deutsche, Dresdner and Commerz Banks – held over half of the seats on the supervisory boards of the largest companies. Of the 17 companies with 40,000 or more employees, he noted Deutsch Bank alone had a seat on ten of them. The banks also controlled large blocks of shares held in investment accounts on behalf of clients. They often acted, he believed, as the agent of the government for distributing public subsidies and had power over every phase of the German capital market and so were in a position to take responsibility for planning the long-term future of an industry. He knew he could not point to any formal plan and accepted the Federal government had made clear it was firmly against any such plan. Nevertheless, he believed the economy was in effect planned because the government he thought left the banks to carry out the necessary business planning on its behalf. In his eagerness to find planning in Germany, he overstated the case for its existence though there may well have been some truth in what he said about the informal pressures from the banks and even government. He was clearly in something of a dilemma in not finding as much evidence for a planned economy as he hoped but at least he did not go so far as the French writer, Firmin Oulès, who absurdly compared Erhard to Goebbels on account of the planning powers he believed he exercised.⁷³

There were other areas of German economic policy which Shonfield identified as different from the normal practice of a laissez-faire economy. In his view, whilst Germany had been a low tax country in 1950, by 1960 he felt it had switched unnoticed into a high tax country. Taxation as a percentage of GNP in Britain and Germany had indeed changed over the decade, as follows-

⁷³ Firmin Oulès, *Economic Planning and Democracy* (London, 1969).

Table 6 *Taxation as a percentage of GNP in Britain and Germany, 1950 - 1960*

	1950	1955	1960
Britain	32.5	29	27.6
Germany	30.3	32.3	33.9

(Source: *OECD Statistics of National Accounts 1950-61*, cited in Shonfield, *Modern Capitalism*, *ibid*, p.265).

Shonfield believed that the higher level of taxation as a percentage of GNP correlated with Germany's exceptionally high level of public investment by the end of the 1960s and the opposite in Britain, as the table below shows-

Table 7 *Gross public saving as a percentage of GNP in leading western economies in 1961*

Germany	8.7 per cent
France	3.7 per cent
Italy	3.2 per cent
USA	2.2 per cent
UK	2.0 per cent

(Source: *OECD Statistics of National Accounts 1950-61*, cited in Shonfield, *Modern Capitalism*, *ibid*, p.265).

Shonfield believed the federal nature of the German state was a factor in its increasing tax rates. The Lander governments became a "proliferation of competing centres of power" each seeking to maximise their share of the tax as against the Federal

government.⁷⁴ He felt it was fortunate for Germany that it had a large pool of agricultural workers to call upon not to speak of refugees and that whilst the Germans had not followed the British in making full employment a primary aim of government, it nevertheless had achieved full employment by 1959 after absorbing some 10 million or more workers. He found Germany's rapid rate of economic growth cushioned it from the economic damage that might otherwise have been caused by its increasing level of taxes. In Shonfield's view "the German authorities behaved as if the revolution in economic thinking which derived from the work of Keynes had never occurred at all".⁷⁵

Shonfield suspected that Germany had built its recovery on a bed of tax incentives and concessions and was prepared to "discriminate actively between one industry, and one purpose and another".⁷⁶ He believed special tax benefits were given to the favoured basic industries - steel, coal, iron ore and electrical power plants and he also suspected there were exceptionally large depreciation allowances given on condition that the savings were reinvested, not distributed. Whilst Germany had in the early years used a wide range of incentives to maximise its exports, it was responsive to international, in particular, British pressure to rein in artificial incentives.

Shonfield also recognised that the Bundesbank which was tasked with responsibility for monetary stability was very conservative and this may have taken preference over the existence of a plan. It was Bundesbank policy that there should be a large pool of savings for investment which meant German bank interest rates were always high, usually higher than in Britain. However, the reins on spending were to be eased after 1957 with the replacement of the ultra-conservative Wilhelm Vocke by Karl Blessing as the head of the Bundesbank.

Whilst Shonfield recognised Erhard disavowed Keynesianism saying he favoured a competitive neoliberal state, he thought his management of the economy had all the hallmarks of intervention and central co-ordination and that he was "a constant jogger and nudger of business."⁷⁷ Shonfield believed that whilst there was nothing in Germany

⁷⁴ Shonfield, *Modern Capitalism*, p.269.

⁷⁵ *Ibid*, p.273.

⁷⁶ *Ibid*, p.282.

⁷⁷ *Ibid*, p.293.

similar to the national planning in Britain and France, or even any targets for levels of employment, growth, inflation, and definitely no prices and incomes policies, the nudging and jogging by government, especially through tax policies, the control of business wielded by the banks, and the tight monetary controls of the Bundesbank, nevertheless proved that in effect some form of planning was in operation.

Shonfield did not discuss the principles of the ‘social market economy’ or even ordo-liberalism in any detail and barely acknowledged an ‘economic miracle’. All he could say about the philosophies underlying the principles of the ‘social market economy’ was that “their official doctrines carry a high content of simple traditional capitalist folklore”.⁷⁸ He was unimpressed with Germany as a model of economic organisation as he preferred planned economies which he argued was the natural basis of a successful modern economy. He could not reconcile the thought that the German market economy was as successful as the French, indeed more so, without some form of ‘guiding hand’.

Political and Economic Planning (PEP) was also a strong advocate of economic planning in the 1950s and remained so until its demise in the 1980s.⁷⁹ In 1968 it published a comparative study *Economic Planning and Policies in Britain, France and Germany*. The chapter on Germany under the title ‘Germany- the Competitive Order’ explained the theory of ‘the social market economy’ and acknowledged there were “an impressive number of actions which stand to the credit of the ‘social market economy’ and that “on the whole, it can be said that the German economic policy-makers have exerted considerable effort to put principles into practice during the period under discussion”.⁸⁰ Nevertheless, the editors also found it hard to believe that this had been achieved without a considerable amount of hidden planning. They were not sure whether it was the banks or the state which had been primarily involved in the ‘planning’ and pointed to Germany’s European Recovery Programme with its expert committee established to forecast the country’s economic development, and the successive targets which had been set for

⁷⁸ Ibid, p.239.

⁷⁹ PEP, *Fifty Years of Political and Economic Planning* (London, 1981).

⁸⁰ Geoffrey Denton, Murray Forsyth and Malcolm Maclellan, *Economic Planning and Policies in Britain, France and Germany* (London, 1968), p.78.

various sectors, in particular, for house-building, which they tended to believe was a form of planning.

The chapter on the Competitive Order investigated the principles which lay behind the ‘social market economy’, in particular the competitive principles which were described as its ‘constituent’ and ‘regulating’ principles. It identified the ‘constituent’ principles of the ‘social market economy’ as primarily monetary stability and the opening up of markets but also private ownership, freedom of contract and steady economic policies. The ‘regulating’ principles it saw as a fight against monopolies and progressive rates of income tax. The authors argued “there is undoubtedly in ordo-liberal political theory a strong trace of the traditional German belief in the neutral state, standing over and above the clash of particular interests and working independently for the good of the whole”.⁸¹

The authors thought that the influx of refugees since 1945 was a mixed blessing, filling labour shortages, but creating a burden in terms of food and accommodation. However, they pointed to a number of advantages which Germany had enjoyed. The wartime defeat provided the economy with some relief from heavy expenditure particularly in the mid 1950s when Germany was briefly neither paying occupation costs to the allies nor bearing its own rearmament costs. The authors also felt that Germany had not been as disadvantaged by war damage as many thought, as it had been fairly quickly repaired, and they even concluded that: “All told, West German industry had, in 1946, a greater industrial capacity than in 1936”.⁸²

Another advantage the authors identified was that “investment flowed into sectors where the export potential was greatest – cars, chemicals, electrical engineering”. On this they thought that its orderliness showed the informal state nudging and jogging even if not actually directing. American aid received at the end of the war had assisted the strong German recovery and, as Shonfield had noted, Marshall Aid had been scrupulously applied in new investments unlike in Britain where they thought much of the aid had been expended in supporting the pound. They also identified the strong advantage obtained in

⁸¹ Denton , *Economic Planning*, p.48.

⁸² Ibid, p.51

what they described as ‘the weakness of German trade unions’ although they were to question whether they were making the right judgement on this when they thought of the success of those same trade unionists in extracting out of the employers support for the principle of co-determination despite the opposition of the owners and management. The authors had therefore failed to grasp the importance of the institutional structure and the strength of Germany’s wealthy trade unions in producing co-operative industrial relations. However, they did concede that Bockler, the German trade union leader, and his colleagues and successors “did derive as much success from the system as was possible”.⁸³

The authors described how Germany had ‘opened its markets’, a point which Shonfield had ignored, and how it had led the way in Europe in liberalising trade, cutting tariffs, decontrolling markets such as electricity and gas and had ended the state’s price-fixing of nearly all commodities except agriculture, transport and energy. Their conclusions about Germany’s efforts on opening markets was that “the restoration of market forces has been deliberately and systematically encouraged, though controls were retained as long as the market was structurally out of balance”.⁸⁴

The authors generally accepted that competition was encouraged in Germany. Nevertheless, they believed the state was intervening to help build the thriving *mittelstand* which received grants and guarantees, a high level of placing of building contracts with *mittelstand* businesses, and had made a number of changes to the turnover tax and company law to build up the sector. This suggested to them that there was some form of planning even if the purpose was stated to be the fostering of competition.

The authors also investigated the Shonfield thesis that the Germans had an oligopolistic banking structure which effectively operated as a means of planning the economy in much the same way as French state planners with indicative targets. German bankers they realised were not tied into the state in the same way as French bankers. The authors also drew attention to the planning role of the *Kreditanstalt für Wiederaufbau*,⁸⁵

⁸³ Ibid, p.51.

⁸⁴ Denton, *Economic Planning*, p.58.

⁸⁵ See: Armin Grünbacher, *Reconstruction and Cold War in Germany, The Kreditanstalt für Wiederaufbau 1948-1961* (Aldershot, 2004).

an institution established on the direction of the allies, to channel Marshall Aid counterpart monies into investment in German industry, to help kick-start the economy and in particular make investments the commercial banks considered risky. It provided aid for the Saar and Berlin economies and for shipbuilding. This was certainly a type of state aid but the authors thought it would be going too far to say that as a result of this the economy was planned by the federal state or, for that matter, the Landesbanks.

The authors concluded that “there were an impressive number of actions which stand to the credit of the ‘social market economy’ ... but on the whole German economic policy-makers have exerted considerable effort to put [‘social market economy’] principles into practice”.⁸⁶ Amongst the actions which they particularly noted were the priority given to monetary stability, the measures to help the Bundesbank achieve this, the removal of trade barriers to international trade and payments, targeted help for house building which they noted had been removed as soon as possible, action on cartels, help with the establishment of the *mittelstand*, tax reforms, encouragement of property ownership. It was not in their view a classic *laissez-faire* economy but it was also not a planned state-controlled one.

In its review of the book, the *Economist* commented that “Germany and France, using different slogans, have moved forward to major successes which have eluded Britain” and noted that in Germany’s case it had, in popular mythology, “been anti-planning”.⁸⁷ The reviewer nevertheless believed that Germany had broken through in the 1950s to a virtuous circle of investment which had led to very successful export-led growth. He thought Germany had done this by a considerable amount of selective intervention in favour of investment and exports ... followed by a fairly thorough application of certain neo-liberal principles... and monetary restrictions”. The *Economist* came close to implying Germany was a welfare state economy like Britain, though one which worked better. It claimed: “Germany, uttering its slogans about the ‘social market economy’, has moved to a tax and social service system which is much better adjusted to

⁸⁶ Denton, *Economic Planning*, p.78.

⁸⁷ *Economist*, Review of Denton et al, *Economic Planning and Policies in Britain, France and Germany*, 13 September 1968.

the maintenance of incentive and mobility than Britain's system". When in 1966 it published its special supplement on Germany, it also picked up on left wing scepticism about the part played by market economics in Germany's economic resurgence. It noted: "some left-wing economists in Britain argue that the German government has in fact followed much more of a left-wing planning action in re-allocating resources than it admits" but it was not prepared to go as far as that in its own judgements about the German economy.⁸⁸

In 1966, the international relations academic Richard Hiscocks, produced a layman's guide to Germany's economic resurgence.⁸⁹ This included a few pages on the 'social market economy' describing it as "free enterprise tempered by social conscience".⁹⁰ It suggested the concept could best be understood in terms of Erhard's warm personality combining "a concern for social justice and stability with giving scope to individual industry and initiative". The book saw the 'free enterprise' outlook of the Erhard economic policies as coming not so much from Erhard as the Free Democrats who had been coalition partners with the Christian Democrats. The book concluded that: "the social aspect of Erhard's policy reflected the trend in the western world towards the welfare state". The author had presumably not read Erhard's *Prosperity through Competition* which put a very different interpretation on this. British commentators who acknowledged the term 'social market economy' were sometimes inclined to wishful thinking over what Erhard had meant by the inclusion of the word 'social' in the term as he did not mean a welfare state.⁹¹

Economists were impressed by Erhard's record but in Britain, with its prevailing Keynesianism, there was no championing of the principles of the 'social market economy'. As O'Hara has noted, the Treasury, and even more so Labour when it returned to power in 1964, sought to expand the NEDC approach with a formal National Plan based on a target rate of growth agreed between the government, employers and trade unions.

⁸⁸ *Economist*, German Lesson, p.xxvi.

⁸⁹ Richard Hiscocks, *Germany Revived* (London, 1966), p.52.

⁹⁰ *Ibid*, p.52.

⁹¹ See Chapter 3 for a further discussion on this.

The Institute of Economic Affairs had been founded in early 1955 to advocate economic liberalism but had struggled in the prevailing Keynesianism for the first ten years of its existence.⁹² Hayek had suggested to its founders that no change in the intellectual climate would be possible without the establishment of a think tank body dedicated to research and publicity.⁹³ By the mid-1960s it began to attract support from a number of Conservative politicians such as Angus Maude, Geoffrey Howe, Keith Joseph and the new editor of *The Daily Telegraph*, Maurice Green. However, the prevailing philosophy of the Conservatives under the leadership of Heath, Macleod and Barber after 1972 was opposed to the IEA's form of economic liberalism. It began to publicise the writings of the American monetarist, Milton Friedman, who, along with Victor Morgan and Alan Walters, asserted the link between money supply growth and inflation. It also published proposals for the private provision of pensions and attacks on the restrictive practices of the professions but seemed less interested in Erhard's ideas on the 'social market economy'.⁹⁴

When Heath's Conservative government fell in 1974, a group of Conservatives including Keith Joseph and Margaret Thatcher pushed for a reappraisal of party policy. They proposed a new think tank which would be much closer to the Conservative Party than the IEA whilst remaining independent of the Conservative Research Department then headed by Chris Patten, a strong Heath supporter. Joseph obtained Heath's support for the name of the new think-tank, which was originally expected to be called 'The Institute for a Social Market Economy'.⁹⁵ Joseph was known to have taken an interest in Germany and its 'social market economy' and some thought he had shown a certain guile in the choice of name designed to persuade Heath to give his approval to a body which sounded as if it fitted with Heath's corporatist outlook when in fact it would pursue more neoliberal ideas. The phrase had in fact been used by Joseph for some years even before

⁹² R. Cockett, *Thinking the Unthinkable: Think Tanks and the Economic Counter-Revolution, 1931-1983* (London, 1994).

⁹³ Christopher Muller, 'The Institute of Economic Affairs: Undermining the Post War Consensus' in *Contemporary British History*, Vol 10, 1 (1996), p.89.

⁹⁴ IEA, Arthur Seldon, *Pensions in a Free Society* (London, 1957); Alan Walters, *Money in Boom and Slump* (London 1971); Victor Morgan, *Monetary Policy for Stable Growth* (London, 1969); Dennis Lees, *The Economic Consequences of the Professions* (London, 1966).

⁹⁵ CPC, Letter, Joseph to the Chairman of Unilever, Keith Joseph Papers, 18 April 1974.

the 1970 election and he appeared to use it in the German sense.⁹⁶ Joseph had confirmed to some of his colleagues that this was the case.⁹⁷ In the end it was Margaret Thatcher who rejected the name. Although she had long held Erhard in great awe, and indeed on first becoming leader of the Conservative party had specially flown to Germany to meet him for a private discussion which she described to the journalist William Shawcross as a ‘tutorial’ on economic principles, she nevertheless feared in the public’s mind that the name conjured up a “collectivised, consensus-based economic system, which pushed up costs, suffered increasingly from market rigidities and relied on quantities of teutonic self-discipline to work at all”.⁹⁸ This confusing episode where both Heath and Thatcher reacted in counter-intuitive ways to the name ‘social market economy’ highlights the ambivalence about the meaning of the phrase in Britain. The original head of the think-tank, Alfred Sherman, pointed out that ‘social market economy’ was a phrase “which meant everything and nothing”.⁹⁹ In the end the association of the term with the Christian Democrats in Germany and their support for ‘welfare democracy, social responsibility and market economics’ was not what Joseph wished to imply and he also went along with a change of name to ‘Centre for Policy Studies’.

Nevertheless, the change in name did not prevent the think tank first publishing several pamphlets which had a clear association with Germany. One of them ‘Why Britain Needs A Social Market Economy’ written by M. Wassall and Nigel Vinson, two key supporters of the new think tank, was launched amidst a great fanfare in the ballroom of St Ermin’s Hotel, Westminster, although disappointingly for the organisers, only nine journalists out of an expected 100 attended, according to Joseph’s biographer.¹⁰⁰ They wrote:

Experience has taught us that the only real alternative to a market economy is a

⁹⁶ Morrison Halcrow, *Keith Joseph* (London, 1989).

⁹⁷ Adrian Williamson, *Conservative Economic Policymaking and the Birth of Thatcherism, 1964-1979* (Basingstoke, 2015).

⁹⁸ John Campbell, *The Iron Lady: Margaret Thatcher, From Grocer’s Daughter to Prime Minister* (London, 2007), p.426. Halcrow, *Joseph*, p.240.

⁹⁹ Alfred Sherman, *Paradoxes of Power: Reflections on the Thatcher Interlude* (London, 2005), p.51.

¹⁰⁰ Halcrow, *Joseph*, p.290.

command economy, in which short term expedients reflecting conflicting party–political considerations dominate government economic behaviour... Hence our reiterated conviction that a market economy with freedom to own property and engage in the production of goods and services is an essential pre-condition of all other freedoms.¹⁰¹

The pamphlet also commended the principles of curtailing restrictive practices, and the role of the state in ensuring the rules of competition. The pamphlet very much portrayed an economy run along the lines envisaged by Erhard and the German ordoliberals.

Another CPC pamphlet with a German association was Konrad Zweig’s *Germany through Inflation and Recession* published in 1979.¹⁰² This included a review of the thinking of Hayek and other continental neo-liberals and the evolution of Germany’s early ‘social market economy’ and criticised the collectivist approach of the 1960s. It hailed the role of the state in ensuring a competitive market economy whilst being “devoid of liberty destroying instruments or of delegating its market co-ordinating functions to conflicting corporate interest groups”.¹⁰³

By the end of his career, Joseph had apparently become disillusioned with Germany’s economic policies believing the Germans had departed from their market principles. He made clear his disgust in a CPC pamphlet he wrote on the lessons from Germany, possibly intended as a rebuff to Social Democrat politicians such as David Owen who had taken up the idea of ‘the social market economy’ in the early 1990s. “Bit by bit” he wrote “the rules and conventions were relaxed. Public sector bodies expanded: public spending grew faster than GDP: cartels and subsidies crept back: corporate taxes grew and grew: firms demanded and obtained subsidies: pensions and social security soared: health services were subsidised ... unions clamoured for more pay, more benefits, shorter hours, forgetting all the enlightened self–interest of their predecessors: and the social market economy, designed for a self–reliant people became slacker and slacker”.¹⁰⁴

¹⁰¹ CPC, M. Wassall and Nigel Vinson, *Why Britain Needs a Social Market Economy*, 1975.

¹⁰² CPC, Konrad Zweig, *Germany through Inflation and Recession*, 1976.

¹⁰³ CPC Zweig, *Germany*, p.10.

¹⁰⁴ CPC, Keith Joseph, *The Social Market Economy: Containing some Lessons from Germany*, 1992.

Instead of Britain going down Germany's virtuous ways it seemed to Joseph that Germany was going down Britain's 'statist' decline.

The phrase 'social market economy' has continued to resonate with some politicians and economists in Britain over the years. Chris Patten was attracted to the concept of the 'social market economy' possibly for many of the reasons that Joseph came to reject it, particularly what he saw as the CDU/CSU's advocacy of job creation programmes and policies on the family. David Owen, as we have seen, became interested in the German 'social market economy' at the time of the formation of the Social Democratic Party.¹⁰⁵ The historian Robert Skidelsky who had slowly shifted to the right in the Thatcher years was also a notable advocate helping in 1990 to found another think-tank, 'The Social Market Foundation', and writing its seminal pamphlet 'The Social Market Economy'.¹⁰⁶ Academic interest in the 'social market economy' also developed from the late 1980s with the publication of Alan Peacock and Hans Willgerodt's *Germany's Social Market Economy: Origins and Evolution*¹⁰⁷ followed by Anthony Nicholls' *Freedom with Responsibility*.¹⁰⁸ A regular flow of other academic studies and doctoral theses on the history of the 'social market economy' followed, most recently Stefan Muresan's *Social Market Economy and the Case of Germany*.¹⁰⁹

The word 'social' in the phrase 'social market economy' has resonated with a fair number of commentators in political and economics circles - many in Britain and for that matter Germany have read into the word different implications and meanings that were probably not intended by Erhard and the original CDU/CSU propagandists in the late 1940s. In a forthcoming book, three British historians have signalled they will argue that it was the 'social' dimension of the 'social market economy' which always had most

¹⁰⁵ Duncan Brack 'David Owen and the Social Market Economy' in *Political Quarterly*, Vol. 61 (1990), p.463.

¹⁰⁶ The Social Market Foundation, Robert Skidelsky, *The Social Market Economy*.

¹⁰⁷ Alan Peacock and Hans Willgerodt, *Germany's Social Market Economy: Origins and Evolution* (Basingstoke, 1989).

¹⁰⁸ Anthony Nicholls, *Freedom with Responsibility* (Oxford, 1994).

¹⁰⁹ Stephan Muresan, *Social Market Economy and the Case of Germany* (Mannheim, 2014); see also James C. Van Hook, *Rebuilding Germany: the Creation of the Social Market Economy, 1945-1957* (Cambridge, 2004).

resonance in Britain.¹¹⁰ Suffice it to say here that the ambiguity of the phrase has attracted more commentators in Britain amongst social democrats than the free market liberals who invented the phrase in Germany.

¹¹⁰ Aled Davies, Ben Jackson and Florence Sutcliffe-Braithwaite (eds.) under the provisional title ‘The Neo-Liberal Age? Britain in the Late Twentieth Century’ expected to be published 2021.

Chapter 3: Ludwig Erhard's Visits to Britain

Ludwig Erhard held ministerial office for seventeen years, first as Minister of Economics and then as Chancellor.¹¹¹ He was never an ordinary party politician, remaining “his own man” as one historian described him, and only joining the Christian Democrats when he became Chancellor in 1963 (his membership though was backdated to 1949).¹¹² His views on economics were formed early, although, as Volker Berghahn put it, he was always ready to “accept stimulus from various ordo-liberals as he saw fit including Alexander Rüstow, Wilhelm Röpke, Walter Eucken and Franz Böhm”.¹¹³ By his early thirties he was set on an academic career in economics and was preparing a Habilitation at Nuremberg University, addressing Germany's economic problems, but with the ascendancy of Nazism it was never submitted and he turned to economic consultancy.

In various memoranda published after the war he set out his ideas about how to bring about an economic recovery. He believed the way forward was to shift the balance of the economy away from heavy industry towards a consumer society, and it was this path he followed once in office.¹¹⁴ It was his colleague, Alfred Müller-Armack, who dubbed his policies the ‘social market economy’ and this tag stuck in the promotion of the CDU/CSA policies.¹¹⁵ Erhard never had a strong parliamentary base but he had great public relations skills, and made extensive use of the public relations consultancies such as *Die Waage*, which helped him build widespread public popularity.¹¹⁶

¹¹¹ Ludwig Erhard held office as Minister of Economics from 20 September 1949 to 15 October 1963 (including as Vice-Chancellor from 29 October 1957) and then Chancellor from 16 October 1963 to 1 December 1966.

¹¹² Nicholls, *Freedom*, p.76.

¹¹³ Volker Berghahn, ‘Ideas into Politics: The Case of Ludwig Erhard’ in R.J.Bullen, H. Pogge von Strandmann and A.B. Polonsky (eds.), *Ideas into Politics: Aspects of European History 1880-1950* (London 1984), p.184.

¹¹⁴ Alfred Mierzejewski, *Ludwig Erhard: A Biography* (North Carolina, 2004), p.21.

¹¹⁵ For a discussion of Erhard's selling of the ‘social market economy,’ see: Spicka, *Selling the Economic Miracle*, chapter 4.

¹¹⁶ Spicka, *Selling the Economic Miracle*, p.110.

In one wartime paper written prior to reaching office he said: “I was and am of the opinion that the best method for satisfying public needs remains a competitive market” and that therefore “the desirable goal remains the free market economy based on real competition with the regulation necessary for such an economy”.¹¹⁷ He rejected Karl Marx as plain wrong because of his denial of the role of the individual in shaping events and in any event believed Marxism could only lead to dictatorship. He rejected state planning because he believed it must fail as the planners could never anticipate the wants of all the consumers. He opposed mixed economies and state enterprise for much the same reason. On the other hand, he rejected laissez-faire capitalism because he believed the absence of regulation led to the short-changing of the consumer and the exploitation of women and children.¹¹⁸ He was convinced only a free market could efficiently provide goods and services hence his long campaign to extinguish cartels and restrictive practices, though with only limited success.¹¹⁹ He believed that a free market needed a strong government imposing rules which prevented any abuse of the consumer. An economy that benefited consumers, he thought, was the most socially responsible economic system because it benefited everyone, hence the justification for the term ‘social’ in ‘social market economy’.¹²⁰

For Erhard, the key economic objectives were ‘true and stable’ prices, a balanced budget, the liberalisation of trade and the convertibility of currencies and he aimed to keep prices as competitive as possible in order to serve the interests of the consumer.¹²¹ He believed firmly in the rights of property ownership and the need for owners to take responsibility which led him to be distrustful of pluralistic policies and distributive programmes and was particularly cautious about any extension of the social welfare programmes. He was also no enthusiast for the German practice of co-determination (see Chapter 9) believing the owners of an enterprise needed to take responsibility and make business decisions. Although he came round to supporting the EEC, he shared with

¹¹⁷ Cited in Alfred Mierzejewski, *Ludwig Erhard: A Biography* (North Carolina, 2004), p.21.

¹¹⁸ *Ibid*, p.30.

¹¹⁹ Erhard did, however, concede there was a role for cartels in relation to agriculture, housing, fuel, postal services and utilities but never in consumer goods.

¹²⁰ Mierzejewski, *Erhard*, p.31.

¹²¹ Erhard considered prices ‘true’ if they were not distorted by regulation.

Britain a distrust of international bureaucracies and supra-national organisations fearing they might create barriers for the entry of goods into European market. He wished to see the EEC become as inclusive as possible so as to facilitate Germany trading with as many countries as possible. Unlike Adenauer, he was very wary of France's enthusiasm for planning and feared it might impose heavy social expenditure and other labour costs on EEC countries. He believed strongly that Germany should maintain close economic relationships with the United States, Britain and those European states that were not members of the EEC.¹²²

Erhard was one of the most Anglophile of German politicians and always enthusiastic about visiting Britain not just on official business but also to take up speaking engagements and indulge his passions for music and culture.¹²³ He used his trips to speak at events in order to explain his views on economics and the 'social market economy.' He was a big draw as a speaker in England not so much on account of his free market views but because of the huge success of the German economy. The *Economist*, Erhard's greatest cheerleader in Britain, thought there was nothing surprising about German economic success given the market policies he had adopted and it continued to give him generous support throughout his whole period of office, and indeed even afterwards, but as we have seen support for market economics did not cut a lot of ice in Britain.¹²⁴ So how did British ministers and others, who may have seen the Bonn Embassy's reports on Germany's recovery, react to Erhard and his views on economics?

The various records of his visits for talks with British ministers and officials reveal how their attitude to him changed over time. Sir Stafford Cripps, the Labour Chancellor of the Exchequer in 1948 was simply horrified by the prospect of what he viewed as a free marketeer holding the post of Minister of Economics in Germany's first elected government and saw it as the harbinger of future trouble. However, the success of Erhard's economic policies after the currency reform particularly in relation to its exports and the massive reserves which began to accrue only served to steadily enhance his

¹²² Ibid, p.40.

¹²³ Erhard, like the British prime minister Edward Heath, had an ambition from an early age to become a musical conductor: see Mierzejewski, *Erhard*, p.3; Edward Heath, *Music: A Joy for Life* (London, 1997).

¹²⁴ *Economist*, 18 October 1952.

reputation with the Conservatives during the 1950s. They particularly welcomed Erhard's efforts at trade liberalisation which were orchestrated through the OEEC and although his country's success presented the greatest competitive and trading threat to Britain he was nevertheless identified as a 'friend' of Britain on whom they sought to rely. By the 1960s when Labour returned to power, his reputation stood at its peak and awe, even fear, of Erhard and Germany's economic power had taken hold. German success was always a sensitive matter for struggling British governments which understandably remained too embarrassed to say too much in public about just how well Germany was doing economically.

Visit made between 23 and 30 November 1948

The first visit was made between 23 and 30 November 1948 at Erhard's own request. He was at the time the Director of Economic Administration of the Bizonal Economic Council and had been closely involved in the currency reforms earlier that year so was marked out as a potential Minister of Economics.

Erhard had pressed the Control Commission for an invitation to meet the Chancellor of the Exchequer, Sir Stafford Cripps, and other ministers, but Treasury officials were reluctant to extend an invitation especially when they were informed by the Foreign Office that "he is known as an obstinate doctrinaire and opposed by temperament and conviction to everything he believes our economic system to consist of" adding "nor do I regard him as in any way pro-British".¹²⁵ Erhard had shrewdly suggested he wished to make the visit as he "would like an opportunity to visit England in order ... to study our system of industrial production and distribution".¹²⁶ The suggestion that he might wish to learn from British practices made all the difference to the British officials considering the application and as one suggested: "for precisely these reasons a visit to England might be illuminating for him [as] he is just sufficiently nervous

¹²⁵ TNA FO 1049/1190 Memo from Control Commission, Frankfurt, 8 September 1948.

¹²⁶ Ibid.

of the consequences of his present policy to be ready to profit by anything he might pick up in England which he could apply in Germany”. Eventually an invitation materialised but strictly on terms that the visit should receive no press publicity and, if it did leak, it should be emphasised that it was not Britain but “Erhard himself [who] first suggested that he should visit England and that the avowed purpose ... is to study the British system of control of industrial production and distribution with particular reference to utility goods and raw materials control”.¹²⁷ Such nervousness arose out of a fear that “[Erhard’s] supporters might seek to make political capital out of the invitation to Erhard to visit the UK and might even portray it as indicating British approval of his policy”.¹²⁸ In the event such nervousness was unnecessary as the British press were almost completely uninterested in the visit though it was widely reported in Germany.

Before Erhard’s visit, the Control Commission in Germany provided Cripps’s advisers with a detailed briefing on Erhard’s economic policies. It was noted he is “a convinced protagonist of an uncontrolled economy and of free enterprise” and had “embarked upon a policy of decontrol and removing price-stops”.¹²⁹ The CCG thought he had been rattled by the frequent price rises taking place as a result of the currency reform though it was noted he affected a lack of concern saying that prices in Germany will eventually find their own level. Nevertheless, it was noted that his policy was “bitterly opposed by the Social Democrats and the trade unions not to mention the communists” and whilst most Christian and Free Democrats supported the policy, there were nevertheless factions of these parties “sitting on the fence” pending the outcome. The worries of the Ministry of Economics were thought to be evident from its publication of guideline prices for lists of commodities and its sales of so-called “everyman goods” purchased from abroad at cheap prices.

For Erhard’s week-long visit to London, the Treasury drew up an intensive educational programme with Lord Henderson, Alec Cairncross, Sir Edward Plowden and various other Treasury officials who addressed him on Raw Materials, Price Controls,

¹²⁷ Ibid, Memo from Control Commission, Berlin to various Control Commission offices in Germany, 9 November 1948.

¹²⁸ Ibid.

¹²⁹ TNA FO 1049/1190, Bercomb Berlin to CCG German offices, 9 November 1948.

Clothes Rationing, Consumer Needs, Wages and Prices Policy and Budget certification so that he could learn about Britain's system of controls.¹³⁰ Erhard listened to his hosts attentively, asking polite questions, but not giving too much away on what he thought of the British superstructure of controls. As a free marketeer committed to stripping away all controls as soon as possible he would privately have been very unimpressed.

Cripps, disdainful of meeting Erhard, an anti-planner, was obliged to spare him fifteen minutes immediately before he departed for the weekend. He used the meeting to "point out the desirability and indeed the necessity of planning within the framework of the European Recovery Plan".¹³¹ He observed that some of Germany's export targets under the ERP long-term programme "seemed excessive" and that he felt there was a need "to harmonise German and British exports to avoid any conflict".¹³² Erhard responded saying that "like the UK, Germany had no alternative but to expand exports in order to provide the necessary imports for a country shorn of large agricultural areas and with an inflated refugee problem" but agreed that "it was obviously necessary to avoid any British-German conflict in this connection." Such a pious statement was no doubt well-meaning but the fact was that Britain would feel the pressure of German manufacturing competition for the foreseeable future. Erhard wound-up his comments by saying that Germany was looking for a boost to its manufacturing and that he "thought a close trade relationship with the UK and with its supplying countries would be welcomed".¹³³

In Germany, the *Frankfurter Rundschau* noted the comment that had been made on more than one occasion that the English "feared that English and German interests might clash on the world markets", an extraordinary admission when German exports had only just begun again after the war.¹³⁴ Erhard commented that "if one agrees the principle that every increase in exports brings an increase to imports in its train then an

¹³⁰ Lord Henderson was the Foreign Office Minister for Germany. (later Sir) Alec Cairncross was the Head of The Treasury's Economic Section. Sir Edward Plowden was Head of the Department of the Economic Secretary and the Planning Board in the Treasury.

¹³¹ TNA 1049/1190, Killick, Foreign Office Memorandum on Erhard's visit, December 1948.

¹³² Ibid.

¹³³ Ibid.

¹³⁴ *Frankfurter Rundschau*, 'Erhard on his visit to England,' 8 December 1948.

increase in the total trade volume will bring only advantages for all participants”.¹³⁵ As a statement of economic theory it could not be faulted but the British were already concerned about the German competition and how it would affect Britain’s own export drive. One Treasury official writing to his Foreign Office counterpart described Erhard’s export plans as “huge and ambitious” and was worried that the “general level of economic activity is to be considerably higher than was previously decided between US and UK authorities to be sufficient for a peaceful German economy – in other words there is a military point”.¹³⁶ Casting about for reasons to cut-back the German programme, the official accepted that “the only argument that can be advanced with expediency is that we doubt the realism of the export plans. They look fantastic. There is the added consideration that some of the raw materials will just not be available”. It was felt that the answer to uncontrolled German export growth was to urge the Germans to discuss their export plans “within the framework of the OEEC”,¹³⁷ a forum which the British hoped might moderate the Germans.

British officials were therefore quick to anticipate the threat of German economic competition even before it had arisen. They were also concerned that Erhard’s free market policies might lead to a relapse in the German economy, perhaps requiring Britain to provide further financial support. The Labour government believed in planning and controls and so British officials went to great lengths to ‘educate’ Erhard on what they saw as the errors of his way.

Visit of 12/13 May 1953

By the time of his next visit to London as Minister of Economics on 12/13 May 1953, Erhard’s prestige had soared on the back of Germany’s rapid economic growth and

¹³⁵ *Frankfurter Neue Presse*, ‘Report on Professor Erhard’s Trip,’ 8 December 1948.

¹³⁶ TNA T 229 /179, Memo, Ogilvie-Webb (Treasury) to Strath (FO), November 1948.

¹³⁷ TNA T 229 179, Sharp, Note of Meeting between Erhard and Cripps, 26 November 1948.

expanding exports whilst also maintaining the stable prices which he argued was the result of competition and sucking in cheap imports. As a result of its expansion of overseas trade between 1951 and 1953, Germany had swung from the principal debtor of the European Payments Union, the OEEC's multilateral credit agency, to become its principal creditor as it made its "comeback in world markets" as Erhard dubbed it.¹³⁸

The Foreign Office received reports from British businessmen who had been impressed by Germany's economic recovery on their visits to the country. One businessman, Beddington Behrens, Chairman of the Central East European Committee, had met the future Bonn Ambassador, Frank Roberts, earlier in 1953 observing "the great weakness of the German industrial machine at present... was lack of capital... to finance the necessary expansion" although he said he personally was not minded to invest in Germany himself as he thought bust must surely follow boom which, as it turned out, would not happen for a long time.¹³⁹ Others such as the Chairman of British Interests in Germany, were urging the British government to negotiate a new commercial treaty with Germany to give the 300 to 400 British businessmen in Germany the same legal protections against expropriation and nationalisation as under the pre-war commercial treaty which had been abrogated in wartime.¹⁴⁰ That they had such a fear shows a remarkable nervousness about the risks of doing business in Christian Democrat Germany which were harboured by some British businessmen in the early 1950s, some worrying it might yet again succumb to political extremism.

The Foreign Office had noted that Erhard who was known to be an enthusiastic traveller was personally leading trade delegations to a surprising number of countries in the East, the Middle East and South America and was concerned that many of them were traditional stamping grounds for British exporters. Britain and Germany both pursued the OEEC's trade liberalization agenda though the Board of Trade recognized that the Germans seemed to be progressing at a faster rate than Britain as a result of their policy

¹³⁸ By 30 September 1952, Germany had become the EPU's major creditor with US \$443m cumulative credit. Ludwig Erhard, *Germany's Comeback in the World Market: the German 'Miracle' explained by the Bonn Minister for Economics (London, 1954)*.

¹³⁹ TNA FO 371/ 104030, Minute of Frank Roberts, 26 March 1953.

¹⁴⁰ TNA FO 371/ 104031, FO Note, May 1953.

of allowing in cheap imports in order to hold down inflation and obtain plentiful supplies of cheap raw materials and goods. Britain had for some years relied upon imperial preference to ensure supplies of mainly cheap foodstuffs, but opening the home market to cheap manufactured goods so as to bring the cost of living down as the Germans were doing was too bold a step for a country struggling with its manufacturing productivity.

Through most of the 1950s, the Germans were waiting upon the British to lead Europe towards convertibility which Erhard wanted as he saw it as another weapon in his fight to keep down domestic prices. The deutschmark was sufficiently strong for the Germans to contemplate convertibility at any time after 1952 but the British were not ready to do so until the autumn of 1958. However, this did not stop Erhard giving the British regular, and no doubt slightly irritating, gentle nudges wishing to know when Britain might be ready. Britain's difficulties over convertibility was one of the growing number of economic issues where German economic success tended to get up the noses of the struggling British economic policymakers.¹⁴¹ The Americans made it quite clear that they saw Britain's tardiness in making sterling convertible as "an unwillingness to ...face up to the bracing discipline of competition."¹⁴²

It was against this background of the EPU, trade liberalization and the prospects for convertibility that Erhard made his long-anticipated visit to London in May 1953. The proclaimed purpose of the visit as expressed by Erhard was "to develop trade and freer currency" and it followed a UK-German Trade Agreement signed in Bonn on 6th March 1953.

On the first day, Erhard and Franz Blücher, the German minister responsible for relations with the OEEC, met with the Chancellor of the Exchequer, Rab Butler, to discuss trade liberalisation and convertibility. Both sides confirmed these as shared objectives but with the British, as usual, being forced to dampen any expectation that convertibility was imminent. On their return to Germany, Blücher, fielding questions

¹⁴¹ Catherine Schenk, *The Decline of Sterling: Managing the Retreat of an International Currency 1948-1992* (Cambridge, 2010), p.107.

¹⁴² C.S.Maier, 'The Making of Pax Americana: Formative Moments of United States Ascendancy' in R.Ahmann, A.Birke and M.Howard (eds.), *The Quest for Stability: Problems of West European Security 1918-57* (London, 1993).

from the German press on the timing of convertibility, made it known that the British were nowhere near ready, to the annoyance of the Treasury.¹⁴³

On the second day of their visit, Erhard and Blücher met the President of the Board of Trade, Peter Thorneycroft, the member of the cabinet most sympathetic to Germany's free market policies, to discuss the problem of unfair competition concerning export subsidies. British officials had pointed to what they saw as special tax reliefs given to German exporters. As it happened, the 1945 Labour government had devised special incentives for exporters in the late 1940s but these had been removed as no longer acceptable under GATT and OEEC rules. There were two German special tax reliefs for exporters - one a deferment of part of the corporation tax liability of exporters and the other a tax-free allowance related to export turnover but these tax reliefs, it had been agreed with the British, would expire at the end of 1955 and so bring to an end that complaint.¹⁴⁴ There had also been numerous complaints from British businessmen that the credit terms given by German businesses to buyers were overgenerous. There was a general suspicion amongst British officials that the German businesses were regularly selling exports at subsidised prices. Erhard suggested that firms in all European countries were probably at times guilty of 'selling low'.¹⁴⁵ The British pressed Erhard on other tax incentives they believed they had identified in German legislation and he suggested that the British and German governments should draw up a catalogue of all the incentives, direct or indirect, they each provided for exporters and ask the OEEC to determine which were legitimate and which unfair.¹⁴⁶ Erhard was willing to phase out Germany's statutory incentive scheme for exporters but the British could not agree that their generous capital allowance regime was a form of export subsidy and refused to change it.

The Germans pointed to other British practices such as the sale of steel at prices fixed by the Government. The Federation of British Industries later obtained through the Bonn High Commission a copy of a 60 page report prepared by the University of Kiel on export incentives in the UK which was used by German representatives in the OEEC

¹⁴³ TNA FO 371 /104031, German Press Release, May 1953.

¹⁴⁴ Francine McKenzie, *GATT and Global Order in the Post-War Era* (Cambridge 2020), p.42.

¹⁴⁵ TNA FO 371/104031, Minutes of Meeting between Erhard and Thorneycroft, 13 May 1953.

¹⁴⁶ TNA FO 371/ 104031, Minutes of Meeting, 13 May 1953.

negotiations. The FBI dismissed much of the information as inaccurate but that did not stop one British official ironically scrawling on the paper praise for the effectiveness of the British export effort.¹⁴⁷

Visit between 19 and 25 February 1956

By the time of Erhard's next visit between 19 and 25 February 1956, Britain was still struggling with the various problems which had emerged from previous talks: besides the mounting German competition and the efforts to achieve convertibility, there were now huge EPU debts, large German trading surpluses and the so-called 'financial disequilibrium.' There was also a feeling that somehow the OEEC trade liberalization programme had not reaped the same benefits for Britain as it appeared to have done for Germany which continued to enjoy soaring exports. There were also balance of payments problems to contend with, a 'stop-go' pattern of economic growth which had developed, and increasing industrial disruption. More importantly, British ministers were realising that Britain's trade with the other OEEC countries was increasing far slower than Germany's. This was despite Britain's share of manufacturing exports to Europe increasing from 20 per cent in 1950 to 40 per cent by 1970, a swing which had significant consequences for the future.¹⁴⁸

British ministers in a rather superior way believed Britain should have a substantial say in the economic recovery of Europe, and indeed the Europeans remained enthusiastic for British participation in the Messina Conference in 1955, but Britain was firmly against participating in any supra-national European integration.¹⁴⁹ To Britain, the OEEC inter-governmental model of European co-operation was much preferred to any supra-nationality, a view with which British ministers believed Erhard concurred as he

¹⁴⁷ TNA FO 371/104032, Report of the Economic Institute of the University of Kiel, 13 August 1953.

¹⁴⁸ Between 1953 and 1955, the UK's share of manufacturing exports to other OEEC countries had increased 39 per cent, whilst Britain's exports to the sterling area had increased only 10 per cent. Germany's exports to other OEEC countries were up 58 per cent and to North America up 35 per cent whilst Britain's exports to North America were up only 3 per cent.

¹⁴⁹ Miriam Camps, *Britain and the European Community* (London, 1964), p.40.

expressed his concern that a common market would restrict free trade with other countries particularly what he saw as potentially important Scandinavian markets. Erhard and the German business community therefore seemed the obvious ‘friend’ within the EEC to whom Britain could turn in promoting a looser free trade model. Over the next decade, Britain came to rely on Erhard who usually seemed to say all the things the British liked to hear, but he was never quite able to pull off the diplomatic breakthroughs they were expecting. The problem was that, despite the respect in which he was held in Germany, he lacked sufficient prestige to get his way in Germany on foreign policy matters and so could not push through what he and Britain wanted on free trade and the common market especially once the German Foreign Office and Adenauer prioritised the improvement of Franco-German relations as a key diplomatic objective.¹⁵⁰ Unfortunately, there was simply no alternative ‘friend’ the British could turn to in the same way as the ever-optimistic anglophile Erhard.¹⁵¹

After the Chancellor of the Exchequer, Rab Butler, had met Erhard at an OEEC Conference in Istanbul in September 1955, where Erhard had spoken out in favour of an OEEC approach to European integration rather than a supranational one, Butler, rather rashly, sought to follow up on Erhard’s views by sending him a note which stressed the divisive economic effect, as he saw it, of a customs union and its negative effect on the political cohesion of the Western Alliance, and boldly recommending Germany reject any common market.¹⁵² This was not a view shared by most of Erhard’s cabinet colleagues. The Chancellor, Konrad Adenauer and much of German business favoured a common market with supranational institutions, believing it would give German exports within the customs union a great boost. Butler’s initiative therefore went down badly with Adenauer and particularly the German Foreign Office, and indeed others in the Six, who concluded discussions with Britain about the common market might just be too difficult. The lack of engagement by Britain was always likely to be seen abroad as a policy of ‘wait and see’ how any arrangement worked out and, if successful, then attempt to obtain some of

¹⁵⁰ Schaad, *Bullying Bonn*, p.108.

¹⁵¹ *Ibid*, p.130.

¹⁵² *Ibid*, p.32.

the benefit, perhaps in the form of an ‘associate’ membership. Matters were made no better when Britain cynically set about trying to stoke American fears that a common market was not the best way of “imposing control over Germany ... as Germany might in fact prove to be the dominating influence in Europe”.¹⁵³ Such scare tactics were brushed aside by the Americans who had long been enthusiastic about European integration.

Within a month, Butler was to be replaced as Chancellor by Harold Macmillan, who immediately stepped up work on a new European initiative which might avoid Britain being left too much out in the cold, the so-called ‘Plan G’ which is discussed in Chapter 15.¹⁵⁴ With a new European initiative under way, Erhard came on a week-long visit to the UK in February 1956, although ministerial meetings were only arranged for two out of the seven days. Erhard was in any event coming to speak at Chatham House on the ‘Principles of Modern Trade Policy’. The timing of the visit, immediately following Butler’s ill-fated note requesting that Germany reject any common market, suggested that Erhard wished to let the British know that he did in fact have concerns about the way proposals for European integration were moving, namely in a direction hostile to free trade. However, Macmillan was a little more open-minded about European integration than Butler had been. Whilst Macmillan was notoriously hostile to the Germans, and was to develop a particular distaste for Adenauer, he was nevertheless keen to strike a good working relationship with Erhard who he trusted most out of the German ministers.

Erhard was worried about the risk of inflation as indeed were most older Germans who remembered the hyperinflation of 1923. Under the slogan of “keeping up the boom whilst stabilising it”, Erhard was more concerned about the risk of other economies overheating, threatening Germany’s own growth, rather than any overheating caused by the German economy, prices there having barely risen in the past eight years. The antidote, Erhard felt, was to move towards convertibility which he felt would help check

¹⁵³ TNA FO 371 /122022 quoted in Schaad, *Bullying Bonn*, p.37.

¹⁵⁴ TNA CAB 134/1239, United Kingdom Initiative in Europe, Plan G, Interim Report by Officials, 23 July 1956 and Supplementary Report by Officials, 27 August 1956.

“unions and employers who currently believe they could do as they wished”.¹⁵⁵ However, despite the amount of work the Treasury had put into thinking about convertibility, especially the proposal for a floating currency known as ROBOT, Macmillan knew the Treasury did not feel at the time of the visit that the time was right for convertibility, so it was irritating to be asked by the Germans, yet again, when Britain would be ready. However, Macmillan and Erhard shared common ground in their criticism of the French subsidising their exports and Macmillan agreed to take this up with the French much to Erhard’s relief as it was, he thought, easier for the British to do this than for him.

Erhard raised the subject of European integration and, overreaching his authority, declared that “every policy of European integration which did not allow the same treatment outside as inside the Common Market would be discriminatory and, therefore opposed by Germany.” Macmillan indicated that his thinking was running along similar lines and urged that “what was done by the Messina Powers should not lead to the break-up of the OEEC or to a real duality of allegiance”. Erhard said he had “no faith that anything would result, mainly because of the attitudes of France and Italy. But if there was a real integration with a lowering of tariffs and no discrimination against outside countries, Germany would strongly support it.” Britain had been placing a lot of faith in Erhard and Germany being prepared to come out against Messina but on the basis of Erhard’s visit, it seemed they were likely to be disappointed. Erhard said he was not in fact against a customs union per se, as Britain was, indeed his comments showed he thought a customs union would lead to an increase in trade, but he was concerned about maintaining free trade outside any customs union. British policy on European integration was therefore, as the minister’s briefing paper made clear, firm that: “we cannot ourselves join the Common Market, but we feel the establishment of one without us would gravely endanger our trading interests and leave Europe in the hands of Germany” but warned that “we should not appear to be hostile” and noted that Britain was “working on a counter-proposal”.¹⁵⁶ It was clear that if Messina was to be stopped or modified it would be necessary for Britain to come up with more than warnings and that what was needed

¹⁵⁵ TNA T 236/4272, Note of Meeting, 21 February 1956.

¹⁵⁶ TNA PREM 11/1336, Brief on European integration.

was some modification to the Common Market proposal which offered all parties something more than a Six–power customs union. Erhard may not have realised it, but the British representatives meeting him in these talks had been briefed to draw out from him a statement of the German position with a view to weighing up how best to undermine Messina.¹⁵⁷

On his return to Germany, Erhard wrote about his trip for the German government information sheet *The Bulletin* in which he emphasised that “the talks were mainly focused on how to meet the present boom situation”¹⁵⁸ and noted that “the two countries should maintain a constant exchange of views with regard to meeting the boom situation” which was reflected in the British proposal for the establishment of an Anglo–German Economic Committee in which officials would meet regularly to discuss economic issues of mutual interest. On the subject of the Common Market he noted: “We are convinced that one purpose in establishing the Common Market for [the Six] should be to promote their integration with the other nations of the free world in future. I believe it will no longer be possible to regard the OEEC and European integration as two different things. European integration will come to be seen as the effort to intensify the liberal principles of OEEC”. Erhard’s efforts to square support for the OEEC with the Common Market were not appreciated in London which made a clear distinction between inter-governmental and supra- national entities and much preferred the former.

By April 1956, the Treasury had finalised its review of the alternatives to the Common Market and Germany was again at the heart of its thinking. The Common Market proposal gave rise to a concern that most likely it would be dominated by Germany and that British exports might be excluded from Europe. There were fears that if the Common Market were a success then containment of Germany may be far harder to achieve and Germany might seek a different political course, or indeed if the Common Market failed, then a disillusioned Germany might even pursue an accommodation with the East. In any event, Germany was identified in the report as a problem as far as policy on the Common Market was concerned, and it was decided to step-up the policy of

¹⁵⁷ TNA FO 371/121975, Note of Meeting, 23 February 1955.

¹⁵⁸ TNA FO 371/122024, Bulletin, article of 8 March 1956.

persuading Germany to support a free trade initiative. Again the British had hopes of pursuing this through the ever 'friendly' Erhard. It was thought Britain should make a counter-offer which maximised the globalisation of German trade.¹⁵⁹ A suggestion made in the Spaak Report that a free trade area could be established around any common market was a handle for the British to encourage the OEEC to set up a working party to examine the idea which was announced in October 1956 after a Commonwealth Finance Ministers Meeting.¹⁶⁰ From then on, the British brought to bear all the arguments they could muster to persuade the Germans to support a wider free trade proposal including invoking fears of the loss of their Scandinavian exports, fears of an increase in costs to satisfy the French desire for social harmonisation and German fears that they would be the paymaster of the (mainly French) overseas territories if those territories were granted access to the Common Market. To some in the German business community these arguments struck a chord and indeed some were even enthusiastic about a wider free trade area but the British were to find that their hopes of using Germany to stop the Common Market in its tracks were far too optimistic.

Visit of 15 and 16 January 1964

Erhard's visit to Britain in January 1964 was his first as Chancellor. The new Prime Minister, Douglas-Home, and his ministers, were hopeful that Erhard's good offices might be invoked to help progress the initiative for another application to join the EEC. There had been a succession of plans for various visits over the two years between 1959 and 1962 including one in May 1960 for Erhard and the President of the Board of Trade, Thorneycroft, to appear together on British television extolling the proposal for a European Free Trade Association (EFTA) which Erhard claimed fell through because

¹⁵⁹ Schaad, *Bullying Bonn*, p.46.

¹⁶⁰ Comité Intergouvernemental créé par la Conférence de Messine, Rapport des Chefs de Délégation aux Ministres des Affaires Étrangères (Brussels, 21 April 1956). The report is known as the 'Spaak Report'.

of French pressure but also pressure from the more pro-French Adenauer.¹⁶¹ Erhard had made a brief courtesy call on Macmillan shortly after the British announced their intention in 1961 to open discussions on a British application for entry to the EEC. In response to a comment by Macmillan that “The Commonwealth, Europe and the US must be brought together so as to achieve the maximum economic unity”, Erhard concurred saying that he believed “moves towards multilateral trading would indeed be advantageous”.¹⁶²

The negotiations for entry in 1961-63 by Macmillan’s government had been handled in a similar contradictory manner as the earlier negotiations in 1957-58 over the Free Trade Area. Macmillan was unsure whether to play the Germans off against the French, or to play the French off against the Germans. On the one hand, Macmillan tried to enlist French support by implying that Britain could act as a mediator between France and Germany and hinting at making available to France some of its nuclear know-how although the United States was most unlikely to agree to that.¹⁶³ Bribing the French with access to nuclear know-how, was simply at odds with preserving the US special relationship and if there was one redline the British would not cross it was the special relationship. On the other hand, Britain had also tried to play a pro- German card by using the widespread support of Erhard and German business to exert leverage on de Gaulle to support the application. Britain’s often contradictory policies towards the Germans was not Britain’s smartest diplomacy.

By late 1962, Adenauer’s political support was weakening and it was not beyond the bounds of possibility that he might finally be pushed into retirement. If he were to fall, then behind him stood a number of candidates for the post of Chancellor who it was thought by the British all displayed enthusiasm for British accession. Foremost amongst these was Erhard, the most likely successor, who continued to be regarded as a long

¹⁶¹ TNA FO 371/ 150279, Note, Robinson (FO), May 1960.

¹⁶² TNA PREM 11/3800, Minutes of Meeting with Erhard, 26 January 1962.

¹⁶³ N. Piers Ludlow, ‘A Mismanaged Application: Britain and the EEC, 1961-1963’, in Anne Deighton and Alan Milward (eds.), *Widening, Deepening and Acceleration: The European Economic Community, 1957-1963* (Brussels, 1999), pp. 211-223; Wolfram Kaiser, ‘From Laggard to Leader?: The United Kingdom’s Decision to apply for EEC membership’ in Anne Deighton and Alan Milward (eds.), *Widening, Deepening and Acceleration: The European Economic Community, 1957-1963* (Brussels, 1999), pp. 257-269.

standing 'friend' of Britain, but Brentano and Schroder were also candidates.¹⁶⁴ However, it was doubtful that any of these alternative leaders had the same ability as Adenauer to influence de Gaulle, so for the time being the British continued to work with Adenauer.

Adenauer's overriding concern was the Franco-German relationship and European integration. He had been prepared in late 1961 to bend de Gaulle's ear on the question of British accession, and indeed had previously done so over the FTA proposal.¹⁶⁵ The British were always convinced that, in the contemporary phrase "Germany held the key." They hoped the Germans could circumvent the almost perpetual grind of the Brussels negotiations. Even though the British must have realised that the French did not really wish the Germans to negotiate on their behalf, they nevertheless continued to put a lot of faith in the Germans unpicking for them the difficult issues with the French, only to find that, in the event, German support came to nothing, as had happened before over the FTA negotiations in 1957-58. Nevertheless, despite two disappointments with Germany, this was not something to stop the British when it came to a second application to join the EEC in 1967-68, putting their faith in Germany for a third time without as it turned out any better results.¹⁶⁶

Erhard's visit in January 1964 was very warmly received by British ministers and, given that he was now the Chancellor, allowed British hopes to run ahead of reality. Surprisingly, the official communique said nothing about any British plans for another application to join the EEC. However, within the confines of the conference room, the Chancellor and the Prime Minister, Sir Alec Douglas Home, spoke more openly. Erhard made it clear that German public opinion wanted to see a new European initiative in which Britain must play its part and that he wished "Germany to work towards a merger of the European Economic Community and Britain and The European Free Trade

¹⁶⁴ Sabine Lee, 'Germany and the First Enlargement Negotiations, 1961-1963,' in Anne Deighton and Alan Milward (eds.) *Widening, Deepening and Acceleration: The European Economic Community, 1957-1963* (Brussels, 1999), p. 218.

¹⁶⁵ Lee, *First Enlargement*, p.261.

¹⁶⁶ Katharina Böhmer, ' " We Too Mean Business": Germany and the Second British Application to the EEC, 1966-67' in Oliver Daddow, *Harold Wilson and European Integration: Britain's Second Application to join the EEC* (London, 2003), p.211; Hartmut Philippe, "The Germans Hold the Key": *Anglo-German Relations and the Second British Approach to Europe* (Augsburg, 2007), p.187.

Association” whilst recognising that “all attempts at achieving any political integration over the past two years had failed”.¹⁶⁷ In Erhard’s view, de Gaulle’s conditions for a successful application had already been more than satisfied and so he hoped that de Gaulle could now “draw the correct conclusion.” If not, he did not know what was to become of Europe. But for their part, he said, the German government “would never desist from the hope that Britain would eventually form part of Europe and that the basis of Europe itself would be widened”.¹⁶⁸

Visit of 23-25 May 1966

Erhard’s visit in May 1966 was the last he made as Chancellor. Whilst his prestige remained very high abroad he was under pressure at home. Wilson and his key ministers held Erhard in the same high regard as their Conservative predecessors for his successful track record as an economics minister. His visit though was an opportunity for Wilson’s Labour Government to sound him out, as Britain’s long-standing supporter in the German government, on the prospects for a renewed application. The official communique issued after the meeting again made no mention of the EEC, a sign that Britain had failed to persuade the anglophile Erhard to declare support publicly for British admission. The British and the Germans both believed it was right for Britain to join, the record of the meeting noting: “The Prime Minister reaffirmed the willingness of Britain to join the European Economic Community, together with the other members of EFTA who wished to do so, provided ways could be found to safeguard essential British and Commonwealth interests” and that “[Erhard] emphasized anew that the German government had always supported British accession to the EEC and that it would continue to do so”.¹⁶⁹ Wilson and Erhard also expressed their preference for something wider than just the Common

¹⁶⁷ TNA PREM 11/4817, Record of Meeting, 15 January, 1964.

¹⁶⁸ Ibid.

¹⁶⁹ TNA, PREM 13/933, Minutes of a Visit to London of The Chancellor of the FRG, 23-25 May 1966, p.24.

Market. They both “reaffirmed their belief in a wider European unity in which all the countries of Europe who so wished might play their full part”.¹⁷⁰ It was undoubtedly reassuring for the Wilson Government to know Erhard was fully on their side but as always the German government failed to stand up confidently and insist that membership must be offered to Britain. As a result, Britain’s second application really amounted to no more than a tentative and indeed embarrassing tour around European capitals in early 1967 to sound out attitudes, followed by the decision not to proceed with a formal application.

The British believed that Germany, with its rapidly growing economic power, would not only be willing, but also able, to exercise sufficient influence in the EEC to ‘get Britain in’ in some form or another. For ten years the British had placed considerable faith in Germany, and Erhard in particular, as ‘the holder of the key’ to the EEC. However, to Britain’s very great frustration, Erhard and his successor, at the end of 1966, Kiesinger, were unable to achieve this. The British simply overestimated Germany’s willingness to assert itself on a policy objective which was supported by all EEC countries other than the French who played a long game wearing down all involved with technical objections before choosing the moment to exercise its veto. The French would have found it much harder to obstruct British entry if it had not been for the equivocal attitude of the Germans who the British finally decided had acted not as a negotiator for Britain but as a mediator.¹⁷¹

Over the seventeen years Erhard held office the British perception of him changed from that of a ‘reckless free marketeer’ into the personification of Germany’s successful economy on whom the British came to rely ever more greatly. However, despite his enormous prestige, Erhard in the event was singularly unable to secure the ends Britain (and for that matter) he had sought in Europe.

¹⁷⁰ Ibid, p.24.

¹⁷¹ Böhmer, *Second British Application*, p.220.

Chapter 4: The Anglo-German Economic Committee

The Anglo-German Economic Committee was established in 1956 when British ministers and officials grew nervous about Messina and felt they needed more lines of communication between senior officials in the Foreign Office, the Treasury, the Board of Trade and the Bank of England and their opposite numbers in ‘the Six’. The Committee met biannually, alternatively in London¹⁷² and different German cities for some 15 years and, as one German official had noted, it would fold “as having outlasted its usefulness, if Britain were ever to join the EEC”.¹⁷³ Britain set up similar committees comprising economic officials with France, Italy and the Benelux countries though there was far less enthusiasm for them and they petered out fairly rapidly. The important committee as far as British officials were concerned was the Anglo-German, one Foreign Office official commenting it was “by far the most successful of any of the bilateral economic committees [as] there was always something to discuss.” He thought ‘both countries have an aptitude ...for discussing informally and substantially ...the problems which confront the two countries’.¹⁷⁴ Both German and British Foreign Office officials recognised, as the British diplomat James Marjoribanks expressed it: “the Committee was also an opportunity to discuss the UK’s relations with the EEC and European relations with the rest of the world”.¹⁷⁵

Despite the enthusiasm expressed for the work of the Committee by British and German officials, the meetings of the various sessions, as they were known, were oddly asymmetric in nature. When the Foreign Office official Paul Gore-Booth spoke of discussing “the problems which confront the two countries” it was not immediately

¹⁷² There were two sessions held outside Whitehall: the 10th Session held at All Souls, Oxford and the 22nd Session at the request of the Germans was held in Edinburgh.

¹⁷³ TNA T 236/6573, Allardt, Session 13, Stuttgart, January 1963.

¹⁷⁴ TNA, T 236/6556, Gore-Booth Report, Session 10, Oxford, July 1960.

¹⁷⁵ TNA, FO 371/171493, Marjoribanks, Session 16, London, July 1963. James Marjoribanks (later Sir) was an official in the Bonn Embassy 1957-62 who had a reputation as a developer of British exports to Germany, later becoming the Ambassador to the EEC 1965-71 and played a key role in the 1967 British application to join the EEC and subsequent negotiations to join the EEC.

obvious what the problems were which confronted the Germans, whilst the problems which confronted the British were only too obvious, namely, poor industrial relations, poor productivity, unaffordable wage demands, higher inflation, balance of payments difficulties and ‘stop go’ economic policies.¹⁷⁶ As a result, most of the ad hoc items for discussion were submitted by the British representatives whilst the Germans had few substantive issues to raise and unlike the British they had no complaints about British behaviour though they could not always resist making wry but polite comments about Britain’s difficulties. They asked for presentations on the workings of the City’s financial institutions and on its insurance industry and several times requested a discussion about aid for undeveloped countries but there was nothing much else they requested other than regular updates about the economic situation. On the other hand, the British used the sessions to raise a number of regular gripes about German behaviour, the main one being the issue of ‘financial disequilibrium,’ namely the growing trade surpluses and the perceived problems this was causing for other countries, particularly, of course, Britain. The trade surpluses arose from Germany’s remarkable growth in exports examined in Chapter 1 above.

Rise in German Exports and Reserves

As their exports and surpluses grew, the Germans seemed to take not much notice of the actions sought by the British. Hilger van Scherpenberg, the German official who led the early German delegations, did not deny that the increasing German exports were leading to vast export surpluses, but insisted they were “doing their best to export less and import more” but “they couldn’t get rid of them”.¹⁷⁷ When it came to explaining how they were importing more, Scherpenberg, at the 3rd Session, gave the unconvincing example of agriculture over the previous four years during which he said fruit imports

¹⁷⁶ Paul Gore-Booth (later Lord) was Deputy Under -Secretary (Economic Affairs) at the Foreign Office 1956-1960 and later Permanent Under-Secretary. See: Paul Gore-Booth, *With Great Truth and Respect: The Memoirs of Paul Gore-Booth* (London, 1974).

¹⁷⁷ TNA, T236/5073, Scherpenberg, Session 3, (London, July 1957).

had increased from an annual DM 175m to DM 450m, meat had increased from DM 262m to DM 765m and butter from DM 41m to DM 152m all of which proved no more than that the Germans were eating better as their economy revived but hardly began to address the problem of the reserves.¹⁷⁸ The British tried to turn the discussion to more convincing complaints about German imports but the Germans still did not see why they should put any brakes on their exports.

Whilst Britain had become the world's interlocutor in respect of Germany's growing reserves, it was a subject on which British envy could sometimes emerge. In 1958, one Treasury official moaned that "over the past few years Germany has succeeded in doing what we ought to have been doing, i.e., building up reserves".¹⁷⁹ In the previous two years, German reserves had grown rapidly, as the following table shows:

Table 8 *German trade surpluses and reserves as at 30th June, 1955-1957*

	Trade Surpluses	Reserves
1955	\$300m	\$2.3bn
1956	\$750m	\$3.2bn
1957	\$1bn	\$4.3bn

(Source: TNA FO 371/133213, *Paper on reserves, Anglo-German Economic Committee, 4th Session, January 1958*)

The six largest reserves in September 1957 were the UK (\$1bn), Venezuela (\$1.6bn), Switzerland (\$1.8bn), Canada (\$2.8bn), Germany (\$4.1bn) and the US (\$5bn). The Treasury feared that, firstly, any further drain of the reserves out of Britain might cause

¹⁷⁸ Ibid.

¹⁷⁹ TNA FO 371/1333213, G.M. Wilson, H.M. Treasury, Session 4 (Munich, January 1958).

the international trade system to collapse and also thought that this may happen anyhow if Germany continued to expand its reserves too greatly.¹⁸⁰

Another problem which regularly vexed the British delegation was the large inflow of foreign money attracted into the German capital markets and this raised the question of why Germany's interest rates were so much higher than in Britain. The British wanted them reduced but the Germans argued that it was traditional for German rates to be higher than in Britain though they did not offer any justification for this. The problem they insisted was that as Germany was experiencing such a high level of investment, interest rates were unavoidably forced up and they pleaded, to British frustration, that there was not much they could do about it. Scherpenberg was emphatic that the Bank Deutscher Länder could not see any way to ease rates even though the minimum rate for an industrial debenture in Germany was eight per cent. The British suggested that, if German rates were to remain so high, some of the inflows of capital could at least be re-exported and, in the hope of achieving this, commended to the Germans all sorts of schemes on which to spend their money: on the external side these included greater overseas development in which the Germans in fact took a particular interest, reparations to Israel, voluntary contributions to the proposed European Monetary Fund and, closer to home, the accelerated repayment of Germany's debts under the 1953 London Debt Agreement and the acceleration of Germany's expenditure on rearmament and, of most direct benefit to the British economy, the perennial question of the reimbursement of Britain's costs of stationing troops in Germany which is discussed in Chapter 14.

As German reserves continued to mount relentlessly during the 1950s, the Bank Deutscher Länder at last made a number of small reductions in interest rates and by the 6th session, in July 1958, long-term rates had been reduced from 8 to 6 ½ per cent which was still well above British rates at 5 per cent. One British official at the session made the point that “with virtually full employment and a growing trade surplus, German exports were clearly remaining competitive with no sign of wages and prices getting out of hand”. He concluded that there was still “either too much saving or too little

¹⁸⁰ TNA FO 371/133213, Agreed Minutes of Plenary Session, Session 4 (Munich, January 1958).

consumption in Germany” and that “all this pointed to the long-term interest rate structure being out of harmony with the economy”.¹⁸¹

At the 9th session, in February 1960, Treasury officials again “tried to show that there was room in Germany for an increase in consumption, and that this would lead to greater imports, and would to some extent counter the tendency of Germany to accumulate reserves which she did not need”. However, the Germans stood their ground by “not responding directly but [after some time saying with some emphasis] that the German government was determined both to maintain price stability in Germany and the existing par value of the DM”.¹⁸² The British could only express their frustration saying in their report: “we cannot claim to have made much visible impression on the German delegation on the two questions which most concern us – their obsession with the state of their internal economy to the point of indifference to the effects beyond their borders, and the need, which is linked to this, to find some more certain and effective way of causing capital to flow in the form and direction that present circumstances demand... nothing has changed but it is as well that we have these opportunities to argue with them”.

The 10th session was held in July 1960 in the prestigious surroundings of All Souls Oxford and en route included a visit to Eton, instead of the usual Whitehall offices in which the London sessions were normally held. Gore-Booth, the British head of delegation, tried yet again to change German behaviour but could only report:

We had one of the best debates hitherto on the economic situation, with particular reference to the constant and increasing surplus in the German balance of payments. The discussion went very much to the root of the matter. It became clear that a certain rise in German capital exports and a severely limited rise in prices were the only contribution that the Federal Republic were likely to make to ease the difficulties imposed on other governments by the flow of reserves into Germany.

¹⁸¹ TNA, FO 371/133215, Session 6 (Berlin, July 1958).

¹⁸² TNA, T 236/5073, Session 9 (Hamburg, February, 1960).

Offering little more than a mild amount of sympathy, the German delegation rationalised the situation by saying: “that many German ministers and the German public were inclined to regard a constant surplus as a matter of pride and completely overlook the difficulties to which it exposed other countries especially those anxious to export capital to aid less developed countries”.¹⁸³ The Germans might justify Germany’s post-war financial conservatism by pointing to the scare caused by the hyperinflation of the Weimar era, but to the British who suspected that the inflation was in part at least brought on by the Germans to whittle away their indebtedness, the conservatism seemed more a case of stubbornness.¹⁸⁴

The British inevitably complained that “so long as some countries continue to accumulate beyond what is appropriate in relation to their import pattern, other countries are forced to shape their domestic and external economic policies but with little room for manoeuvre”.¹⁸⁵ In a report prepared by the Treasury, the strength of foreign and domestic demand was noted, and so too were the resulting tight resources caused by full employment and labour shortages and the inevitable strong upward rise in wages. Nevertheless, the report concluded, prices in Germany had remained relatively stable. The massive rise in consumption which the British had hoped for was simply not in sight. The Germans in truth had an economic model that worked for them very successfully and they were loath to change it despite the obvious problems it created for Britain and others. The only area in which the Germans were prepared to show flexibility was on monetary policy. A Treasury Note available at the 10th session reported that despite five increases in the German commercial banks minimum reserve requirement, reductions in the ceiling on the amount of discount the banks could give and reductions in the depreciation allowances which had been made, little impact had been made on the German economy and it concluded that everything pointed to a continuing undervaluation of the deutschmark and the need for a revaluation.

¹⁸³ TNA T236/6556, Session 10 (Oxford, July 1960).

¹⁸⁴ Frederick Taylor, *The Downfall of Money: Germany’s Hyperinflation and the destruction of the Middle Class* (London, 2013), p.352

¹⁸⁵ Ibid.

Reporting on the 11th session held in Frankfurt in January 1961, the Treasury found that still nothing had changed and that Germany was coping with its boom by “very largely letting events take their course”.¹⁸⁶ Unemployment, it found, was now “negligible”, there were four or five as many jobs as applicants and, despite wage increases of 6 ½ per cent or more, the cost of living nevertheless remained stable. The Treasury found a small crumb of comfort in this as “from the British point of view this is a good thing as it is equivalent to a gradual revaluation of the mark”.¹⁸⁷ The Treasury hoped that an overheated economy would demonstrate to the Germans that they had taken insufficient monetary measures. The relatively high interest rates were still attracting huge amounts of overseas capital, though it had to be acknowledged that there was probably little chance of any significant change in German economic policy before the next federal election in the autumn of 1961. Capital inflows into Germany continued at the rate of about eight times the capital outflows, and it looked as if the reserves might be pushed up in 1961 by more than the \$2bn they had risen in 1960. In his opening statement to the session, Sir Frank Lee, the head of the British delegation, had remarked: “Germany ...has been accumulating reserves well beyond what is necessary to sustain a good level of overseas investment and this has been at the expense of the UK and the USA” and he warned that unless this was reversed there would be “serious consequences for world trade and development programmes”.¹⁸⁸

With only a slight slackening of the pace of economic expansion in 1962/3, the Germans were described in the summary of the 13th session as uncharacteristically “gloomy” about their economy. GNP in 1963 was in fact still 3½ per cent. higher than the previous year. Prices had remained stable, but the pressure of wage increases had declined slightly.¹⁸⁹ In Britain, it would have been music to their ears if there had been almost any reduction in wage demands during a slowing of the economy. The British found it tiresome in these sessions when the Germans exaggerated even the slightest set-

¹⁸⁶ TNA T236/6352, Session 11 (Frankfurt, January 1961).

¹⁸⁷ TNA T236/6352, Treasury Note, Session 11 (Frankfurt, January 1961).

¹⁸⁸ TNA T236/6352 Introductory Statement of UK Delegation, Session 11 (Frankfurt, January 1961).

¹⁸⁹ TNA T236/6573, Reilly, Summary of Session, Session 13 (Stuttgart, January 1962).

back, only serving to make the British sceptical of German efforts to solve the underlying problem of ‘financial disequilibrium’.

By the 17th session in January 1964, the German economy was again “at a very high level” and steaming ahead which it was noted “was in contrast to France and Italy” where there were rapid inflationary pressures and a worsening balance of payments.¹⁹⁰ In Germany, it was noted, there had still been little rise in prices with industrial production rising at 8 to 10 per cent since the autumn of 1963, exports rising at 23 per cent, all amidst an improvement in labour unit costs and productivity. As in earlier periods of expansion, the swelling trade surplus was accompanied by large capital inflows and it was apparent that for all the years of nagging by the British little or nothing had been done to make the Germans change their ways. After rising another \$650m in 1964, the reserves reached the formidable total of \$7.1bn. Inevitably, there was yet more heavy foreign buying of Germany’s high-yielding bonds.

The Germans were finally shamed into putting forward a range of largely technical ideas at the 17th session to slow or even reverse the capital inflows though none seemed to have much effect in practice. Amongst them were a 25 per cent withholding tax on interest payments to non-resident holders of German bonds, in an effort to reduce the attraction of German bonds, the further raising of bank minimum reserves against foreign deposits to the legal maximum rate, the banning of interest payments on all time deposits held by non-residents with German banks, the reintroduction of a Bundesbank preferential swap for purchases of forward US dollars and an exemption for the holders of foreign loans floated on the German capital markets to facilitate an outflow of funds. The Germans also proposed cuts in the tariffs on the import of industrial products and with apparent bafflement asked rhetorically: “what other counter-inflationary measures they could possibly take?” The British agreed with the Germans that higher interest rates were not the answer as they would only serve to stimulate more speculative capital inflows. Tax increases were a barely credible policy given the large tax reductions that had just been given away in the recent budget by the German government. Britain’s

¹⁹⁰ FO 371 371/ 177392, Summary of Session, Session 17 (Bremen, February 1964).

preferred solutions were a vast rise in overseas loans by Germany and a vast increase in domestic consumer expenditure. Although the officials agreed this would be a great help in reducing the reserves, the German officials blamed the conservatism of the German public and said it would be very difficult to bring about any meaningful change in the German public's attitude to spending so held out little hope in persuading German ministers. The Germans would inevitably continue to be the big savers they had been throughout the post-war years.

By the time of the 19th session in February 1965, the Treasury noted that the situation had still changed little observing that despite some modest increases in consumption and no quickening of manufacturing hourly wages "it is unlikely that there was any marked diminution in the high ratio of savings to personal disposable income characteristic of West Germany."¹⁹¹ The slightly patronising attitude of the early sessions in which Britain had endeavoured with only limited success to bring about changes in German economic behaviour and make it, what Britain came to call, a "good creditor", slowly gave way to a realisation that there seemed little that would make the Germans change their ways. The British hoped that the revaluations of the deutschmark which were agreed in 1961 and 1969 under added pressure from the Americans would curb the increases in reserves and this issue is considered further in Chapter 13.

British-German Trade

The state of British-German trade was a regular agenda item requested by the British at sessions of the AGECC. In volume terms, British-German trade continued to grow steadily throughout the period reflecting the dynamic growth of the European economy. There were many years in which the British could congratulate both themselves and the Germans on further increases in British-German trade. The growth of British exports to Germany was even perceived in some years as above normal. At the 9th session it was even noted there had been a "spectacular rise in the level of trade

¹⁹¹ TNA FO 371/182450, Treasury Note, Session 19 (Berlin, February 1965).

between the two countries".¹⁹² At the 16th session, satisfaction "was expressed at the continued upward rise".¹⁹³ At the very least, there were regular reports of a rise in trade. Both countries had led the way amongst OECD countries in dismantling tariffs, quotas and trade restrictions though the British (rarely the Germans) had a list of items where they felt there were unfair restrictions on trade. Egg subsidies given by Germany were discussed at the 3rd session, insurance at the 7th and 8th sessions, and film quotas were another particular bone of contention. Coal, canned beef, cut flowers, barley and agricultural subsidies were all scrutinised and East–West trade featured, particularly as neither country wished to miss out on what were thought to be potentially large opportunities.

British officials in the sessions were always anxious to hear from the Germans about how trade was developing. British officials regularly made a point of saying how enthusiastic they were about Britain's participation in Germany's huge trade fairs.¹⁹⁴ In fact, after 1966, the proportion of British exports going to Germany was second only to its exports to the United States so Germany was an important market but officials were well aware that it could have been larger. Britain's share of German imports remained a relatively constant 4 ½ to 5 per cent of imports, later falling to 4 ½ per cent.

Germany's Export Success Examined

At the 10th session in July 1960, the Germans and British exchanged papers on why Germany had succeeded so spectacularly as an exporter. The German view of their success was put down to a variety of factors which they identified as stable and highly competitive prices, high productivity, a high rate of investment in the important area of capital goods industries for which there was a high level of demand, the priority given for foreign orders, the readiness to adjust prices to meet foreign price conditions, the long-

¹⁹² TNA T236/5073, Summary, Session 9 (Hamburg, February 1960).

¹⁹³ TNA FO 371/171493, Summary, Session 16 (London, July 1963).

¹⁹⁴ TNA FO 371/182451, Summary, Session 19 (Berlin, February 1965).

time lag of wage increases and the traditional export-mindedness of German producers. All of this was a fairly unremarkable description which the British did not disagree with but there was little hint in it of why and how the Germans had been so remarkably successful. In the paper prepared by the British side, Sir Christopher Steel, the British Ambassador in Bonn, attempted to dig deeper. He said the British lacked what was known in Germany as 'Exportfreudigkeit' or "joy of exporting".¹⁹⁵ He rejected the more common explanations of British exporters that Germany benefited from export subsidies, superior credit facilities, more help from overseas missions, none of which he said held water. On the question of subsidies, he found there were no subsidies remaining except in agriculture. He thought credit facilities were no better in Germany than in Britain except in respect of loans to developing countries. He did not think there was more help needed from overseas missions as by and large the Germans employed fewer people in their missions on economic and commercial work. Instead, he accounted for Germany's success at exporting, as the "far greater prestige and importance which the Germans attached to it" and the fact that "Germans are prepared to put themselves out".¹⁹⁶ He put this down to German economic history in that in most areas of exporting, the British "were there first and the Germans had to elbow their way in [and so] realised exporting was very hard." He also thought that as the Germans had three times been faced with rebuilding their markets after economic collapses – in the 1880/90s, the 1920s and in the early 1950s – there was a deep-rooted self-defensive motivation to build a strong economic base and this time hold onto it. Steel thought the British should not begrudge the Germans their economic success, but urged that Britain should deal vigorously with the German surpluses. Germany he felt was again faced with a threat from the East and so should be allowed to participate in capital projects to build its economic strength. It should also be allowed to participate in capital projects in the underdeveloped world in the same way as Britain. He recommended that instead of economic rivalry, Britain and

¹⁹⁵ TNA T236/6556, Sir Christopher Steel, Note on German Exports Success, Session 10 (Oxford, July 1960). Sir Christopher Steel was the Bonn Ambassador between 1957 and 1963, and had earlier held various posts in Germany including Deputy High Commissioner in 1949.

¹⁹⁶ Ibid.

Germany should form business consortiums to participate together in overseas markets particularly in the underdeveloped world.

Underdeveloped countries

The subject of underdeveloped countries was another regular item put on the agenda. Both countries were in alignment on the issue. Both expressed concern at the growing Soviet threat which they thought was best countered by “the promotion of a healthy expanding economy in under-developed countries”.¹⁹⁷ For Britain, this caused none of the usual embarrassment about Britain’s lacklustre economic performance which a number of the other regular agenda items tended to do. For Germany, which had lost its overseas markets in eastern Europe as a result the emergence of the communist East after 1945, the prospect of finding new markets in the underdeveloped countries was of particular interest. Whilst the British hoped to encourage the Germans to spend a great deal of money in Africa and other third world places, they were rather more cautious about doing the same themselves. At the 10th session Britain pleaded that “the United Kingdom, because of its limited resources, had to concentrate its assistance on Commonwealth countries, including the dependent territories... it was hoped that much of the [aid to non-Commonwealth Africa] would come from the other industrial countries of the West whose balance of payments position allowed them to increase their contribution in this field”.¹⁹⁸ The British delegation did not leave much doubt that it wished Germany to bear much of the burden which would help with the perennial ‘financial disequilibrium’.

Britain’s Quandary over Europe and Germany

¹⁹⁷ TNA FO 371/133215, Memorandum of Sir Paul Gore-Booth, Session 5 (London, July 1958).

¹⁹⁸ TNA T236/6556, Agreed Minute, Session 10 (Oxford, July 1960).

Britain's economic committees with the 'Six' - none were set up with any countries outside the Six, not even the United States or the Commonwealth - were manifestly a means, in the absence of being part of any Free Trade Area or even the Common Market, of keeping British senior economic officials closely in touch with their European, principally German, opposite numbers at a time when Europe was a dynamic area of growth in the world. For economic officials, it was a priority for Britain to take the maximum advantage of that growth and, as Germany was at the heart of it all, it was important to stay as close as possible to German economic leaders. As noted above, Britain used the AGECE to nag the Germans with its various economic complaints whilst at the same time endeavouring to draw as close as possible to the Six, in particular Germany, as will be seen in Chapter 15 below. The minutes of the AGECE sessions demonstrate how anxious British officials were to remain as close as possible to the Germans but were too arrogant to realise how much better use could have been made of the sessions in evaluating British performance and better understanding why Germany's economy was performing so much better.

Although the senior officials from the two countries clearly found their discussions informative and interesting, the talks never really rose above the routine and did not examine what exactly it was that drove Germany's strong economic performance or, for that matter, what caused Britain's economic underperformance. The officials remarkably made no attempt to investigate Germany's 'peaceful' industrial relations system which it was widely recognised was the single-most important reason for Germany's strong economic performance. There were no discussions about industrial unions, the separate system of works councils and no discussion about the German system of legally-binding employment contracts. There was also no thought given to calling upon German 'experts' to come and make presentations on these topics or for that matter arranging any meetings to obtain the comments of the German officials on the regular reports coming from the Bonn Embassy about why German industrial relations worked so well. Similarly, there was no discussion comparing the different approaches to competition and its regulation and control which was a key principle of Erhard's 'social market economy'. There was no discussion about the different approaches to encouraging product development and

industrial design which played a progressively more important role in distinguishing German products and fuelling German economic success. There was little or no discussion about the role of taxation, other than turnover tax, or the impact of the different corporate business structures and their governance. There was also no attempt to learn anything about Germany's different approaches to education and industrial and commercial training. Perhaps the fact that British officials were in effect presenting Britain as a candidate for admission to Europe at some point in the future acted as a restraint on British officials spending too much time dwelling on the structural reasons for Britain's underlying failings in too much depth, though there was no avoiding what the international data on Britain's economic performance had to say.

Britain and Germany established a number of other high-level discussion groups in the post-war period.¹⁹⁹ The British-German discussion groups mostly sought to foster good relationships between the future leaders in Britain and Germany in the hope, as it was expressed, that liberal democracy might be strengthened. Given the emphasis on British-German discussions perhaps there was also an unconscious desire to prevent another outbreak of war when a bigger focus on European growth and integration might have been more useful. By training and inclination few of the British involved in these discussion groups showed much of an appetite to study the deep-rooted reasons for Germany's much greater economic success. However, in 1973, prompted by the German government, the British and German governments jointly established the Anglo-German Foundation for the Study of Industrial Society which for the next forty years shared economic research by sponsoring regular conferences, books and studies which explored the differences between mainly British and German industrial policy and was to have a significant effect on industrial practices in Britain. The author of the history of the Foundation mentioned the "slightly embarrassed observation that the greater part of the

¹⁹⁹ E.g., The Anglo-German Königswinter Conference, Wilton Park and the Anglo (now British)- German Association. The Bilderberg Group is an international discussion group and focuses on international diplomatic and security issues- see: Thomas Gijswijt, *Informal Alliance, The Bilderberg Group and Transatlantic Relations during the Cold War, 1952-1968*. However, in the 1970s the National Institute of Economic Research (later NIESR) and the Anglo-German Economic Institute began to publish various studies comparing the two economies but these did not involve conferences and mutual discussion.

Foundation's output seems to consist of German lessons for the British".²⁰⁰ Much of the research on the British side was undertaken in conjunction with the NIESR which developed a much more scientific approach to the study of industrial practices than previously. It was another case of the British coming at it late.

²⁰⁰ Ray Cunningham, *The Anglo-German Foundation for the Study of Industrial Society 1973-2009* (London. 2009).

Part II Industrial Relations

Chapter 5: Attitudes During the British Military Occupation

After the war, the German system of industrial relations had to be rebuilt from scratch in the British Zone including the heavily industrialised Ruhr.¹ No free trade unions had existed since the National Socialists closed them in 1933 and replaced them with state-controlled organisations. The Manpower Division was set up by the Foreign Office to help the Germans return to work with democratic trade unions.² The Labour government was proud of its trade union roots and assumed the British voluntarist system was the natural template for Germany.³ However, German trade unionists turned out to have many ideas of their own, some traditional and some intended to guard against a Nazi resurgence and much of it based on legal enforceability. It was a surprise to the British, how differently the German system turned out to that in Britain.

The British were not seeking strong national trade unions, only small local democratic organisations.⁴ The military authorities reserved the power to licence the emerging trade unions and would only licence those which were found to have appropriate democratic credentials.⁵ As a 1946 Manpower Division directive made plain: “in the first instance the organisation of trade unions should be on a local level... any

¹ The other western Zones were the American and the French. The British and American Zones were merged into the Bizonia in 1947. The British, American and French Zones became the Federal Republic of Germany (or West Germany) in 1949. The eastern Soviet Zone became the German Democratic Republic (or East Germany) in 1949.

² Manpower Division was a branch of the British Control Commission and was established in 1945 to oversee all labour relations and had a staff of up to 900 posted throughout Germany. The Manpower Director was Richard Luce who was energetic in travelling throughout the British Zone encouraging the Germans in their efforts to set up locally-based democratic trade unions.

³ The voluntarist system was based on the premise that workers were entitled to organise their trade unions as they saw fit and that the law would play no part in collective bargaining.

⁴ TNA, FO/ 1026/139, Control Commission correspondence, 12 April 1946.

⁵ TNA, FO/1026/139, Control Commission correspondence 15 July 1945. The investigations included a questionnaire designed to test the democratic credentials of all applicants.

proposal to initiate the organisation of a trade union on so broad a basis as to raise doubt about the movement does not comply with the requirement that unions should proceed democratically from basic levels”.⁶ The British head of the Manpower Division, Richard Luce, explained to a group of German trade unionists in 1946: “We are not interested in seeing how quickly a few people could create an imposing façade of trade unionism, as hollow as a film set... We want to see a sound democratic growth which, at all stages, the ordinary working man and woman was identified”.⁷ In another speech he went so far as to say that because of the existence of trade unions “a strike is a weapon behind the times” which as it happened, would turn out to be truer of Germany than Britain.⁸

In the Labour government, Ernest Bevin, and Lords Henderson and Pakenham had ministerial responsibility for internal German affairs.⁹ They believed trade unionists were best placed to bring about democracy in Germany. Lord Henderson told an American Civil Liberties leader that “ I do not need to confirm to you that HMG have always regarded the re-establishment of a strong and independent trade union movement as one of the most important objectives of their policy for a democratic Germany”.¹⁰ Their faith was widely shared by officials in the Foreign Office and the Manpower Division in Germany.¹¹ The Labour Government turned to the TUC and British trade unionists to mentor and give the emerging German trade unionists whatever support they could. They were prepared to fund generously the frequent delegations of British trade unionists who visited Germany to offer fraternal support and advice.¹² This also included the provision of books, journals and copies of official British reports requested by leading German trade

⁶ TNA, FO/ 1026/139, Control Commission correspondence, 12 April 1946.

⁷ TNA, FO 1051/407, Luce, Manpower Director, speech to a Zonal trades union conference at Bielefeld, 4 Oct 1946.

⁸ TNA FO 371/70844, Luce, speech to German youth organisations, December 1948.

⁹ Ernest Bevin, a former trades union leader, was Foreign Secretary, Lord Henderson was a Foreign Office minister and Lord Pakenham was Chancellor of the Duchy of Lancaster.

¹⁰ TNA FO 371 70844, Lord Henderson in a letter to Roger Baldwin the American Civil Liberties Union leader, 24 December 1948.

¹¹ The Foreign Office officials included William (later Baron) Strang; see William Strang, *Home and Abroad* (London 1950); also (later Sir) Christopher Steel. The Manpower Division officials included Richard Luce, Frank Kenny, E.Barber, G.W.J. Cole, P. Nicholls and Basil Marsden-Smedley.

¹² TUC Delegations travelled to meet the DGB in each of the years 1945 to 1949 and indeed regularly throughout the 1950s and occasionally in the 1960s. See, for example, TNA, FO 371/154337 TUC visit to Germany, 28 April 1948; MRC 292/943/5, delegation to Germany, July 1948.

unionists and the making of loans where necessary.¹³ A German wartime trades unionist refugee, Hans Gottfurcht, remained in London for five years after the war with a British government retainer to act as a liaison between the TUC and the German trades unions, which also enabled him to write numerous articles and give many talks about the German trade unions.¹⁴ The British were pleased with the growth in numbers of German trade unions and the contribution they made to the restoration of democracy particularly in seeing off the communists who tried hard to infiltrate.¹⁵ They were grateful that the Germans had turned to trade unionists and other democratic leaders who were accorded much respect by the British military authorities. When Hans Böckler, the first head of the DGB, retired in 1950 and was given a new house paid out of union funds to honour him on his 75th birthday, so high was the respect for him amongst the British that no one – neither Henderson nor Luce who were present at the presentation – appeared to have the slightest concern about the propriety of such a generous gift.

Although German trade unions were initially established as local organisations, many of the leading German trade unionists, particularly Hans Böckler,¹⁶ sought larger national bodies and set about consolidating the trade unions as fast as the British and allied military authorities would allow.¹⁷ Their plan was to create a single united zonal trade union and then later, upon the fusion of the three western zones, a single national union with different departments handling the work of different industries, a plan they

¹³ TNA FO 371/70839, Ministry of Labour correspondence, 1948.

¹⁴ E.g., pamphlets under the titles ‘German Scene’ and ‘Industrial Democracy’ published in Socialist Commentary, and ‘Trade Unions in Germany’ all written in 1948, copies of which were kept on file by the Foreign Office in TNA FO 371/70842.

¹⁵ TNA, FO 371/70833- In an address by Luce to a conference of trade unionists in early 1948 he said: “The trade unions are the most powerful instrument, politically and socially, in Germany. Their influence extends far beyond the widespread bounds of their immediate membership.” TNA LAB 13/174- A British Forces Network broadcast on 11 January 1956, summarising the post-war decade, noted the “important part played [by the trade unions] in the stabilisation of conditions and in the revival of German industry and economy... imbued with the idealism necessary to recreate out of chaos ... they exercised a policy of wage restraint. They won universal acclaim for this statesmanlike attitude”.

¹⁶ Hans Böckler was prominent amongst the wartime trade unionists in exile and after the war he became the first head of the DGB, the trade union umbrella organisation.

¹⁷ TNA LAB 13/174: In a British Forces Network broadcast on 11 January 1956 prepared in the British Embassy commenting on the pre-1933 disunity of the trade unions it was stated: “The split in the trade union strength was largely responsible for helping Hitler to power. The lesson was not forgotten. During the Hitler period the leaders of the movement agreed at secret meetings and in concentration camp parleys that, if the trade unions in Germany should ever be restored, there should be only one united movement”.

had secretly agreed in exile during the war.¹⁸ Manpower's Regional Labour Reports had reported as early as November 1945 the "almost unanimous" wish for industrial rather than craft unions as in Britain. A Control Commission official speaking at Chatham House noted: "Without exception all German trade union leaders have expressed themselves in favour of an all-German trade union organisation".¹⁹ They felt a single union could stand up better to an authoritarian state and avoid the same fate as the pre-1933 trade union structure which, apart from being divided between Free, Christian and the free liberal Hirsch-Duncker trades unions, was similar to the British structure of trade unions in consisting of a large number of independent craft and occupation-based trade unions which often competed amongst themselves. The Control Commission was against the German proposal for a single trade union seeing it as a potential democratic threat in its own right. The Labour Government enlisted the TUC to help argue the case with the Germans against a single union. Eventually a compromise was reached involving the establishment of thirteen (later sixteen) trade unions each representing one or more industries.

An industry-basis implied that a trade union would represent all the employees of firms within that industry, from manager to general labourer, whilst the British tradition was that a union normally represented employees with a particular skill or craft who might be employed in any number of industries. British trade unionists did not see how it made any sense for a trade union to negotiate all the pay grades in an industry and believed it would make any withdrawal of labour in an industrial conflict much more complicated as they assumed the dispute would affect only a particular craft-skill or occupation. What was strange for the British about German collective bargaining was how the basis of negotiations was the profitability of the particular industry rather than differentials to other groups of workers as in Britain. British trade unions accepted the proliferation of trade unions in all shapes and sizes which was the inevitable consequence of a craft-based

¹⁸ 'Councils and Trade Unions - One All Embracing Union?' in Rebuilding the German Trade Unions - By a German Trade Unionist, *International Socialist Forum*, September 1943.

¹⁹ TNA FO 371/70836, Nicholls' Speech at Chatham House on German trade unions, 14 April 1948.

approach, seeing it as an expression of the ‘fundamental right of workers’ to organise themselves as they saw fit.

British trade unions had long held that the law had no place in collective bargaining and were prepared to resist any attempt to introduce it.²⁰ They felt that in addition to workers having the right to organise and bargain as they saw fit, trade union assets should not be exposed to the risk of legal claims in the course of an industrial dispute. As a result of their historical experience, the Germans viewed the role of the law in industrial relations rather differently. They saw it as the ‘protector’ of workers’ rights, not its enemy. German trade unionists believed the law should protect the structure of trade unions, the legal enforceability of collective agreements and the legal framework for the establishment of works councils. Parliamentary democracy had developed less securely in Germany than in Britain and the Germans had therefore welcomed the legal protection of rights seeing the law as an advantage not a disadvantage.²¹ The British authorities in Germany, reflecting the attitude of British trade unionists generally, were sceptical and at times hostile towards the German call for a legal framework. Mr E. Barber, the Deputy Manpower Adviser told the Foreign Office: “The Germans will be prone to legislate in this field of industrial relations rather more perhaps than we would like or, at home, would consider to be necessary”.²² The emerging German trade unions managed to persuade the Control Commission to overcome its reservations and approve a series of laws on industrial relations giving effect to their ideas. These included the Collective Agreement Law of 1948 which provided for the legal enforceability of collective agreements. A Conciliation and Arbitration Law, based on ideas coming from the Weimar era, had been put forward providing for the compulsory arbitration of disputes.²³ The British authorities were horrified by such ideas believing they led to a complete abdication of the role of the trade unions.

²⁰ Eg., The Trades Disputes Act 1906.

²¹ See: Willibald Steinmetz, *Private Law and Social Inequality in the Industrial Age: Comparing Legal Cultures in Britain, France, Germany and the United States* (London, 2000).

²² TNA, FO 371/70840, Barber to Nicholls, 29 June 1948.

²³ On the emergence of compulsory arbitration see: Gerald D. Feldman, *Iron and Steel in the German Inflation 1916 -1923* (Princeton, 1977) and *Army Industry and Labor in Germany 1914-1918* (Oxford, 1992), p.539.

The Labour government was also disconcerted by the political neutrality that was adopted by the German trade unions. Whilst a majority of trade unionists in practice supported the parties of the left, principally the Social Democrats, the German trade unions were determined to maintain contacts with all political parties. They even resisted the collection of a levy to be used for political purposes as in Britain. British trade unionists had traditionally used their connections with the Labour Party to ensure the law was kept out of industrial relations.

However, the largest battle was over the demand for *Mitbestimmungsgesetz* (codetermination) and works councils which had historic antecedents not least in the Weimar period when they had received legal -backing. The British authorities had toyed in 1946 and 1947 with a socialist agenda to control the heavy industries of the Ruhr with parity of employer and employee representation on the supervisory boards of companies.²⁴ Codetermination was established in a limited number of firms, mostly iron and steel companies, supported by the Labour government as a way of limiting the scope for a revival of what they feared were Nazi-supporting industrialists in the Ruhr.²⁵ The demand for works councils involved legislating for a right of employees to call for their establishment by their employer. Codetermination and works councils are considered in more detail in Chapter 9. Once the German economy began to pick up after the currency reform of 1948 the British generally opposed the idea of codetermination and works councils in Germany mostly because they feared they would be an alternative form of worker representation to the trade unions and might even undermine them. One TUC officer wrote to the Foreign Office in 1949 saying they were “worried that works council machinery might be used in defiance of, or in competition with, the trade union movement - one of the questions which has concerned the TUC since our first post-war contacts with their trade union movement”.²⁶ The British trade unions simply wished the military authorities could have snuffed out works councils but so great was German enthusiasm for them that the Control Commission felt it should delay agreeing to legislation and, as

²⁴ Ibid, p.45.

²⁵ James C. Van Hook, *Rebuilding Germany: The Creation of the Social Market Economy, 1945-1957* (Cambridge, 2004), p.210.

²⁶ TNA FO 371/77070, Carthy, TUC to Priss, Foreign Office, August 1949.

far as possible, leave it to the Germans after the occupation. Luce, the Manpower Director, was fully in agreement with the attitude of British trade unions saying in a speech to the *Deutscher Gewerkschaftsbund* (DGB) Advisory Council that he considered “the German system is inadequate insofar as works councils rest on a local basis and are therefore independent in form from trade unions”. He wished to “incorporate works councils clearly and distinctly within the scope of the trade union organisation... when each German workman is a trade unionist and each works council member remains faithful to the trade union [because then] the task is solved in the only way promising complete success”.²⁷ Preferring trade unions to works councils, the British realised this was another issue they could do little about and again put the issue on ice, telling the Germans that the new federal republic could sort it all out in due course. They announced works councils and indeed all labour relations “was a matter for the Germans to determine as between themselves and that during the remainder of the occupation the allies would interfere in industrial relations as little as possible.”²⁸

The Labour Government’s assumption that Germany’s trade unions and system of industrial relations would take on an institutional shape similar to Britain’s was therefore not to be realised. Indeed, in the end Britain’s only effective intervention had been blocking the German trade unions’ demand for an ‘all-embracing single trade union’. In view of their strained financial resources, the British by late 1947 had in any case no wish to remain in Germany a day longer than was necessary, and this led to a *laissez-faire* approach, leaving the Germans to sort things out for themselves, ideally once they had gone. The TUC and the military authorities thought industrial unionism, the legal enforceability of collective bargaining and particularly the policy of independent works councils would be damaging and undermine the interests of the German trade unions and their members, but in the end it was to be left to the Germans to decide.

The Foreign Office took the unusual step in 1950 of publishing a Command Paper giving an account of Germany’s post-war industrial relations including the part played

²⁷ TNA, FO 1051/407, Speech of Luce to DGB Advisory Committee, 22 November 1947.

²⁸ Control Commission Law No 22, 1947.

by the British in establishing the new trade unions in the post-war period.²⁹ It stated the purpose of the paper “is to trace some of the main developments which have taken place since the early summer of 1945 but it was not the intention to draw any conclusions”. It simply showed how the unions had, with British encouragement, built-up large organisations from the small local beginnings which were first allowed in 1945. It noted the British rejection of an ‘all-embracing single trade union’ and the compromise reached of industrial unionism based upon just 16 trade unions.³⁰ It noted how the trade unions operated with, to the British, a remarkable political neutrality.³¹ The paper acknowledged that the most serious threat to trade union unity “has lain in the possibility of Marxist influence increasing in the unions”.³² The TUC was acknowledged as “having showed its interest in the German trade unions from the early days of the occupation and has since followed developments closely” with regular visits by delegations each year including attendance at German national and regional trades union conferences.³³ The Command Paper again made little effort to disguise the British government’s dislike of ‘codetermination’ though it confused it with works councils. It explained how the Labour Government would have preferred the trade unions to have had suzerainty over all aspects of collective bargaining. It also described how the Control Commission had effectively been bounced by German trade unionists into giving legal effect to the establishment of works councils against its better judgement.³⁴ It regretted the Control Commission’s enactment at the behest of the German trade unions of a system of labour courts to which all disputes over collective agreements as well as individual rights were referred. These courts were presided over by chairmen appointed by the German labour administration and assessors drawn in equal numbers from employer and trade union nominees.³⁵ The Command Paper whilst hailing the successful establishment of trade unions nevertheless only thinly disguised its regret that it had not been able to persuade the Germans to rely

²⁹ HMSO, *Industrial Relations in Germany 1945-1949: an Account of the Post-War Growth of Employers’ and Workers’ Organisations in the British Zone of Germany* (1950) Cmd. 7923.

³⁰ *Ibid*, para 17.

³¹ *Ibid*, para 21.

³² *Ibid*, para 21.

³³ *Ibid*, para 28.

³⁴ Control Council Law No. 22, April 1946.

³⁵ Control Council Law No. 29, 30 March 1946.

to a much greater extent on voluntary conciliation or arbitration rather than the law. They had enacted a law in August 1946 for provincial labour authorities to set up conciliation and arbitration services but it had to be admitted that “their services have not been extensively used”.³⁶ The Command Paper also dealt with what it described as the trade union leaders “far reaching claims in the economic field” which were described as “ the socialisation of the basic industries, the establishment of a planned economy and the participation of the trade unions on a basis of equality in the management of industry and the shaping of economic policy”.³⁷ It concluded by praising the Germans for creating a “virile, and, in the main, united trade union movement and having advanced far-reaching claims to partnership in the conduct of economic affairs”.³⁸

The authors of the Command Paper seemed not to know whether to bask in the glory of the successful establishment of democratic trade unions, or express reservations about the particular shape of some of the institutional structures which had been set up. They therefore made no proper attempt to understand how the various parts of the German industrial relations system fitted together or even worked. The institutional shape of German trade unions was recognised as very different to that in Britain, but was disregarded by the military authorities as something of a German exception.

Industry-based unions were the defining characteristic of post-war German trade unions and are at the heart of the difference between British and German industrial relations. Germany’s industrial unions were responsible for negotiating the pay and terms of all the workers in an industry and so they were forced to take a broader economic look at the industry as a whole and what could be afforded, unlike the British trade unions which tended to look only very narrowly at improving the pay and benefits of its members rather than employees of the industry as a whole. German trade unions became better funded with subscriptions about five times greater on average than in Britain and they used their funds to employ large numbers of university-trained economists to investigate and negotiate industry-based collective agreements for fixed periods of between one and

³⁶ HMSO, Industrial Relations, para 42.

³⁷ Ibid, para 44.

³⁸ Ibid, para 47.

three years which, once agreed, were legally enforceable. The focus of German trade unions on industry-based agreements in a sense left a void over the settlement of workplace issues and grievances which was filled by the works council system. Although many of the employee representatives in German works councils were trade union officials, they tended not to act formally in that capacity. As a result, there developed in Germany two separate systems; on the one hand, at the national and regional level, trade unions negotiated pay and terms as part of legally enforceable collective agreements, and at the workplace level, works councils, in which local issues were resolved in informal discussions between management and employee representatives, without trade union involvement. Whilst in Britain a large proportion of strikes in the 1950s and 1960s were unofficial, based on disputes over recognition of negotiating rights or plain wildcat strikes called by shop stewards, in Germany unofficial strikes were almost unknown, as strikes did not normally take place during the term of any collective agreement, only at its end if a new agreement could not be negotiated. Although local grievances which could not be resolved through works council procedures could potentially end in a strike, the vast majority of local grievances were resolved in the works councils. The difference between British and German trade unions and industrial relations in the post-war period can therefore be explained by their different institutional structures and the effect these had on the way they conducted their business.

There were some in Britain who expressed great admiration for the German trade unions. Sir Ivone Kirkpatrick,³⁹ a senior Foreign Office official, was reported as telling the German trade union leaders on his appointment as High Commissioner, that “he had at all times followed with the keenest interest from London the developments and activities of the German trade unions, which had been one of the principal bulwarks of the restoration of Germany” and that he expressed “his deep admiration for the German trade union movement and said that it had sought not merely its own interests, but also

³⁹ Sir Ivone Kirkpatrick was responsible for setting up the Control Commission in Germany in 1945, became Head of the German Section of the Foreign Office in 1949, High Commissioner for Germany in 1950, and Permanent Secretary at the Foreign Office in 1953; see: Sir Ivone Kirkpatrick, *The Inner Circle: Memoirs* (London, 1959).

those of the whole people".⁴⁰ Luce, the Manpower Director, was also inclined to praise the German trade unions in much the same way, despite then doing his utmost to dissuade them from establishing works councils.⁴¹

It is the hypothesis of this Chapter on industrial relations that as the state of British industrial relations deteriorated in the 1950s and 1960s, the German system offered lessons which might at least have repaid study by the growing band of industrial relations experts, academics, trade unionists, personnel staff, journalists, politicians and officials concerned with Britain's system; but they viewed Germany's system of collective bargaining too narrowly through the prevailing British voluntarist perspective. As well pleased as they were with the revival of democratic trade unions in Germany, they were largely unaware or even hostile to most of the institutional structure which worked so successfully for the Germans.

⁴⁰ TNA, FO 371/85017, Exley, Manpower Industrial Relations Adviser, to Priss, Foreign Office, Note of Kirkpatrick Meeting with German trades union leaders, 5 July 1950.

⁴¹ TNA FO 371/70833, Luce address to the German trade unions, 13 November 1947.

Chapter 6: Germany's remarkable industrial peace

In the post-war period there was general agreement in Britain that Germany's industrial relations were remarkably peaceful. Ministers, officials, the press, economists and trade unionists were all well aware that there was little industrial disruption in Germany. The *Economist* regularly eulogised it, noting in 1954 when there was an unexpected strike in a Hamburg shipyard, that: "peace in the labour world has lasted so long that everyone had come to feel that Germans don't strike".⁴² The following week it remarked about the strike that it "was sufficiently rare to be noticed even though it was a small stoppage by British standards" and that it felt it needed to justify even mentioning the strike by saying "labour troubles in Germany have news value both on account of their rarity value and on account of the eagerness of Germany's competitors to know whether [Germany's] costs will be raised".⁴³ The next year when there was a rare but short-lived strike, the *Economist* suggested it had received exaggerated interest abroad as it was a "sensation" for any strike to take place.⁴⁴ On another occasion it said: "labour troubles have been so rare in Germany".⁴⁵ In 1966, the *Economist* reported a conversation with one left winger who asked: "I suppose you are going to write a panegyric about our over-conservative trade unions which never strike" to which the correspondent replied coyly: "I suppose in a way, I am".⁴⁶ These comments about Germany were appearing whilst the British struggled with their own rapidly worsening industrial relations. Harold Wincott of *The Financial Times*, who wrote about Germany, was impressed by its industrial relations.⁴⁷ The economist, Graham Hallett, went so far in one article as to declare that German industrial relations were "almost idyllic".⁴⁸

⁴² *Economist*, 14 August 1954, p.523.

⁴³ *Economist*, 28 August 1954, p.650.

⁴⁴ *Economist*, 3 September 1955, p.780.

⁴⁵ *Economist*, 7 February 1955, p.443.

⁴⁶ *Economist*, German Lesson, 15 August 1966.

⁴⁷ See: *Financial Times*, Harold Wincott, 'Germany: Prosperous and Imperturbable,' 19 July 1960; Henry C. Wallich, *Mainstays of the German Recovery* (New Haven, 1955).

⁴⁸ Graham Hallett, 'Britain and the Future of Germany' in *Political Quarterly*, 39 (1968), p.284.

There was plenty of comparative data available to ministers, officials and the public on the level of industrial disputes in the two countries. The Germans were often portrayed as hard working and loath to strike, but that was certainly not true of their attitude in earlier periods such as 1919-1932 when Germany was known for its trade union militancy and industrial disruption, as the table below shows:

Table 9 *Number of Days Lost each year on average*

	(No of men involved) (000s)	(Total No of days lost)	(Days lost/ No workers)
1900-1914	247	7,970,800	32.2
1919-1932	948	13,862,100	14.6
1948-1979	139	814,100	5.8

(Source: Walter Muller-Jentsch, *‘Strikes and Strike Trends in West Germany, 1950-78’* cited in *Industrial Relations Journal*, 12, 4, p.36 quoting the *Statistisches Jahrbuch 1934, 1952-1979*)

There were therefore substantially fewer days lost through strikes in Germany in the post-war period compared to earlier periods as well as in the numbers of men involved and the ratio of days lost to the number of workers. This all points to the fact that the national stereotyping of the Germans as unusually hard-working and well-disciplined is not always the case. In the post-war period, German industrial workers were unusually cooperative whilst there was considerable disruption in Britain, as the table below shows-

Table 10 The average number of days lost per 1,000 employees in Germany and Britain

	(1956-1958)	(1959-1963)	(1964-1968)
Germany	76	34	6
Britain	343	292	232

(Source: (for 1956-1958) Bodleian, Conservative Research Department, COO 500/28/4, *International Comparison of Strikes*; (for 1959-1968) Bodleian, Conservative Research Department, Castle 272, *International Comparison of Days Lost through Industrial Disputes*, December 1969)

Officials in Britain noted that whilst there was little or no rise in the cost of living in Germany, earnings had still grown at a faster rate than in Britain. One Treasury official commented that he was surprised to find how in 1959 Germany had such a low rate of industrial stoppages involving only 21,648 workers stopping a total of only 61,825 working days, earnings had still “risen faster than the trade union negotiated wage rates” and concluded that “basically there is no escaping the conclusion that the German worker is reasonably content with his lot, and is in no mood to jeopardise, even temporarily, his comparatively high level of earnings”.⁴⁹

When British officials made international comparisons of days lost they drew some comfort from the fact that Britain did not always have the worst record. The international annual average number of days lost per 1,000 employees in each of the main European countries for the years 1969-73 was as follows-

⁴⁹ TNA FO 371/154342, Strikes in West Germany, 1959.

Table 11 The international annual average number of days lost per 1,000 employees (1969-1973)

Italy	1671
Ireland	730
United Kingdom	561
Denmark	432
Belgium	269
France	198
Netherlands	57
Germany	33

(Source: Department of Employment Gazette, London, February 1980, cited in Walter Muller-Jentsch, 'Strikes and Strike Trends in West Germany 1950-1978' in *Industrial Relations Journal*, 12, 4 (Aug 1981), p.37)

Italy and Ireland may have had truly terrible records, but any serious comparison had to be made not against them but with Germany, the Benelux countries and the United States, and on this Germany's annual average number of working days lost per 1000 employees was only one fifteenth of the number in Britain. Ross and Hartman, two respected international labour economists, went so far as to describe the long period of industrial peace in Germany between 1954 and 1968 as "the withering away of strikes".⁵⁰ In the last year of this period Germany had lost a total of only 12,000 working days over the first 10 months of the year whilst Britain lost 4.193m days for the same period, causing

⁵⁰ Arthur Ross and Paul T Hartman, *Changing Patterns of Industrial Conflict* (New York, 1960) quoted in Walter Muller-Jentsch, *Strikes*, p.51.

one British commentator to observe that Germany was losing as many days in a year as Britain was losing in a day.⁵¹

Britain's diplomatic staff in the Bonn Embassy were on hand to witness the German economic recovery and regularly reported back on the peaceful state of German industrial relations. In a 1965 memorandum, Sir Frank Roberts, the British ambassador, pinpointed the German system of industrial relations as the main reason for Germany's economic success.⁵² The paper explored what it noted was "a remarkable labour discipline based not upon coercion but upon a sound structure of industrial democracy". It described Germany's works councils as ensuring "factory level management and labour are forced to keep in close and constant touch". On strikes, the paper stated: "the figures speak for themselves" and went on to note that "over the six-year period 1957-62 the Germans had lost 3.7 million working days ... and in the United Kingdom 28.7 million – nine times more" and that in terms of the numbers of workers affected by strikes, in Britain there were "over 22 times more" affected than in Germany. This was an important paper because for once British ministers were being told there were significant structural differences between British and German industrial relations rather the usual explanations based on national stereotypical characteristics. The Bonn Labour Attaché, E.C.M. Cullingford regularly returned to this theme in his voluminous notes and newsletters to his many contacts around Whitehall. In a paper he prepared for the newly formed Department of Employment in December 1968, he wrote: "Germany's impressively efficient system of industrial relations is probably the prime factor in the country's success: a fresh start was made by overhauling and modernizing the trade union structure in the immediate post war years" and he went on to note "a strike is a serious matter in Germany, to be undertaken only after the possibility of further negotiations had been exhausted and only after a secret ballot obtaining a 75 per cent majority in favour. Works

⁵¹ E.C.M. Cullingford, *Trade Unions in West Germany* (London, 1976), p.29; see: Bodleian, COO 500/28/2, Ministry of Labour, Strike Statistics 1939-1962.

⁵² TNA, LAB 13/2129, Memorandum of Sir Frank Roberts (British Ambassador, Bonn) to Gordon Walker (Foreign Secretary), "The German Economic Miracle: How Do They Do It?", 8 January 1965. The Memorandum was widely circulated amongst ministers and officials.

Councils and Labour Courts ensure that unofficial and wildcat strikes are virtually non-existent”.⁵³

Richard Hiscocks was another who linked Germany’s economic miracle with its peaceful industrial relations when he noted that: “it was mainly due to the [German] unions that the workers obtained a fair share in the growing prosperity” and that the unions had exercised “a stabilising influence”. He went on to say that the German unions “attain their objectives, on the whole, with a minimum of strikes” and noted: “the loss of working days through industrial disputes was much lower in Germany than the average in other industrial countries”.⁵⁴ He put forward three main reasons for this: first, he pointed to the legacy of Bismarck’s reforms providing the most advanced system of social legislation in the form of comprehensive insurance for sickness, accident and old age pensions whilst in Britain “the bitterness created during the nineteenth century lingers on”. Secondly, he saw the hand of Germany’s tragic Nazi period result in the Allies, in the post-1945 period, “looking upon the unions as potential centres of democratic influence” and helping to build-up the DGB “as an efficient and up-to-date organization”. He also noted that “each industry in Western Germany has had one well-run workers organization with a modern outlook and no hang-over of class consciousness”. This, he suggested, had meant that “unofficial strikes have been largely avoided” and one DGB official was quoted as saying: “In comparison with us, England has had the misfortune not to have suffered a catastrophe” the benefit of which he thought had been to have had a more ordered trade union structure. Thirdly, Hiscocks pointed to the war legacy noting “conditions in Germany since 1945 and the industrious nature of the German workers combined to produce the steady rise in living standards ... the main desire of most German workers was to attain a reasonable standard of domestic comfort and they had no wish to take the risks involved in striking.” Hiscocks believed Germany’s best practices were brought about by “the wise and prudent encouragement on the part of the Allied

⁵³ TNA, LAB 13/2638, Paper on Industrial Relations and German Prosperity, December 1968.

⁵⁴ Richard Hiscocks, *Germany Revived: An Appraisal of the Adenauer Era* (London 1966), p.129.

military authorities”⁵⁵ which was an ironic conclusion given just how much the Germans had done for themselves.

British explanations of the reasons for Germany’s excellent strike record often agreed with the *Economist* which had suggested on one occasion that Germans were much more contented with their living standards in the post-war period. The journal was therefore inclined to envy German employers who benefited from “the willing and diligent nature of their workers”.⁵⁶ “Germans in all spheres” it declared two years later in an article on the prospects for German labour “are determined that nothing shall upset their unbroken march to prosperity”.⁵⁷ It is perfectly understandable that workers who are doing well might be incentivised to work hard but it begs the question why they were doing well in the first place.

Walter Kendall, in a 1975 survey of European labour movements, examined Germany’s low rate of industrial stoppages. Perhaps he exaggerated when he said that since the 1950s “the general level of recorded industrial disputes in Germany has been so low that one might fairly say that for all practical purposes they did not exist at all” but he was right to observe that the historical record of strikes “belies any argument that Germans are naturally deferential”.⁵⁸ In his view it was historical experience which had made the Germans wary of industrial conflict. In particular it was the change from a post-war ‘subsistence’ to a ‘materially comfortable’ lifestyle for most Germans which had “undermined their willingness to fight hard for a better standard”.⁵⁹ In addition he pointed to a fear in Germany of the Stalinist regime in the DDR which he thought had a cautionary effect. There was also the fear of inflation arising from 1923 and the sobering effect the 1948 currency reforms may have had as 90 per cent of the value of the German currency was wiped out. He felt the large funds possessed by both unions and employers associations, which reflected the much higher membership subscriptions than those prevailing in Britain, created a mutual “balance of terror” which discouraged industrial

⁵⁵ Hiscocks, *Germany Revived*, pp. 129-132.

⁵⁶ *Economist*, 14 August 1954, p.523.

⁵⁷ *Economist*, 7 February 1956, p.443.

⁵⁸ Walter Kendall, *The Labour Movement in Europe* (London, 1975), p.130.

⁵⁹ Kendall, *Labour Movement*, p.130.

action. Almost secondarily, he thought the unitary industrial union structure may have assisted in developing workplace discipline and “works councils may have lowered any confrontational atmosphere.”⁶⁰

In 1976, the by then retired Bonn Labour Attaché, E.C.M. Cullingford, in a book based on his experience of German industrial relations in the years 1945 to 1972, described what he saw as Germany’s “well nigh impeccable industrial relations”.⁶¹ The Germans he said had been determined to overcome the “despair period” after the war. Using numerous notes and papers from his service in Bonn, his analysis went a step further than Kendall, in identifying wider institutional reasons, particularly relating to the trade unions, that explained Germany’s good industrial relations record. First, he noted that in the post-war period the German trade unions had been “consistently behind management in attempting to improve the efficiency and competitiveness of industry”.⁶² He believed productivity was the key and that: “German management sees to it that [German workers] work with greater sustained intensity”. In this was an implicit criticism of British management which having failed to bring about the same spirit of cooperation he saw in German plants, were unable to tackle the poor industrial practices which had become emblematic of British industry. Secondly, he noted that the German trade unions were “enthusiastic for vocational training and placed much greater importance on it than British unions and indeed had often taken the lead in urging that training be as broadly based as possible”. Thirdly, Cullingford was left to rue that more than anything else “it was a shame Britain didn’t have the opportunity to have simple trade unions” by which he meant a limited number of well-resourced industrial unions as in Germany, full of professionally qualified and well-paid expert staff, well versed in economics and able to “hold their own in discussions with employers and government”.⁶³

At the Bonn Embassy, Cullingford lost no opportunity in explaining the successful German system of industrial relations to his British contacts, producing a great number of memoranda and newsletters. Although there were seven labour attaché posts in various

⁶⁰ Ibid, p.130.

⁶¹ E.C.M. Cullingford, *Trade Unions in Western Germany* (London, 1976), p.16.

⁶² Cullingford, *Trade Unions*, p.17.

⁶³ Cullingford, *Trade Unions*, p.18.

overseas missions, none of the others produced such a large volume of papers about industrial relations as Bonn. Many lessons might have been learned by British officials from the Bonn Embassy about the part played in Germany's excellent industrial relations by its institutional structure of collective bargaining particularly as the reform of industrial relations was widely seen, not least by ministers and officials, as one, if not the most important of the challenges facing Britain. However, all too often, German ways and particularly successes were met with a groan at least before British enchantment with German cars began in the 1980s. With Germany, which the British reluctantly accepted as doing well for a defeated nation, success could feel like a painful reproach which the proud British simply preferred to ignore.

The prevailing consensus of public opinion in Britain was that it was wrong for governments to intervene in the institutional shape of the trade unions as it interfered with the right of workers to organise themselves as they saw fit.⁶⁴ This was a self-serving argument for the leaders of the 574 or so trade unions who did not wish to see any reduction in the number of trade union leader roles.⁶⁵ The members on the other hand had never had much say in the size and shape of the trades unions and probably did not much care as long as there was someone to represent them. This voluntarist consensus was nevertheless an article of faith for most British trades unionists and acted as an impediment to any reform, as both the Wilson and Heath governments were to find. It seemed difficult in these years for political leaders of whatever complexion to overcome the voluntarist consensus and articulate, or even persuade trade unionists, that the chaotic nature of industrial relations reduced everyone's living standards, and that institutional reform would in the end benefit everyone. The Wilson reforms in the 1960s and even more so the Heath reforms in the 1970s sought to change behaviour by imposing new codes of conduct enforceable with penalties upon transgressors, when what was really needed was to reshape the trade unions and collective bargaining institutionally in such a

⁶⁴ Otto Kahn-Freund, *Labour and the Law* (London, 1972), p.2

⁶⁵ In 1968 there were 574 trade unions in Britain according to the Royal Commission, para 114, which noted that there had been some 40 mergers in recent years. Of the 574, it noted that 9 of them had over a quarter million members each, and 480 of them had less than ten thousand members and that four fifths of the trade union members worked in multi-union workplaces.

way that better behaviour inevitably followed. This needed the provision of incentives on a substantial scale to bring about the institutional consolidation of unions on an industry rather than craft basis.

The Report of the Royal Commission on Employers' Associations and Trade Unions in 1968 was basically bereft of any ideas which measured up to the problems and contained no worthwhile proposals which might have changed the institutional shape of the trade unions and collective bargaining.⁶⁶ Later in 1980 the Foreign and Colonial Office issued another report on industrial relations in Germany which was remarkable if only as the Thatcher government rarely took any notice of foreign ideas especially German, but it again displayed its unwillingness to make a proper, or indeed any, investigation of what the German system had to teach about the institutional shape of its trade unions. It was a polemical document intended to put the case for the Thatcherite agenda whilst describing what it hoped would be its end-result in a more classless and meritocratic workplace environment in which organized labour gave its "full support to the free enterprise system".⁶⁷ The document is interesting in that it put forward German industrial relations as the one to which Britain should aspire yet, once again, the analysis misunderstood the lessons from Germany, namely the necessity of first reshaping the trades unions on an industry-basis and then splitting the collective bargaining at a national level from the resolution of local grievances in works councils. In the end, the Conservatives were to transform industrial relations massively during the 1980s, not by any institutional reshaping of the unions, but largely by 'breaking' their industrial power which created a legacy of bitterness in the older declining industries.

Investigations of German industrial relations were to become the preserve of labour economists⁶⁸ particularly once the proposals put forward by successively the

⁶⁶ Report of The Royal Commission on Trades Unions and Employers' Associations, 1965-1968, Cmnd. 3628.

⁶⁷ Foreign and Commonwealth Office, *A Report on Industrial Relations in the Republic of Germany* (London, 1980).

⁶⁸ Eric Jacobs, *The Approach to Industrial Change in Britain and Germany: A Comparative Study of Workplace Industrial Relations and Manpower Policies in British and German Enterprises* (London, 1979); Arthur Marsh, Maria Hackmann and Douglas Milleret, *Workplace Relations in the Engineering Industry* (London, 1981); Volker Berghahn and Detlev Karsten, *Industrial Relations in West Germany*

Royal Commission, the Wilson Labour government in its *In Place of Strife* White Paper and Edward Heath's Conservative Industrial Relations Act had all clearly failed to provide the way forward,⁶⁹ as discussed in the next two Chapters. The labour economists moved discussion away from the merely polemical, historical or cultural explanations.⁷⁰ They were to look more closely at the institutional organisation of collective bargaining and how local grievances were resolved through the works council system without the number of official, and particularly unofficial, strikes that there were in Britain.⁷¹

(Oxford 1987); Wolfgang Sreeck, *Industrial Relations in West Germany: A Case Study of the German Car Industry* (London, 1984).

⁶⁹ *In Place of Strife: A Programme for Action*, January 1969, Cmnd.3888.

⁷⁰ See Christoph Dartmann, *Re-distribution of Power, Joint Consultation or Productivity Coalitions? Labour and Postwar Reconstruction in Germany and Britain, 1945-1953* (Bochum, 1966).

⁷¹ *Economist*, The German Lesson, *ibid*, p.xii.

Chapter 7: The Royal Commission (1965-1968)

By the mid-1960s, industrial relations had become a major issue, if not the major issue, for successive governments. Harold Wilson was determined on coming to power in 1964 to deal head on with what he saw as one of Britain's greatest challenges: the modernisation of industrial relations. He appointed the Royal Commission on Trades Unions and Employers' Associations "to consider relations between management and employees and the role of trade unions and employers' associations ... in accelerating the social and economic advance of the nation, with particular reference to the law affecting the activities of these bodies." To make it absolutely clear he wanted radical proposals, he talked of industrial relations reform as "about the survival of our country and the resumption of purposive economic advance".⁷²

Wilson had been impressed by Sweden where on a recent visit he had found the trade unions willing to work in tandem with employers' associations in bringing about change. He hoped for something similar in Britain.⁷³ The more obvious template for Wilson in his quest to modernise industrial relations was Germany where a booming economy naturally invited investigation. It had been fulsomely praised in numerous notes emanating from the Bonn Embassy and it would be surprising if he was not aware of some of these reports. A market-driven Germany though did not have quite the same cachet with Labour as the modern leftist Swedish state.⁷⁴ Even so, with the Royal Commission embarking on Britain's largest ever investigation of industrial relations, it is appropriate to consider the extent to which it made use of the successful German model.

The 1965 Royal Commission was the fifth in a century though there had been none for nearly fifty years.⁷⁵ It was by far the most comprehensive, taking three years over the

⁷² Hansard, House of Commons Debates, Vol 705, Col. 940, 2 February 1965.

⁷³ Andrew Crines and Kevin Hickson (eds.), *Harold Wilson: the Unprincipled Prime Minister? – Reappraising Harold Wilson* (London, 2016), p.114.

⁷⁴ *Ibid.*, p.114.

⁷⁵ Previous Royal Commissions reported in March 1869, the second in February 1875, the third in May 1894, the fourth in January 1896 and a committee that published five reports in 1917 and 1918.

task. The Chairman, Lord Donovan, was a law lord and former Labour MP. Three other lawyers were appointed including the prominent Labour lawyer, Otto Kahn-Freund. There were three trade unionists: Lord Robens, who had become a Labour MP and then Chairman of the National Coal Board; Lord Collison, the former General Secretary of the Agricultural Workers Union turned Chairman of the Supplementary Benefits Commission and George Woodcock, formerly General Secretary of the TUC and the man whose fingers Harold Wilson suspected were all over the eventual report.⁷⁶ In addition, there was a knighted lawyer and two industrial relations experts: the academic Hugh Clegg of Warwick University and Eric Wigham, *The Times* labour correspondent. They were supported by another academic, Bill McCarthy, a colleague of Clegg, who was appointed the Royal Commission's Researcher. Few of the members could be described as critics of the trade unions, most were voluntarists to their fingertips who did not believe the law had a role in industrial relations or in enforcing collective agreements. The only sceptic about voluntarism was the prominent economist, Andrew Shonfield, the author of the Note of Reservation on the Report, which recommended some involvement of the law in collective bargaining. The final two members were a military officer turned businessman and a decorated headmistress. With Donovan, Woodcock, Collison, Clegg, Kahn-Freund, Wigham and McCarthy on board, all sharing the prevailing 'voluntarist' outlook, the Report's conclusions were fairly predictable: it gave a strong endorsement to the current voluntarist system, the main recommendation being the establishment of a Commission on Industrial Relations with which collective agreements might in future be voluntarily lodged so everyone would in future know 'where they stood' as if that was likely to make any difference. It was certainly no 'root and branch' solution but the voluntarists were concerned to stave off demands for a legal framework of rights and penalties which they believed would provoke the trade unions and make matters much worse.

When after three years deliberation, Wilson finally received the Report, he was disappointed by its timidity and its lack of fresh thinking. It fell far short of what he had

⁷⁶ Crines and Hickson, *Harold Wilson*, p.114.

been hoping. He immediately replaced his Minister of Labour, Ray Gunter, by the more acerbic Barbara Castle who was elevated to Secretary of State for Employment and First Secretary of State and given the task of putting forward more radical proposals, in particular powers whereby the Secretary of State could intervene in inter-union disputes, encouragement of the amalgamation of trade unions, encouragement of legally enforceable collective agreements, encouragement of pre-strike ballots and measures to deal with unconstitutional strikes. These proposals appeared in a White Paper *In Place of Strife* but were rejected out of hand by the trade unions who mounted a vigorous six-month campaign of resistance before Wilson and Castle were forced to back down and face the inevitable upsurge in union militancy and inflationary wage claims that took place in the autumn of 1969 before the next election.⁷⁷

Although some of Barbara Castle's proposals might have been inspired by the German model, there is no evidence that she or Wilson had intentionally drawn on that source, and certainly they do not appear to have ever admitted as much. It was as always good politics in Britain not to invoke German sources. There were in any event always many ideas circulating in political and business circles about what might be done about industrial relations without anyone ever really knowing where they might have originated. The Royal Commission's proposal for a Commission on Industrial Relations had clearly not been a German idea as the Germans with their industrial unions did not need any institution to reduce inter-union disputes. Castle had sought to build on the Royal Commission's proposal by giving it the powers to recommend solutions to bargaining recognition disputes and giving the First Secretary of State powers in the last instance to force unions to comply. It was this power to be given to the First Secretary to which the TUC had particularly objected and also to the proposal to establish a state fund to facilitate the amalgamation of trade unions. In Germany all collective agreements were legally enforceable and *In Place of Strife* endorsed this practice but without making it

⁷⁷ 'In Place of Strife: A Policy for Industrial Relations,' Cmnd. 3888, January 1969.

TUC objections were set out in a paper sent to the Cabinet: 'TUC: White Paper on Industrial Relations: comments by the General Council' in CAB /129/140; see also TUC, *Industrial Relations – A programme for Action*, May 1968; Bodleian, Castle 274, 'Agreed Statement between the TUC and Government on Industrial Relations', 18 June 1969.

Dominic Sandbrook, *White Heat: A History of Britain in the Swinging Sixties* (London, 2000), p.688.

compulsory but the trade unions made it clear that they had no intention of using this power. On pre-strike ballots – a requirement under German law – *In Place of Strife* had proposed that ministers should have a discretion to call for a ballot where appropriate but this too was rejected by the TUC.⁷⁸ Neither the Royal Commission Report nor *In Place of Strife* amounted to a thoroughgoing reform of industrial relations and certainly nothing so radical as it might match the German or any other model. The problem was that governments were in a hurry to find a solution to the disturbed state of industrial relations but, if they had been less so, they might have been able to first bring about the institutional reforms that were sorely needed and then rely on the reformed trade unions, organised on an industry-basis, to change their own behaviour, that is to say, behave more like German trade unions.

The poor state of British industrial relations had produced a large corps of newspaper reporters and academic experts specialising in industrial relations, more numerous than anywhere else in the world. The government considered the problems of the British system such a priority that it seems unlikely that there would have been any budgetary constraint on the Royal Commission making detailed investigations of overseas industrial relations systems, particularly the German, as Europe's most successful economy. But Germany seemed almost the last place that any of the swelling band of experts wished to look for inspiration as most subscribed to the conventional voluntarist tradition of industrial relations. Voluntarists did not really think they needed to look for new models to follow as they believed the voluntary system was self-evidently democratic and therefore equitable and all that was needed was tweaks here and there to extend the scope of collective bargaining.

It was not until the mid-1970s that industrial relations experts in Britain began to point to the differing ways British and German firms handled change.⁷⁹ Eric Jacobs made

⁷⁸ TNA CAB /129/140, TUC comments on 'In Place of Strife', 8 January 1969.

⁷⁹ See in relation to the literature: William Kendall, *The Labour Movement in Europe* (London, 1975); Arthur Marsh, Maria Hackmann and Douglas Miller, *Workplace Relations in the Engineering Industry in the United Kingdom and the Federal Republic of Germany* (London, 1981); Peter Gourevitch, Andrew Martin, George Ross, Christopher Allen, Stephen Bornstein and Andrei Markovits, *Unions and Economic Crisis: Britain, West Germany and Sweden* (London, 1984); Volker R. Berghahn, *The Americanisation of West German Industry 1945-1973* (Leamington Spa, 1986); Volker R. Berghahn and Detlev Karsten, *Industrial Relations in West Germany* (Oxford, 1987); Steven Tolliday and Jonathan Zeitlin (eds.), *The*

a comparative study of large British and German enterprises and found that: “in Germany employees and managements address the problems of industrial change together, expecting to reach a compromise by negotiation through a set of agreed and predictable rules” whilst in Britain “the same sort of problems are more commonly dealt with through collective bargaining procedures which follow no uniform set of rules and which therefore carry the danger of open dispute”.⁸⁰ It was also found that whilst change usually led to a reduction in labour costs in both countries, the means of achieving any reduction differed sharply: “in Britain, the solution almost invariably chosen was an absolute reduction in the size of the labour force, usually through dismissals” whilst in Germany “any reduction in the labour force was sought by consent with long-term phasing, early retirement, a halt to recruitment and a redeployment of manpower within the enterprise, and thus dismissals were usually avoided”.⁸¹ In German enterprises, the employers made good use of any works council which they would consult on any proposed reorganisation. In Britain, where works councils did not exist, representation of the employee in negotiations about corporate reorganisations was through the trade unions. With the craft-based structure of British trade unions, the unions often competed with each other for members so any reorganisation might result in one trade union gaining employees at the expense of another which created conflicts of interest over union loyalties and made matters more complicated. Also, in Britain, the state was “found to rush to cover the costs of redundancy, retraining and social benefits” which only served to encourage employers to release employees more readily than in Germany where it was more common to find “a stable employment policy and more expansive in-house training which helped avoid burdening the state”.⁸²

In the decades that followed the Royal Commission Report, the comparative literature on the British and German systems of industrial relations began to examine the

Power to Manage? Employers and Industrial Relations in comparative-historical perspective (London, 1991).

⁸⁰ Eric Jacobs, *The Approach to Industrial Change in Britain and Germany: A Comparative Study of Workplace Industrial Relations and Manpower Policies in British and West German Enterprises* (London, 1979), p.115.

⁸¹ Ibid, p.117.

⁸² Ibid, p.128.

differences in the institutional structure of the German and British models. These studies were often financed and published under the auspices of The Anglo-German Foundation for the Study of Industrial Society, which by the mid 1970s had begun to provide a framework for British academics to understand the development of the German system and how it worked.⁸³ The Royal Commission, wedded to its voluntarist principles, never embarked upon the detailed analysis of the German system but if it had done so, a task which would have been made easier if it had the benefit of the comparative literature that began in the 1970s, then it would have understood that the German model was successful for the following five reasons:-

First, trade unionism in Germany was organized on an industry-basis, although white collar staff in some industries were represented separately. Many unions covered more than one industry - but no industry was represented by more than one union. There were only 16 trade unions in Germany in comparison with the hundreds of trade unions in Britain. As a result, there was almost no inter-union conflict as was common in Britain.

Secondly, industrial unionism enabled the German unions to become far larger and much wealthier than British unions and ultimately more powerful. Union dues were on average five times greater than in Britain.⁸⁴ Union finances were strengthened when after some difficulty they successfully claimed the property assets taken from their prewar predecessors by the Nazis.⁸⁵ As a result of their better funding, German trade unions were able to conduct much better research and employ much larger numbers of well-trained specialist officers and advisers, especially economists, than their British counterparts. A comment made by the journalist and Royal Commission member, Eric Wigham, was that in the eyes of many German employers the DGB was able to deploy “chaps [who] were too good and had too great influence. They were giving the DGB too much power”.⁸⁶ Similarly, the German employers’ associations were also very wealthy. Both the unions and the employers’ associations built-up large well qualified teams of

⁸³ The Anglo-German Foundation for the Study of Industrial Society was established in 1973 and is described in Chapter 4 .

⁸⁴ E.C.M. Cullingford, *Trade Unions in Germany* (London, 1976), p.13.

⁸⁵ TNA, FO 371/85916, Manpower IR Briefing , Jan-April 1950, para 7.

⁸⁶ Royal Commission Report, Minutes of Evidence 59, IPC, para 9411.

economists with which to conduct their negotiations and had extremely good industrial intelligence. On the other hand, British unions had relatively poor information about the economics of any industry and any industry's capacity to pay wage demands (or indeed the capacity of individual companies to pay them).

Thirdly, whilst German trade unions 'industrial' wage demands were made on the basis of substantial research into the profitability of the industry as a whole, and what the industry as a whole, rather than individual firms, could afford, the approach of British unions was far more 'hit and miss'. There was little research into the capacity to pay, not least because the claims were made in respect of a particular trade or craft for workers across a variety of firms and industries which may have vastly different profitability. British trade unions were therefore much less sophisticated in their negotiations with employer associations all of which made for much more confrontational bargaining than in Germany. Wage increase demands were often formulated by picking out of the blue a percentage increase in pay at least in line with the national rate of inflation with a bit more on top to give some margin for negotiation. Without the productivity growth achieved in other countries, the British culture of collective bargaining was inevitably both inflationary and confrontational. It was driven by comparisons with other groups of employees, and their differentials, rather than objective analysis. As the Jacobs study suggested: "It may well be that it is precisely the style of conflict resolution practised in the two countries that does much to account for their economic records".⁸⁷

Fourthly, whilst British collective agreements were merely pro tem, in Germany they were made for a defined period, normally between one and a half and three years. They gave companies more assurance to invest and plan than British companies. Agreements were legally enforceable and backed up by the ability of either party to obtain enforcement (fines rather than imprisonment) through a national and regional network of labour courts. The threat of strikes normally only arose at the time any collective agreement came up for renewal if the unions were unable to achieve the terms and conditions they were seeking. Unofficial strikes were extremely rare and although there

⁸⁷ Jacobs, *Industrial Change*, p.131.

were shop stewards in many firms in Germany they were not in a position to make demands and therefore not in a position to call unofficial strikes. Frank Rogers, the managing director of the media firm IPC, noted in his oral evidence to the Royal Commission: “I am glad Lord Collison is not here to hear me make the remark but it happens to be the fact that shop stewards are illegal in Germany, and do not exist as far as I am aware”.⁸⁸ It was not actually true that there were no shop stewards but certainly they may have seemed invisible to Rogers as shop stewards were not in a position to call a strike in breach of a collective agreement negotiated by their union.

Lastly, because the unions at the national and regional level in Germany remained powerful bargaining bodies, collective bargaining had not, as in Britain, slipped from national and regional organisations down to the workplace or shop stewards. In Britain some industries such as the motor industry, mining, transport, docks and construction sometimes seemed almost at the mercy of unofficial strikes.⁸⁹ The involvement of shop stewards often escalated local grievances into industrial disputes but this did not happen in Germany. In fact, trade unionists and employees in Germany often had a role in management on account of their places on works councils where they represented employee interests.⁹⁰ Works councils were common in companies across Germany and employers and employees used them to informally resolve local workplace grievances without descending into conflict. In Britain, there was a growing frustration on the part of employers and indeed unions that somehow the shop stewards acted outside the formal trade union structure often leading to unofficial and wildcat strikes.

⁸⁸ Donovan Report, Minutes of Evidence 59, IPC, para 9411.

Lord Collison was a trade unionist and member of the Royal Commission (leader of the Agricultural Workers Union).

⁸⁹ See Roy Church, *The Rise and Decline of the British Motor Industry* (Cambridge, 1994); David Wilson, *Dockers: The Impact of Industrial Change* (London, 1972); HMSO, *Report of the Committee of Inquiry under Lord Devlin into the Wages, Structure and Level of Pay for Dock Workers*, Cmnd 3104, October 1966; Peter Turnbull, Charles Wolfson and John Kelly, *Dock Strike: Conflict and Restructuring in Britain's Ports* (London, 1992); Jack Dash, *Good Morning Brothers! A Militant Trade Unionists Frank Autobiography* (London, 1970); Philip S. Bagwell, *The National Union of Railwaymen 1913-1963: A Half-Century of Industrial Trade Unionism* (London, 1963); G. Owen *From Empire to Europe: the Decline and Revival of Britain's Industries Since the Second World War* (London, 1999); A. Sampson, *Anatomy of Britain* (London, 1962).

⁹⁰ TNA, FO 371/70840, Note, Control Commission to Foreign Office, Works Councils and Participation in Management, 23 July 1948.

The 1960s were a high-water mark for research into industrial relations in Britain and the Royal Commission was well placed to undertake its own research.⁹¹ On appointment, Cassels, the Secretary of the Royal Commission, began preparing a research plan with the help of the Ministry of Labour, which was itself a major sponsor of industrial relations research.⁹² The Ministry of Labour had commissioned a number of reports from the overseas labour attachés on industrial relations in their countries but none of this research appears to have surfaced for use by the Royal Commission.⁹³ Amongst the Commissioners, Otto Kahn-Freund, the Oxford professor of comparative law who had been born in Germany, was well-known for his wide knowledge of overseas labour law.⁹⁴ In the hearings he professed some familiarity with the labour laws of the United States, Netherlands, Sweden, Australia, France, Canada, New Zealand and Singapore. His book *Labour Relations and the Law* included some international studies of collective bargaining.⁹⁵ Another Commissioner, George Woodcock, was the English representative on the international trade union body the ICFTU and as a result had contacts spread across overseas trade unions including in Germany. Reading material was assembled and a book about Swedish labour law was particularly singled-out by Cassels which she thought likely to be useful.⁹⁶ Others who were thought able to help with overseas practices were the ILO and Britain's seven overseas labour attachés though there is no evidence any of these were ever followed up. In particular, the Bonn Embassy was not called upon to help despite, as we have noted, the high reputation around Whitehall of its two labour attachés, E.C.M. Cullingford and David James.⁹⁷ Although the appointment of the Royal

⁹¹ In addition to the research commissioned by the Royal Commission, Hugh Clegg's Industrial Research Unit was established by the Social Science Research Council in 1968 to conduct IR research.

⁹² See TNA LAB 10/3428, Note on sources of information for the Royal Commission, September 1965; TNA LAB 10/3372, Minutes of the Ministry of Labour Industrial Relations Department, Working Group on Research; TNA, LAB 19, 3378, Minutes of Ministry of Labour Industrial Relations Department, Working Party on Research and Planning – Planning Proposals, March 1968.

⁹³ TNA, LAB 10/2185 Ministry of Labour, Overseas Reports on IR, 1964.

⁹⁴ TNA, LAB 10/2583, various lectures given at Oxford by Kahn-Freund on labour law, 1965 to 1968, eg., Strikes and the Law, 10 March 1965; Collective bargaining, 3rd December, 1965; Prices and Incomes Policy, 26 October, 1966; Labour Courts, 1 March 1968.

⁹⁵ O. Kahn-Freund (ed.), *Labour Relations and the Law* (London, 1962).

⁹⁶ Folke Schmidt, *Law of Labour Relations in Sweden* (Cambridge, Mass, 1962).

⁹⁷ There were British labour attachés in Bonn, Paris, Rome, Washington, Moscow, Istanbul and in South America.

Commission presented a great opportunity to commission wide-ranging research of overseas practice, in fact only a single overseas study was commissioned on grievance arbitration in the United States, a particular research interest of Kahn-Freund.⁹⁸

Expert evidence in the hearings was called upon mainly from officials in Anglo-Saxon countries, namely, N.S. Woods, the Assistant Secretary in the New Zealand Department of Labour, Professor Harry Wellington, a law professor at Yale and Sir Henry Bland, Permanent Secretary of the Australian Department of Labour and National Service.⁹⁹ The United Kingdom managing director of the Canadian engineering giant, Massey Ferguson, was called upon to describe Canadian practice but declined saying he was only familiar with British practice and no alternative was sought.¹⁰⁰ The only non-Anglo-Saxons to be called were Professor G.H. Camerlynck of Paris University and a representative of the Swedish employers association.¹⁰¹ The Royal Commission did make a fact-finding trip to Sweden and Germany, but it was not to investigate their industrial relations as a whole but on the strictly limited task of investigating the then fashionable subject of worker representatives on the boards of companies. In Germany, the Royal Commission found what it was looking for, namely sufficient evidence to convince itself that worker-directors simply did not work and that it was right to make a recommendation in the Report not to appoint them, to the disappointment of a number of trade unionists.¹⁰² David James of the Bonn Embassy, who had arranged the visit, later remarked that it would have been a lot more useful to have gathered information about the far more numerous works councils rather than the more esoteric *Mitbestimmungsgesetz*, and he was sceptical there was any benefit in the trip given its very narrow purpose.¹⁰³

In the hearings, the Royal Commission seemed largely uninterested in learning about the institutional structure of the German system and when it received evidence it

⁹⁸ Royal Commission Report, para 337.

⁹⁹ Royal Commission, Minutes of Evidence 41, Professor Harry Wellington, Yale.
Royal Commission, Minutes of Evidence 37, N.S. Woods, Department of Labour New Zealand.
Royal Commission Report, para 336, no minutes of evidence were published.

¹⁰⁰ Minutes of Evidence 25, Massey Ferguson (UK).

¹⁰¹ Royal Commission, Minutes of Evidence 66, Professor Camerlynck, Paris University.

¹⁰² Royal Commission Report, para 1,105.

¹⁰³ TNA LAB 10/3362 Worker Participation in Management/ Industrial Democracy 1968; On *Mitbestimmungsgesetz*, see Chapter 9.

did not make much of it.¹⁰⁴ Whether the absence of German witnesses was because there was no one of a suitable standing available, or whether they just chose not to call anyone is not clear, but probably the latter. In all about 500 respondents offered written submissions of which 69 were called to give oral evidence, but out of these none had anything to say or indeed any obvious qualification to speak about German industrial relations.¹⁰⁵

If there was no written evidence on Germany that was picked by the Royal Commission for consideration, then how much about Germany came up in the oral evidence? German industrial relations came up in the evidence of 15 of the 69 oral witnesses even though none had been called to talk on the subject.¹⁰⁶ The Royal Commission was therefore made well aware, if it was not already, of Germany's excellent reputation for good industrial relations but with their voluntarist outlook showed no wish to take it further. In one exchange between two members, Andrew Shonfield and Hugh Clegg the former noted that:

Employment has been less full in Britain for the last five years than in Germany. There just seems to be a propensity to give way more easily [in Britain]... If one looks at it, earnings on the whole have gone up in Germany in the last few years as much if not more than here but in the process, they do seem to have raised their productivity far more and the interesting thing is how they managed to do that ... earnings have risen in Germany about the same amount as here over the last few

¹⁰⁴ See, for example, Royal Commission Report, Minutes of Evidence, 1, IPC Newspapers, para 6 (the IPC newspaper editors recommended looking at German works councils), Minutes of Evidence, 3, Ministry of Labour, para 531 (the Ministry of Labour drew attention to German profit sharing schemes); Minutes of Evidence, 22, CBI, para 3334 (the CBI recommended looking at German industrial unionism) and so on.

¹⁰⁵ Royal Commission, Report, Appendix 2.

¹⁰⁶ German industrial relations are mentioned in the following minutes of evidence: 1 (IPC Newspaper Editors); 2 and 3 (Ministry of Labour); 22 and 69 (CBI); 23 (Motor Industry Employers); 24 (Amalgamated Engineering Union); 25 (Massey Ferguson); 27 (National Federation of Professional Workers); 31 (Professor Wedderburn, London University); 33 (Professor Roberts, LSE); 46 (Unilever); 53 (Association of Supervisory Staffs, Executives and Technicians-ASSET); 55 (Fabian Society); 57 (Electrical Trades Union); 59 (IPC); 61 (TUC) and 69 (CBI).

years.¹⁰⁷

Clegg immediately jumped in saying: “and [there have been] hardly any strikes” but neither saw this as a reason for investigating further.¹⁰⁸ Other members of the Royal Commission also seemed bored to hear about the good state of German industrial relations and its link to the buoyant economy.

During the discussion on the evidence given by Sir Maurice Laing, President of the CBI, on the structure of the German and Swedish trade union movements, George Woodcock, the former TUC General Secretary, could not resist the opportunity to offer a panegyric of British trade unionism saying:

I do not know of any country in the free world that has, taking the unions as a whole, as united a movement as Great Britain has. You see we do not have the non-manuals separated here, for example, and even in Sweden you have that. We do not have groups that cannot come in because of particular qualifications for membership here. We have no qualifications. That is the effect of our diversity.

It might seem surprising that Britain with 574 trade unions and no logical trades union structure could be, as Woodcock suggested, a more ‘united’ trade union movement compared, for instance, to the German movement with just 16 industrial trade unions. At this point Laing broke in to say “Going back to the original point, I think the Germans...” but was only to be stopped by George Woodcock saying: “No, not the Germans”.¹⁰⁹

There was probably another reason for the Royal Commission’s seeming indifference about German practices. Under Clegg’s influence they came to the conclusion that the reason for the poor state of industrial relations in Britain was the fault

¹⁰⁷ Andrew Shonfield was the author of *Modern Capitalism: the Changing Balance of Public and Private Power*, (London, 1965); Hugh Clegg was the author of *The System of Industrial Relations in Great Britain* (London, 1953).

¹⁰⁸ Royal Commission, Minutes of Evidence 2, Ministry of Labour, para 263.

¹⁰⁹ Royal Commission, Minutes of Evidence 22, CBI, para 3334.

of Britain's industrial management so there was little that needed changing about the trade unions (except to extend negotiating rights) and if management was the problem then there was no point worrying about overseas experience anyhow. Kahn-Freund was also reticent about German labour relations other than the fashionable topic of *Mitbestimmungsgesetz* and the participation of workers and their representatives in management which he was very firmly against.¹¹⁰ In a book on labour law written after the Royal Commission Report, he displayed his firm commitment to voluntarism.¹¹¹ He more than anyone else on the Royal Commission was well placed to unravel the complexities of the German system of industrial relations as he had been brought up in Germany, but at no stage did he even appear interested in the institutional structures of German trade unions. It is not clear whether as a German refugee there was a conscious rejection of things German which lay at the bottom of his attitude or whether as an immigrant in Britain he had so completely absorbed the British way of life that his voluntarism simply squeezed out any interest in the German system. Kahn-Freund and Clegg were diligent in attending hearings and more often than not led the discussions about the evidence received. They both contributed much to the Report and probably took the most interest in the Commission's research projects along with their Oxford colleague, Bill McCarthy, the Research Director.¹¹² However, their interests were all very British-centric.

When the Report was published in early 1968, Wilson dismissed it as "too much like an academic publication."¹¹³ More to the point, despite the efforts of the Secretariat to gather overseas evidence, it was a remarkably parochial document with no lessons drawn from successful overseas practice least of all the German system. It did not pick

¹¹⁰ See: Chapter XV of the Royal Commission Report which explains that after visiting Germany to study 'worker directors' a majority of the Commissioners felt they gave rise to conflicts of interest and would be distracting for companies wishing to reorganise and therefore could not recommend them.

¹¹¹ Sir Otto Kahn-Freund, *Labour and the Law* (London, 1972).

¹¹² MRC, 292B/51/10, Royal Commission- Plan of Procedure, April 1965.

¹¹³ A.C.Crines and K. Hickson, *Harold Wilson: The Unprincipled Prime Minister? Reappraising Harold Wilson* (London, 2016), p.115.

up on the witnesses who had urged that overseas practices particularly the German model should be examined.¹¹⁴

In the hearings a number of trade union witnesses revealingly admitted that if the British industrial relations system were to be designed from scratch then Britain would no doubt have adopted industrial unionism as the Germans had done. The Ministry of Labour in its evidence suggested industrial unionism had considerable merit but accepted that it may not be feasible given the known hostility of the trade unions. Only a handful of businesses were called to give evidence before the Royal Commission and the majority of them indicated they too wished to see industrial unionism.¹¹⁵ Laing of the CBI stuck his neck out to speak on behalf of the employers saying that generally employers “would like to see the growth of industrial unions”.¹¹⁶ One reason for this was made clear when he said: “Two years ago I visited Sweden which I know fairly well and I was looking at some operations going on. I asked the man taking me round “what is the craft of that man”? because he was doing a job which might have been done in Britain by a painter, plumber, plasterer, bricklayer or carpenter ... I was told the men are trained to be construction workers”.¹¹⁷ The CBI’s position was that industrial unionism was in principle the preferred solution but also accepted it would be difficult to introduce against the will of the trade unions and so Laing had concluded it would have to be brought about voluntarily. “The main object, I am quite sure”, said Laing, “must be rationalisation so that we can get as near to industrialised trade unions as quickly as possible” but he went on to add “you must do it by persuasion”.¹¹⁸

One of Laing’s colleagues, a Mr Taylor, observed:

The advantage which I would have thought was a compelling argument, is that once

¹¹⁴ See for example, Royal Commission Report, Minutes of Evidence 1, para 6 (where the IPC Newspaper Editors recommended looking at German works councils), Minutes of Evidence 3, para 531 (where the Ministry of Labour drew attention to German profit sharing schemes); Minutes of Evidence, 22, para 3334 (where the CBI recommended looking at German industrial unionism) and so on.

¹¹⁵ Royal Commission Report, Minutes of Evidence 1, IPC Newspaper Editors para 4 ; Minutes of Evidence 28 Philips Industries, para 1089, Minutes of Evidence 48, Shipbuilding Employers Federation who wanted only 5 trade unions; Minutes of Evidence 59, IPC, para 9415.

¹¹⁶ Minutes of Evidence 69, CBI, para 981.

¹¹⁷ Minutes of Evidence 69, CBI, para 1168.

¹¹⁸ Minutes of Evidence 22, CBI, para 3346.

you get these larger unions, of course, you get a quite different level of official and research staff in the union. This is a thing we have seen in the German unions. They are in a position of being able to have men of first-rate ability, not only as general secretaries, but also as officers, giving the necessary backing to cases which the union wishes to put forward.¹¹⁹

However, as largely expected, in their evidence the trade unions showed themselves fiercely opposed to the idea of industrial unions although the General Secretary, Vic Feather, was another to confide in the Royal Commission that if starting again as the Germans had done after the war, he was “perfectly sure we would not have a trade union movement with 170 unions, as at the present time, ranging from the London Jewish Bakers with 32 members to a comprehensive union with 1.4 million members”¹²⁰ He then went on to say:

I am sure it would not develop like that but do not point to this as being some virtue on the part of the German trade unions and no credit to the British, because just to show we could do it, the development of the DGB in Germany was mapped out in Congress House in London in 1944 and was applied through the Allied Control Commission. So given a clean table I am sure we would do it differently, but here we are, and on this basis we say it is impractical to deal with it in the light of our capacity, and in the light of the people here, the behaviour of the people here, the attitudes, the history, the background and all the rest of it, so therefore we are actually at this point getting the unions grouped more closely together.¹²¹

The TUC’s written evidence was nevertheless emphatic in its rejection of the case for industrial unions. It proclaimed its commitment to voluntarism as what its members wanted, without explicitly mentioning it could really only be shown that it was what the leadership wanted, and declared: “The General Council has therefore decided that it

¹¹⁹ Minutes of Evidence, 22, CBI, para 3334.

¹²⁰ As previously mentioned, there were 574 trade unions according to the Royal Commission so Vic Feather’s estimate of 170 unions is an underestimation though he may have been thinking of the number of TUC-affiliated trades unions which was about that number, see: Henry Pelling, *A History of British Trade Unionism* (London 1963), p.263.

¹²¹ TNA, LAB 10/2950 Oral Evidence of the TUC, para 10299. Congress House was the TUC headquarters.

would be undesirable to attempt over a period of years to reshape the movement solely on the principle of one union for each industry. It would also be impractical to do so”.¹²² The trade unions put forward three obviously self-interested reasons for this impracticability. First, the difficulties as they saw it of defining ‘an industry’ which really came down to issues of which unions would gain or lose employees. Secondly, it was argued members were very loyal to their unions and would resent being moved into other unions though that never seemed to be an issue in any of the frequent demarcation disputes where ballots of employees were a rarity.¹²³ Thirdly, there were in Feather’s view difficult administrative objections for the trade unions. As he explained: “take Mr Cousins union, the Transport and General Workers Union, he will have members in many industries. Therefore if you are going to have one union per industry it would mean dissolving Mr Cousin’s union”.¹²⁴ In summing up his arguments all the TUC General Secretary could say was that “somehow Germany was different, the Germans were different and they had a different culture and heritage to us”.¹²⁵ But he ended repeating what he had previously told them that “if we started new here I am perfectly sure we would not develop a movement with 170 unions”.¹²⁶

Lord Donovan asked Sidney Green of the National Union of Railwaymen if he could envisage just one union on the railways and he replied: “I do not think my signalmen members would be prepared to hand over their negotiations to, say, ASLEF, who in fact have no signalmen in their organisation”.¹²⁷ He also argued that an amalgamation was unnecessary because “when it comes to negotiations on railway matters, and this is the odd thing about it, in the end we all get together”.¹²⁸ Jenkins and McCusker of the Association of Supervisory Staffs, Executives and Technicians (ASSET) confused things by arguing that a horizontal not vertical consolidation was

¹²² Royal Commission, Written Evidence of the TUC, para. 477 – quoted in Minutes of Evidence 61, TUC, para 10, 268..

¹²³ See, Clive Jenkins, *The Kind of Laws the Unions Ought to Want* (London, 1968).

¹²⁴ Royal Commission, Minutes of Evidence 61, TUC, para 10268.

¹²⁵ Royal Commission, Minutes of Evidence 61, TUC, para 10299.

¹²⁶ Royal Commission, Minutes of Evidence 61, TUC, para 10299.

¹²⁷ Royal Commission, Minutes of Evidence 17, National Union of Railwaymen, para 628.

¹²⁸ Royal Commission, Minutes of Evidence 17, National Union of Railwaymen, para 2496.

needed. McCusker told the Royal Commission that “as industry becomes more automated, the technician trained in a particular specialisation feels he has more in common with a technician with a similar background and training employed in a quite different industry than he has with other differently trained employees in his own company or industry”.¹²⁹ When Shonfield noted that in Germany there is a rather strict rule to avoid conflicts of interest arising for managers with similar responsibilities to the members of ASSET who were involved in both hiring and firing, Jenkins merely retorted that any similar rules would make his members “personnel minded” and he wanted “to place such members more centrally into the framing and execution of company policy”.¹³⁰

Professor Roberts of the LSE was one of the few academics who had turned against voluntarism. He argued “the untidy pattern of trade union organisation in Britain is ill suited to modern conditions and there is a widespread agreement, even in the ranks of the unions themselves, that if the unions could be recreated, as they were in Germany after the second world war, they would be re-established on different lines from those that now exist.” However, he thought very pessimistically that “such a drastic reshaping of the structure of British trade unions was not possible unless it were achieved by legislative intervention as in the case of the Ghana Industrial Relations Act of 1958 or by administrative fiat as in the Soviet Union”.¹³¹

The subject of reorganising the unions on an industry-basis or at least amalgamating many of them had come up at various times in the past.¹³² A resolution recommending the reorganisation into industrial unions had been passed at the 1924 TUC Congress but had become bogged down in debates on how to identify an ‘industry’ and nothing had resulted.¹³³ It was raised again in 1944 but again nothing came of it. In the early 1960s, with the rising number of unofficial strikes, the Conservatives had pressed the TUC for more mergers of trade unions as part of a modernisation agenda.¹³⁴ The TUC

¹²⁹ Royal Commission, Minutes of Evidence 53, ASSET, para 2247.

¹³⁰ Royal Commission, Minutes of Evidence 53, ASSET, para 2275.

¹³¹ Royal Commission, Minutes of Evidence 33, Professor Roberts, para 1400. The Ghanians set up 16 unions under the Act.

¹³² MRC, 292B/51/10-11, Trade Union Structure and Closer Unity, 1944.

¹³³ Ibid.

¹³⁴ Bodleian, CRD 2/7/4, Trade Unions and Unofficial Strikes, 30 May 1962.

responded with a consultation paper.¹³⁵ It also issued a second broader consultation paper on the pros and cons of restructuring.¹³⁶ At the 1962 TUC Conference, the Postal Workers Union (almost the only example of an industrial union in Britain) put down a resolution which was narrowly passed instructing the General Council to investigate and report back on such a reorganisation.¹³⁷ However, the opponents of industrial unions began to fight-back especially after both political parties signalled their plans for an official inquiry into the trade unions. With the appointment of the Royal Commission in 1965, the Greater London Council Staff Association was amongst a number of trade unions which submitted resolutions to the 1965 TUC Conference designed to scotch any moves to industrial unionism.¹³⁸ The Association referred to the need for “care and prudence in deciding the kind of machinery and organisation most appropriate to the needs of the movement as a whole and to the occupational or geographical requirements of distinctive groups”.¹³⁹

The Royal Commission Report paid lip-service to industrial unionism but noted there were ‘theoretical difficulties’ and concluded that it would be necessary “to seek the benefits claimed for industrial unionism in other ways”.¹⁴⁰ The members of the Royal Commission, with their largely voluntarist stance, did not give any further thought to legislating or even just exhorting any further reorganisation of the trade unions. It gave no thought to possible financial or legal incentives which might have been given to the trade unions to encourage amalgamation along industrial lines such as generous financial packages paid at the taxpayers’ expense to trade union officials affected by an amalgamation or reorganisation. It did not even issue any advisory guidance on industrial unions. Instead, it meekly accepted that trade unions did not like industrial unions and passed the buck to the new Industrial Reorganisation Commission, hoping it might “play

¹³⁵ MRC, 292B/51/10-11, Industrial Unions, 24 June 1963.

¹³⁶ Bodleian, CRD 2/7/4, Trade Unions and Unofficial Strikes, 30 May 1962.

¹³⁷ TUC Annual Report, 1965.

¹³⁸ See: Reports of the 1962 and 1965 Trades Union Congress. Proposals for the greater amalgamation of trade unions had been floated on a number of occasions since 1923 without any success.

¹³⁹ 1965 TUC Annual Report; see also MRC, 292B/51/10-11, September 1963.

¹⁴⁰ Royal Commission, Report, para 1074.

an important part” in promoting agreements on the right of representation and thereby perhaps reduce competition between unions.¹⁴¹

Without industrial unionism, there was little prospect of achieving the well-funded indeed wealthy unions with well-trained staffs that had developed in post-war Germany. The Royal Commission’s main recommendation, the voluntary registration of collective agreements with the new Industrial Reorganisation Commission, did not involve any reorganisation of trade unions but was intended to provide a new machinery for multi-union structures which would facilitate the co-ordination of trade unions negotiating on behalf of workers in different unions. The agreements it particularly had in mind were at the workshop level which implied a further undermining of the power of the national unions and a further shift of power down to the shop stewards. The Royal Commission seemed to have no concerns about the further fragmentation of the institutional structure of industrial relations which this approach implied. The IPC newspaper editors had told the Royal Commission that “without the spur of legislation, no change of major significance in the trades union movement is likely to be achieved” and they also thought that “there needs to be a bargain”.¹⁴² The bargain they had in mind was the establishment by legislation of joint works councils similar to those in Germany in every large firm which they believed “when treated seriously, can influence decisions, and produce a higher standard of management and trade unionism”.¹⁴³ Another part of the bargain was to legislate for 100 per cent trade union membership and the legal enforceability of collective agreements, all steps which it was thought would help in the reorganisation of the trade unions.¹⁴⁴ Steeped in their commitment to the voluntarist approach to industrial relations, the members of the Royal Commission (with the exception of Andrew Shonfield) had no wish to pursue any legislation interfering in the procedures of collective bargaining (although various legislative changes were proposed in relation to employees’ rights).¹⁴⁵

¹⁴¹ Royal Commission, Report, para 1076.

¹⁴² Royal Commission, Minutes of Evidence 1, IPC Newspaper Editors, para 5.

¹⁴³ Royal Commission, Minutes of Evidence 1, IPC Newspaper Editors, para.6.

¹⁴⁴ Royal Commission, Minutes of Evidence 1, IPC Newspaper Editors, para.6.

¹⁴⁵ These included unfair dismissal legislation, development of industrial tribunals, further trade union protections.

The Royal Commission sat at a time when there was a rising call for greater enforceability of collective agreements and the creation of a system of labour courts. Indeed, from the outset, the Royal Commission was aware of comments made by Sir Alec Douglas Home, the Conservative leader, that, when returned to power, legislation would be introduced to achieve this.¹⁴⁶ The main target was the unofficial strike which was widely seen as a peculiarly British disease. The legal enforceability of collective agreements operated in many countries overseas, the best known of which was Germany, but also Sweden, the United States, New Zealand and Australia. As Shonfield commented on Bill (later Lord) Wedderburn's evidence, when discussing whether there was any correlation between legal enforceability and the number of days lost in strikes: "You mention Germany and talk of it as if it were a unique case".¹⁴⁷ Shonfield persisted in asking why Britain should be different in not making collective agreements enforceable, asking the Ministry of Labour: "Is there any reason why in this country, exceptionally, collective agreements should not be in any sense be enforceable by law"?¹⁴⁸

Whilst ignoring Germany, the Royal Commission had taken evidence on the Swedish model from the Swedish Employers' Confederation.¹⁴⁹ The Royal Commission had been impressed with Sweden's record of industrial peace but seemed disconcerted to find when the Confederation's managing director, Kugelberg, was called (unusually no written memorandum had been submitted) that he explained Sweden's success on the basis of the legal enforceability of collective agreements. He explained:

It follows that the workers cannot resort to strike action as long as there is a valid collective agreement existing at the workplace. If however an unofficial strike occurs the local trade union as well as the national union have to react as rapidly as possible to get their members back to work. To begin with, the local trade union has to call a meeting where the union informs its members of the legal rules. It is also considered

¹⁴⁶ Royal Commission, Minutes of Evidence 1, IPC Newspaper Editors, para 3.

¹⁴⁷ Royal Commission, Minutes of Evidence 31, Wedderburn, para 4708.

¹⁴⁸ Royal Commission, Minutes of Evidence 3, Ministry of Labour, para 585.

¹⁴⁹ Royal Commission, Minutes of Evidence 34, Swedish Employers, para 5380.

a duty for the national union to threaten the strikers with expulsion if they did not get back to work within a reasonably short time. The general experience is that illegal strikes in Sweden are finished within a few days or, in many cases, within a few hours.¹⁵⁰

This was probably too strong a meat for the voluntarist Royal Commission members (other than Shonfield) and they assumed it could not work in Britain. After this, references to Sweden were rare. The Commission might have heard similar comments if they had talked to the Germans instead but then in the German case they knew without asking that legal enforceability would be a prominent feature of their industrial relations system.

Although the Royal Commission took three years to produce its report, one of its members, the journalist Eric Wigham, admitted in an article he wrote shortly after its publication that: “the essence of our report was decided at a weekend retreat after only 6 months”.¹⁵¹ He noted that “whatever we started to talk about, we kept coming back to the same thing - the problem of uncontrolled and uncoordinated workplace bargaining. Like trying to get out of a maze and always finding oneself back at the heart of it.” He noted that although the British system was a most complex subject nevertheless all members of the Royal Commission were in agreement that the single most important problem in industrial relations was that workplace relations were out of control and were the main cause of “unofficial strikes, restrictive practices, chaotic wage structures and unbalanced growth of earnings.” He also noted there was a consensus on another issue: “We all think that the people with the power to put this right are neither the employers’ associations nor the unions but the boards of companies, and that the way to do it is to replace piecemeal bargaining by formal and comprehensive company and factory agreements.”

The centrepiece of the Royal Commission’s Report was the proposed Industrial Relations Commission which would investigate recognition disputes and act as the body

¹⁵⁰ Royal Commission, Minutes of Evidence 34, Swedish Employers, para 5391.

¹⁵¹ *The Times*, E. Wigham, ‘The Arduous Path to Consensus,’ 14 June 1969.

with which procedural agreements between employers and trade unions would be registered. Allan Flanders, another industrial relations academic, is attributed with the idea, but remarkably there was a unanimous agreement about the proposal on the part of all the Commissioners. It was supported by the CBI and the TUC and it fitted with the prevailing voluntarist philosophy that nothing should be done which might interfere with how trade unions organised themselves. The Royal Commission continued its deliberations for a further two and a half years taking evidence and commissioning research into most aspects of the British system of industrial relations and wrestling with the issue of the extent to which the Industrial Relations Commission should be backed up by sanctions. The trade unionists and academics on the Royal Commission concluded that the IRC should proceed entirely voluntarily with the onus on company boards to take action on the new comprehensive agreements that it believed were needed.

It is a puzzle that most of the British industrial relations experts, not to speak of Labour and Conservative politicians, employers' associations and trade unions, seemed to pay little attention to the regular reports coming out of Germany which confirmed that unofficial disputes rarely occurred.¹⁵² On several of the visits by TUC delegations over the years to Germany, they were told how workplace grievances were sorted out in the works councils. Wage negotiations, it was explained, were a matter for the national and regional level, not the local level. Other British visitors were told about the role of the works councils and their success in resolving workplace grievances and that the employee representatives on the works councils did not act in an official trade union capacity (though many of them were paid-up trade unionists).¹⁵³ It was noted that whilst employees gladly took the wage rises negotiated by the unions, only a minority of workers were actually members of the union.

Trade unionists in Britain abhorred the legal framework within which German trade unions operated, particularly the legal enforceability of collective agreements and the system of industrial courts, and were horrified that "unions could not demand changes in the terms of a wage agreement during its period of currency" and were suspicious of the

¹⁵² MRC, 292B/943/18, Report of a Visit of Trade Union Journal Editors, 5-11 April, 1970.

¹⁵³ See: MRC, 292B/943/18 Report of Trade Union Journal Editors to Germany, 25 August 1970.

role of works councils which seemed to undertake responsibilities which they thought should properly be undertaken by the trade unions and indeed saw the works councils as potentially undermining the role of the trade unions.¹⁵⁴

The next chapter turns to look at the Conservative proposals to reform industrial relations which relied on a heavier hand but with no greater understanding of the institutional structures which underpinned the German model.

¹⁵⁴ MRC, 292B/943/17, Report of TUC Visit to Germany, 26 November - 2 December 1967.

Chapter 8: The Conservative Approach to Industrial Relations

After their 1945 electoral debacle, the Conservatives began to search for policies that would attract working-class support which they saw as necessary if they were to win future elections.¹⁵⁵ *The Right Road for Britain* stated that the party “believe that industrial relations should be based on the idea that all are engaged upon a common task and that the prosperity of employers and employed is indivisible”.¹⁵⁶ A commitment to full employment was adopted to match the Labour Party’s own commitment, and the Conservatives positioned themselves in the voluntarist mainstream of industrial relations along with the Labour Party and the trade unions.¹⁵⁷ In exchange for the promise of full employment, the Conservatives sought a bargain with the trade unions that pay increases would in future be linked to increases in productivity.

In the late 1940s, the Conservatives set up a Conservative trades union organisation to attract trade unionists into the party.¹⁵⁸ Back in government in the early 1950s, Churchill and his Minister of Labour, Walter Monckton, sought to placate the trade unions and maintain industrial production.¹⁵⁹ Andrew Roberts argues that a rot set in under Monckton, shared by his officials, of regularly allowing pay settlements which were ever more unrelated to productivity.¹⁶⁰ Monckton’s biographer regretted the absence of fresh ideas in industrial relations during his period of office but excused this failure on account of his being “beset from the beginning by industrial strife, his main energies [being] devoted to the settlement of disputes, leaving little to spare for the formulation of new ideas”.¹⁶¹

¹⁵⁵ Peter Dorey, *The Conservative Party and the Trade Unions* (London, 1995), p.38.

¹⁵⁶ Bodleian, CRD 2/7/3, Conservative Party, *The Right Road for Britain*, 1947.

¹⁵⁷ Bodleian, CRD 2/7/1, Conservative Party, *Industrial Charter*, October 1947.

¹⁵⁸ Bodleian, COO/510/28/1, *Conservative Trade Union Organisation*, 1953.

¹⁵⁹ Dorey, *Conservative Party*, p.40.

¹⁶⁰ Andrew Roberts, ‘Walter Monckton and the Retreat from Reality’ in Andrew Roberts, *Eminent Churchillians* (London, 1994).

¹⁶¹ Lord Birkenhead, *Walter Monckton: the Life of Viscount Monckton of Brenchley* (London, 1969), p.279.

When a resolution proposing secret ballots before strikes was submitted by constituents for debate at the 1953 Conservative Party Conference, the Ministry of Labour responded that “it was a matter best left to the discretion of the trade union leaders”¹⁶² as they would never vote for ballots unless pushed to do so, and when a resolution was proposed which called for controls over the closed shop, Monckton and his officials dismissed it as a matter “to be dealt with by both sides of industry and not for government intervention by legislation or otherwise”. Another resolution called for an end to restrictive practices but in this case ministers and officials thought it was unobjectionable “since it merely calls upon both sides to condemn such practices”.¹⁶³ Conservative ministers were simply loath to intervene with any proposals for the reform of industrial relations or collective bargaining, and continued to mollify the trade unions and push for tripartite discussions with them and employers on issues such as economic growth, wages policies and productivity without making any threat of legislative action or institutional reshaping. Meetings took place through the Ministry of Labour’s National Joint Advisory Council which in later years was to evolve into the more formal National Economic Development Council.¹⁶⁴ Harold Watkinson, Monckton’s deputy at the Ministry of Labour, summed up the disappointment of many Conservatives about this period: “If it had been possible ...to persuade the unions... to consider putting the national interest above the immediate wage demands of their members – then British industry might have led the world in the post-war drive for recovery”.¹⁶⁵

By the late-1950s, Conservative ministers began to worry even more about the accelerating rate of wage increases during a period of lacklustre productivity growth,¹⁶⁶ especially compared to the two main industrial competitors, Germany and the United States. Another worry was the number of days lost through strikes per 100 employees which simply increased year by year to the point where inevitably some Conservatives

¹⁶² Roberts, *Eminent Churchillians*, p.266.

¹⁶³ Ibid, p.266.

¹⁶⁴ The National Economic Development Council was set up in 1962.

¹⁶⁵ Harold Watkinson, *Blueprint for Industrial Survival: what has gone wrong in Industrial Britain since the War?* (London, 1976).

¹⁶⁶ Rates of wages and productivity growth down to 1960 are examined in E.H.Phelps Brown, *A Century of Pay: The Course of Pay and Production in France, Germany, Sweden, the United Kingdom, and the United States of America, 1860-1960* (London, 1968).

began to think that it was more important to fix industrial relations than pursue largely unsuccessful tripartite talks.¹⁶⁷ The growing number of days lost in strikes was related in part to the replacement of the older wartime generation of trade union leaders by a younger more militant breed such as Frank Cousins and later Jack Jones of the T&GWU and Frank Foulkes, the self-proclaimed communist leader of the Electricians Union. Many national union leaders were themselves becoming “deeply worried about the way power was draining down to the shop-floor” and regretted that they had to adopt more militant tactics to keep in step. The story of the growing militancy of trade unions in the period and the growing clamour amongst Conservative supporters for trade union reform has been chronicled in a number of histories of the trade unions.¹⁶⁸ Many Conservatives began to think more seriously about how the law might be used to deal with the ever more militant trade unions. It was embarrassing for many in Britain to acknowledge just how much more peaceful industrial relations were in Germany. For instance, in 1959, the number of days lost per 1,000 employees in Britain was 370 compared to a mere 20 in Germany.¹⁶⁹

In the 1964 election, both the Conservative and Labour manifestos promised an enquiry into the state of industrial relations. The Conservative manifesto blandly noted that “the law [on trade union and employers’ associations] has not been reviewed since the beginning of the century” and promised that an early review would be undertaken.¹⁷⁰ In the event, Labour, as the winner of the 1964 election, appointed the Royal Commission as we have seen in the previous chapter.¹⁷¹

During the three years of the Royal Commission, Geoffrey Howe, a barrister and opposition spokesman for social welfare and labour relations, began to formulate a more

¹⁶⁷ Between 1951 and 1962, the average number of days lost per 100 workers was 4.9 in Germany and 27.2 days in Britain.

¹⁶⁸ Henry Pelling, *A History of Trade Unionism* (London, 1963), pp. 237-244; Allen Hutt and John Gollan, *British Trade Unions: A Short History* (London, 1975); Jim Tomlinson, *Employment Policies: The Crucial Years 1939-1955* (Oxford, 1987); Chris Wrigley, *British Trade Unions since 1933* (London, 2002).

¹⁶⁹ Bodleian, MS Castle 272, Department of Employment and Productivity, ‘International Comparison of Days Lost Through Industrial Disputes.’ Dec 1969.

¹⁷⁰ Conservative Party Election Manifesto 1964; The Labour Party Manifesto 1964 .

¹⁷¹ Royal Commission Report, terms of reference, p.1.

strongly legalistic approach to industrial relations for the Conservatives which, according to his memoirs, was a joint effort with Keith Joseph.¹⁷² They intended to lay down a framework of rules which would directly affect the status of trade unions and the procedures for collective bargaining.¹⁷³ Howe wrote that in putting forward their proposals, he and Joseph were “wary not to be seen hungering for confrontation”.¹⁷⁴ Nevertheless, there can be little doubt that his proposals were intended as a hardening of the Conservative approach which later found full expression in the 1968 pamphlet ‘Fair Deal at Work’ and later in the Conservative’s 1971 Industrial Relations Act.¹⁷⁵ The main proposals were for a comprehensive ‘Industrial Relations Bill’ which would be complemented by a ‘Code of Industrial Relations Practice’, a sort of good behaviour guide, and a promise to “ensure that agreements between unions and employers were kept by making them legally enforceable through a national network of special labour courts”. There was also a proposal to establish a Registrar of Trade Unions whose role would be to examine union rule books for compliance with the proposed Code of Practice, failing which the union would cease to enjoy the normal legal immunities from claims arising out of industrial action. These ideas were given in evidence to the Royal Commission under the auspices of the Society of Conservative Lawyers (then known as the Inns of Court Conservative and Unionist Society) and represented a deliberate turning away from the voluntarist consensus of the early post-war years but the Royal Commission had no interest in them.¹⁷⁶

A number of the Conservative ideas might on a cursory examination seem to have been taken straight from German industrial relations practice, particularly the legal enforceability of collective agreements and the proposed network of labour courts. Both proposals were firmly against the trade unions’ principal voluntarist article of faith that the law should be kept out of collective bargaining. None of the Conservative spokesmen

¹⁷² Andrew Denham and Mark Garnett, *Keith Joseph* (London, 2001); Robert Carr left no memoirs but he contributed various newspaper articles.

¹⁷³ Geoffrey Howe, *Conflict of Loyalty* (London, 1994), p.40.

¹⁷⁴ Howe, *Conflict*, p.99.

¹⁷⁵ Conservative Political Centre, *Fair Deal at Work: the Conservative Approach to Modern Industrial Relations* (1968).

¹⁷⁶ Royal Commission, Minutes of Evidence, No 35 (Inns of Court Conservative and Unionist Society).

Geoffrey Howe, Keith Joseph or Robert Carr, publicly acknowledged any borrowing from German industrial relations practice and none of them in any of the propagandist articles they wrote between the Royal Commission Report in 1968 and the 1971 Industrial Relations Act ever invoked German industrial relations practice as a precedent or authority for their proposals but this would only have been in line with the usual practice of not invoking a German precedent. Whilst there appears to be no evidence that they made any in depth investigative study of German industrial relations, or for that matter, any other country, it seems likely that they would have absorbed some of the key features of the German system from German politicians, officials and businessmen they came across over the years – whether through the Anglo-German Society, Köningswinter or any of the other Anglo-German ‘talking shops’, or just in private contacts. They would have been well aware of the peacefulness and success of German industry which was regularly extolled in the British press throughout the post-war period. Joe Rogaly, a *Financial Times* correspondent, speculated in one article that the idea of the legal enforceability of collective agreements may have come from the United States but he had no evidence for it and none of the Conservative spokesmen ever acknowledged that it was so and indeed the idea could have come from any number of countries and the United States was hardly a shining example of industrial peace to be taken as a role model for Britain in the same way as Germany.¹⁷⁷

It was easy to pick up ideas such as making collective agreements legally-enforceable or introducing pre-strike ballots but none of them were efficacious if taken in isolation from the other institutional structures which Germany had built up during the post-war years. The pivotal decision in Germany was the establishment of industry-based unions and the separation of industry collective agreements from the resolution of shop floor grievances through works councils. What is apparent is that none of Joseph, Howe or Carr, nor for that matter anyone else in the Conservative Party, appeared to have studied the German system and how it all worked as an integrated system. Without understanding it as a whole it was easy to suppose that individual parts of the system

¹⁷⁷ *Financial Times*, ‘Drawbacks in Mr Heath’s plan for strikes: Joe Rogaly looks at American experience with legally-binding labour contracts and sees some snags,’ 7 April 1970, p.19.

could be cherry-picked whereas they only work properly as part of the whole. The legal enforceability of collective agreements, for example, can probably only work where there is little competition between trade unions and demarcation disputes rarely arise, as in Germany with its industry-based unions. British trade unionists who visited German trade unions sometimes commented that they thought the German system of industrial trade unions and collective agreements may not have done the 'best' for union members as militant action must inevitably be curbed where negotiations are conducted in relation to the industry as a whole.¹⁷⁸ Such a view, of course, conveniently ignored Germany's significantly greater economic growth.

The idea of a Registrar of Trade Unions that might approve trades union rule books and a Code of Practice laying down norms of behaviour had no equivalent in the German system. There the legislation on collective agreements set out the legal framework with sufficient clarity that it did not need supplementing by codes of practice. There were also far fewer unofficial strikes, no closed shops and pre-strike ballots were held as a matter of course. As we have seen, demarcation disputes involving trade union recognition were almost unknown because of the industry-basis of the unions and restrictive practices could be removed through patient negotiation in works councils. Employees were often as committed as management to improving a firm's productivity and maximising its profitability (and indirectly their pay).¹⁷⁹

'Fair Deal at Work' was published shortly before the publication of the Royal Commission Report, intended to upstage it as it was widely known that the Royal Commission would largely adhere to a voluntarist approach.¹⁸⁰ It was trumpeted as the first comprehensive legislation on industrial relations and 'a charter for peace'.¹⁸¹ The

¹⁷⁸ MRC, 292B/943/20 Report of TUC Delegation to Germany, 27 October - 2 November 1960; see also: MRC, 292B/943/18, TUC Report of a Delegation of British Trade Journal Editors to the German Federal Republic, 5-11 April 1970.

¹⁷⁹ Eric Jacobs, *The Approach to Industrial Change in Britain and Germany: A Comparative Study of Workplace Industrial Relations and Manpower Policies in Britain and West German Enterprises* (London, 1979), p.115.

¹⁸⁰ Conservative Political Centre, *Fair Deal at Work: the Conservative Approach to Modern Industrial Relations* April 1968.

¹⁸¹ *Daily Telegraph*, Geoffrey Howe, 'A Charter for Industrial Peace', 2 January 1968; *Daily Telegraph*, Robert Carr, 'Industrial Strife: Tory Proposals for Revision of the Law,' 23 January 1968.

Conservative campaign was stepped up after the publication of the Royal Commission Report with the issue of an explanatory note on industrial relations. This signalled that the policy would become the domestic centrepiece of the Conservative's successful 1970 election campaign.¹⁸²

Put simply, the Conservatives wished to introduce more 'discipline' into industrial relations backed-up by a system of penalties intended to enforce this. Ultimately, the penalties would fall on the assets of any recalcitrant trade union. Given the trade unions' opposition to any introduction of the law into collective bargaining it was only a matter of time before the policy would bring conflict. The Conservatives proposed the imposition of heavy penalties which would potentially bankrupt those unions which were unable to make their members comply with agreed collective procedures. This was in contrast to the situation in Germany where powerful trade unions and employers' associations resolved the terms and conditions of employment without needing to look over their shoulders at more militant shop floor activists, and trade unions also felt able to leave local grievances to be resolved informally at the level of works councils where they did not boil over into strikes.

The industrial relations system of Sweden, forever the proxy for the Germans, received a mention in the Royal Commission Report, as did the United States system, but there was no mention of the German system. It appears to be another case of the German model remaining silent as O'Hara has argued.¹⁸³ This may have been a continuing distaste for things German carried over from the war, or simply jealousy at their successful economic performance, or it may just have been a feeling that the German system involved such a radically different approach to industrial relations, and indeed was so alien to the British system, that there was little or no point examining it in any detail, let alone trying to adopt it. Whatever it was, the German system was not invoked.

The 1971 Industrial Relations Act, perhaps to no one's surprise, was a failure in almost every respect. It was a most unsubtle piece of legislation which only served to

¹⁸² Conservative Party, Masterbrief 32: the Great Divide: Strikes, April 1970.

¹⁸³ Glen O'Hara, *Governing Post-War Britain: The Paradoxes of Progress, 1951-1973* (London, 2012), p.16.

inflare conflict. After some initial enthusiasm from members of the party, based on the appearance of at last doing something about industrial relations, employers and even most members lost confidence in it especially after a mockery was made of it before the National Industrial Relations Court during the dockers' and railwaymen's strikes.¹⁸⁴ The attempt to impose a model rule book on trade unions with a hierarchy of penalties for any misdemeanours was doomed to failure making martyrs of those affected. The Act did not seek to reform the fundamental problem of the dysfunctional institutional shape of the trade unions and did not even seek to press the trade unions to amalgamate as the lessons from Germany suggested was the obvious first step. The conflict with the unions on the part of Labour then Conservative governments proved a salutary experience showing the poor chances of success when tangling with militant unions. When the Conservatives returned to power at the end of the 1970s, the agenda was simply one of step by step weakening, wherever possible crushing, the power of the trade unions not so much through proper reforms but mostly by harsh economic pressures.

¹⁸⁴ Dominic Sandbrook, *State of Emergency, The Way We Were: Britain 1970-1974* (London, 2010), pp. 311-4.

Chapter 9: Co-Determination

The British military authorities in 1940s Germany did not foresee what an important role co-determination and, even more so, works councils, would come to have in the workplace.¹⁸⁵ A statutory right for employees to call for participation at work had been a long-standing demand of the left in Germany. It was not unexpected therefore that it was one of the earliest demands made by German trade unionists after 1945.¹⁸⁶

Employee participation took two forms. The more radical format was *Mitbestimmungsgesetz*, in which control of a firm was shared with an equal number of employer and employee representatives on the supervisory board plus the appointment of a labour director on the lower management board.¹⁸⁷ This format attracted much interest at first in Germany not just from the left which saw it as “the real thing” and a way “of making sure there was no repeat of the trade unions’ failure after the First World War to implement their socialist programme”.¹⁸⁸ In Britain, it attracted the interest of Ernest Bevin and the Labour government partly as a way of preventing the re-emergence of the Ruhr industrial barons.¹⁸⁹ Others in Britain expressed concern about the parity format. The *Economist*, described the demands for *Mitbestimmungsgesetz* as “a fight of the German Trade Union Federation for a share in the control of industry which suggests it has lost the good sense which it has shown regarding wage claims” and went on to describe the proposals as “undemocratic and extravagant”.¹⁹⁰ On another occasion, it objected that the employer and employee representatives might together exercise their powers “at the expense of the consumers and the stability of the currency”.¹⁹¹ The British

¹⁸⁵ Volker Berghahn and Detlev Karsten, *Industrial Relations in West Germany* (Oxford, 1987), pp.33-41.

¹⁸⁶ *Economist*, German Trade Union Demands, 10 June 1950, p.1267.

¹⁸⁷ E.C.M. Cullingford, *Trade Unions in Germany* (London, 1976), p.64.

¹⁸⁸ Walter Kendall, *The Labour Movement in Europe* (London, 1975), p.126 .

¹⁸⁹ James C Van Hook, *Rebuilding Germany: the Creation of the Social Market Economy 1945-1957* (Cambridge, 2002), p.70.

¹⁹⁰ *Economist*, 10 June 1950, p.1267.

¹⁹¹ *Economist*, 16 February 1951, p.325.

trade unionists' attitude was summed up by the Bonn labour attaché, E.C.M. Cullingford: "they think it goes too far in identifying unions with management: how can you hit the boss fair and square if you don't really know who he is"?¹⁹² *Mitbestimmungs* were only established in the coal and the iron and steel industries.

In Britain, interest in works councils developed in the 1960s when the former trade union leader, Jack Jones, led a campaign for 'industrial democracy' and in particular the appointment of worker directors.¹⁹³ The trade unions, in one of the rare suggestions they made to the Royal Commission, raised the issue of worker directors and even went so far as to suggest that they might be appointed not only to the main boards of companies but also at the intermediate and plant levels. With a few exceptions, such as Jack Jones, most trade unionists had traditionally been wary of the idea as they could see potential conflicts of interest arising and were suspicious worker representatives would be reluctant to press the employees' cause to the point of calling for any strikes. When the issue of industrial democracy was raised in a composite resolution put down for the 1968 TUC Congress, a TUC delegation was sent to Germany to study the subject. It sided with the Royal Commission which had concluded that "there are few real benefits to be gained from trade unionists sitting on company boards and that more might be achieved through strong trade unions and good consultative machinery".¹⁹⁴ The reporter was particularly concerned to find that "under West German legislation, the trade union official was excluded from any form of direct contact with management at the factory" and that "it was even difficult to persuade workers to join the union as the works council largely took care of their interests at the plant".¹⁹⁵ The TUC Report concluded that: "it was difficult for a trade union official to sit on the board of a company and adequately represent the employees".¹⁹⁶

¹⁹² TNA LAB 13/2192, E.C.M. Cullingford, Note on *Mitbestimmung*, 8 January 1965.

¹⁹³ *Free Labour World* – Journal of the International Confederation of Free Trade Unions, 'Co-Determination,' May 1968, p.5; Bernhard Wilpert, 'Research on Industrial Democracy: the German Case' in *Industrial Relations*, 6, 1, March 1975, pp.53-64.

¹⁹⁴ MRC 292B/943/20, TUC, Report of General Council Visit to Germany, March 1969, p.14.

¹⁹⁵ *Ibid*, TUC Report, p.8.

¹⁹⁶ *Ibid*, TUC Report, p.8.

Industrial democracy would be looked at again on a number of occasions in later years by various British governments including most recently by Theresa May's in 2016. James Callaghan brought forward proposals based on the ideas put forward in another Royal Commission chaired by the historian Lord Bullock.¹⁹⁷ His committee had looked at grafting ideas of industrial democracy, which he admitted were based on German and Swedish ideas of co-determination, onto the British system of collective bargaining at the enterprise level.¹⁹⁸ However, it overlooked the lesson that collective bargaining and co-determination were quite separate processes that were best not combined. Despite James Callaghan's energetic championing of the proposals, telling Parliament that he "wanted to effect a sea change in industrial relations through the introduction of industrial democracy", the reaction of business in Britain was stubbornly negative because it seemed to hand so much additional power to the unions at a time when they already seemed, to many businessmen, as powerful enough.¹⁹⁹ A *Times* correspondent wrote drawing attention to a flaw in the government's proposals saying "employee participation in Germany was built on a highly developed system of labour law and courts, and could not operate without it", adding that "the application of the law could not work in Britain with its traditions in which industrial relations have developed outside the law".²⁰⁰ The Labour Government deluded itself over the willingness of business to accept industrial democracy with James Callaghan optimistically believing Lord Bullock when he told him that "once the decision to implement the proposals is taken, the vast majority of managers will accept it and try to make it work".²⁰¹ Neither Lord Bullock nor the Labour government, nor for that matter their Conservative opponents, grasped that in Germany co-determination played virtually no part in the system of collective bargaining but was all about resolving local workplace grievances in which the trade unions played no part. Some trade unionists have over the years been appointed to the boards of British

¹⁹⁷ HMSO, *Report of the Royal Commission of Inquiry on Industrial Democracy*, 1977, Cmnd. 6706 (Bullock Report).

¹⁹⁸ *Bullock Report*, para 13.

¹⁹⁹ TNA, PREM 16/1323 Notes for Meetings, Bullock Report.

²⁰⁰ *Times*, 27 January 1977, Letter from Mr D.B.Southern.

²⁰¹ TNA, PREM 16/1323, Note of Bernard Donaghue.

companies but there have been no more than a handful and mostly nationalised industries such as the National Coal Board.²⁰²

Betriebsräte, or works councils, were to become by far the most common form of German co-determination in the post-war period. They involve equal numbers of management and worker representatives (who are not necessarily trade unionists) who meet informally to resolve workplace grievances and disputes. They also developed other important roles such as the enforcement of trade union negotiated collective agreements, the negotiation of changes in work patterns, the promulgation of plant regulations and the administration of social welfare services, and similar roles.²⁰³ The Works Constitution Act 1952 laid down the statutory framework stating: “the employer and the works council shall work together in a spirit of mutual trust ... for the good of the undertaking and its employees, having regard to the interests of the community”.²⁰⁴ By 1975 there were as many as 300,000 works councils operating in the workplace in Germany.²⁰⁵

British voluntarists believed in employers and trade unions freely coming together to negotiate issues of mutual concern between themselves, and distrusted the German desire for a legal framework laying down rights to establish workers councils. In an address to trade unionists in early 1948 Richard Luce, the Manpower Director, dismissed the German wish for a legal framework telling an audience of German trade unionists:

The immediate need, in my view, is common ground where you can give systematic attention to your mutual problems. It is the machinery of consultation discussion and decision which we want at the moment. If you try to define in precise legal terms what are to be the powers and functions of some august joint body you will probably end up by having nothing at all.²⁰⁶

²⁰² For example, a former General Secretary of the National Union of Mineworkers was appointed to the National Coal Board (House of Commons Debates 13 July 1950, col 1557).

²⁰³ Walter Kendall, *The Labour Movement in Europe* (London, 1975), p.1.

²⁰⁴ Article 49, *Betriebsverfassungsgesetz 1952* (Works Constitution Act 1952).

²⁰⁵ Walter Kendall, *The Labour Movement in Europe* (London, 1975), p.126 .

²⁰⁶ TNA, FO 371/70833, Speech of Richard Luce to trade unionists, March 1948.

Instead of works councils he preferred joint consultation along the lines of the Whitley Councils in Britain: “I have in mind that there should be some kind of joint council in every industry charged with the task of considering the economic or production problems of that industry and of seeking the modest measure of agreement as to how they should be tackled”.²⁰⁷ German trade unionists, worried about the absence of rights in the Hitler period, demanded copper-bottomed legal rights for groups of workers to call for participation in industrial decision-making. Manpower Division wrote to the Foreign Office’s German Internal Affairs Department commenting: “As feared, it looks as if the unions will not readily enter into voluntary machinery for fear of prejudicing their more positive ambitions for prescribing rights [to call for works councils]”.²⁰⁸ British officials thought the demand for employees to be able to call for the establishment of works councils was counter-productive, and would undermine the role of the unions. One Foreign Office official thought: “Legislation on the ‘rights’ of Works Councils is not in accordance with our ideas ...decisions should be reached generally by free collective bargaining...indeed we have spent the last two years in trying to build up the Trade Union Organisation and strengthen its influence over all workers”.²⁰⁹ However, to avoid conflict with the German trade unions, the British reluctantly agreed to support a change in the law to allow employees to call for the set-up of works councils but the Foreign Office official Nicholls noted: “Although we agreed Control Council Law Number 22 which gives a legal basis to the operation of Works Councils, we did not do this with any enthusiasm and avoided giving them in the law any specific rights...The Trade Unions do not seem to recognise the danger to their own influence”.²¹⁰ Control Council Law 22 was written by the British to provide that “works councils shall carry out their functions in co-operation with the recognised trade unions”.²¹¹

²⁰⁷ Ibid.

²⁰⁸ TNA, FO 371/ 70833, Note to Nicholls, German Internal Department, 18 March 1948.

²⁰⁹ TNA, FO 371/ 70840, Note, P Nicholls, 23 July 1948 .

²¹⁰ TNA, FO 371/70840 CG 3140 , Note, P. Nicholls, 23 July 1948.

²¹¹ Allied Control Council Law No 22, April 1946 which left the functions of works councils vis a vis managements to be determined by negotiation: see HMSO, ‘ Industrial Relations in Germany, 1945-1949’, Cmd. 7923 para 32.

During the occupation, the Foreign Office and Manpower Division felt unable to take a firmer line against works councils as they realised it would be inconsistent with the proclaimed objective of giving the trade unions more, not less freedom. A memorandum prepared for the Minister for Germany, Lord Henderson, in July 1948, stated:

Notwithstanding our efforts since the occupation to encourage the trade unions to make workshop representation an integral part of trade union machinery, and to establish jointly with employers voluntary machinery of consultation and negotiation from the workshops level to the industrial level, they have persisted in their support of the traditional German idea of works councils.²¹²

The British were worried when German trade unionists published a ‘Model Works Council Agreement’ amidst significant public support.²¹³ They grew even more concerned when reports reached them that several of the Land governments were preparing legislation on works councils based on the Model. The British response was to urge the Germans to wait upon the new Federal Republic which could then decide on the shape of co-determination. The state of Hesse, in the American zone, announced a plan for making works councils compulsory and laying down other compulsory provisions which one British official noted: “was ... not in accordance with British notions.”²¹⁴ A note from another official on the Hesse plan observed that the draft law drawn up by the Hesse Land “provides a good example upon which to concentrate our thoughts. The law gives works councils considerable powers of participation in management functions; it leaves the relationship of works councils and trade unions in an ill- defined state, if anything rather to the detriment of trade unions, and leaves a number of loose ends which may lead to serious conflict between works councils, trade unions and employers”.²¹⁵ The British officials took the view that the Americans had a bit of time before they would have to make a decision on what to do about the Hesse law but hoped they would find a

²¹² TNA, FO 371/79840, Note to Henderson, July 1948.

²¹³ TNA, FO 371/79842, Model Works Agreement, March 1948.

²¹⁴ TNA, FO 371/70840 CG 3143, Manpower Note on Draft Hesse Works Council Law, July 1948.

²¹⁵ TNA, FO 371/70840, Manpower Note on Works Councils, July 1948.

way to thwart it. In December 1948 it was the turn of South Baden in the French sector. Its military governor, General Koenig, announced he would not veto a similar law to that in Hesse.²¹⁶ His argument was that the military governors in the western zones had all agreed that trade union matters were a ‘social matter’ so it had to be left for the German people to decide once the new German state was established. In March 1949, Schleswig-Holstein was the first to bring forward a law in the British sector, but by this stage British officials had given up all resistance and took the view that it was a matter best left for the new German state.

There was another reason the Foreign Office and the TUC worried about the works council movement and that was the links they feared to communism. Marsden-Smedley of the Foreign Office noted: “It is true the works councils have provided the communists with a very easy field of activity”.²¹⁷ British officials believed that the Communist Party (KPD) was encouraging its members to join works councils in order to oust Social and Christian Democrat Party trade unionists. The TUC feared that communist members of works councils would make the job of the trade unionists much more difficult.²¹⁸

The question arises as to the extent British trade unionists and government officials understood how co-determination and particularly works councils each worked (and indeed they were often confused) despite the regular flow of information coming from the Bonn High Commission.²¹⁹ In a memorandum prepared in 1950 for Ernest Bevin, the Foreign Secretary, it was noted that many British officials were seemingly confused about the difference between *Mitbestimmungs* and works councils.²²⁰ In the 1950 White Paper which was published to give an account of industrial relations in Germany during the period of British military occupation in the period 1945-1949, it was thought that the German trade unions were demanding *Mitbestimmungs* “for full equality” whereas in fact the demand from most trade unionists was for works councils”.²²¹ The

²¹⁶ TNA, FO 371/ 77070, Note on Draft Works Council Law in South Baden.

²¹⁷ TNA, FO 371 /70840, Foreign Office Memo, Marson-Smedley, July 1948.

²¹⁸ TNA, FO 371 /77070, Manpower, Note on Communist Infiltration of Works Councils, March 1948.

²¹⁹ See, for example, Labour Adviser Reports issued by the Bonn High Commission in TNA FO 371/85916 Manpower to Foreign Office, 23 May 1950; FO 371/85916 High Commission to German Department, Foreign Office, 25 May 1950.

²²⁰ TNA FO 371/85915, Christopher Steel to Ernest Bevin, 14 February 1950.

²²¹ HMSO, *Industrial Relations*, para, 45.

White Paper in fact had very little to say about works councils and made the usual mistake of thinking that they amounted to little more than the joint productivity councils and Whitley Councils which had been promoted by the Labour government which offered little more than a channel for one-way communication by employers.²²² Many British commentators were similarly confused, failing to understand that works councils were in fact developing as institutions very differently from British joint consultation bodies and so they did not see the benefits the Germans saw in the opportunity to resolve local issues informally without involving the trade unions.²²³

British managers were often mystified why German managers were so willing to work with works councils when they thought they did not have the same clout as the trade unions.²²⁴ It is the interdependence of the employers and the workers under the works council system which made them what one economist described as “the pivotal point of the whole structure of German industrial relations”.²²⁵ German employers preferred to resolve local grievances by internal negotiation through the works council. The British on the other hand instinctively wished to resolve workplace issues with the trade unions but German managers felt this did not provide the flexibility and speed of the works council.²²⁶

So, how many on the British side recognised the merits of works councils and may have thought they offered any lessons on how to improve British industrial relations? As we have seen, the two Bonn Labour Attachés were thoroughly persuaded of their benefit and took every opportunity to impress colleagues in the Foreign Office and Ministry of Labour. Writing to the Department of Employment shortly after the publication of the Royal Commission Report in 1968, Cullingford spoke of the 1952 Works Constitution Law saying: “It is this level-headed piece of legislation, with its system of labour –

²²² Daniel Todman *Britain's War: A New World 1942-1947* (London, 2020), p.385.

²²³ See, for instance, the attitude of the TUC reported in TNA FO 371/70839, Report of TUC Delegation to Germany, 16 June 1948.

²²⁴ Wolfgang Streeck, *Industrial Relation in West Germany: A Case Study of the German Car Industry* (London, 1984), p.25.

²²⁵ Adolf Sturmthal, *Workers Councils* (New York, 1964).

²²⁶ Eric Jacobs, on behalf of the Anglo-German Foundation for the Study of Industrial Society, *The Approach to Industrial Change in Britain and Germany: A Comparative Study of Workplace Industrial Relations and Manpower Policies in British and West German Enterprises* (London, 1978), p.123.

management consultation, that is, in my opinion, one of the reasons for Germany's phenomenal success in the industrial relations field (unfortunately given so little consideration in the [Royal Commission] Report!)"²²⁷ This was a view he repeated on a number of occasions in official memoranda and was shared by his colleague David James and by the Ambassador, Sir Christopher Steel.²²⁸ In his review of the German industrial relations system written after his retirement, Cullingford expanded on the advantages of the works council system: "The system has, in general, worked out in such a way to ensure that, throughout German industry, management is kept in close touch with its employees, keeps them informed of its major plans and programmes, and has the opportunity of listening to their ideas, wishes and suggestion ... it is a sane piece of industrial democracy that ensures that grievances are quickly nipped in the bud"²²⁹

In Britain, works councils stood little chance of catching-on because of the hostility of both the trade unions and much of business. Regular visits of trade union officials to Germany had been organized over the years by the TUC but they had shown little interest in co-determination.²³⁰ When IPC managers gave their evidence to the Royal Commission they recommended giving works councils a try but most of British management had little appetite for this, fearing it would only undermine their 'right to manage'.²³¹

Did British governments and their officials believe works councils contributed to or hindered Germany's economic performance? The various ambassadors and officials in Bonn involved with labour issues were convinced that the works council system was central to Germany's successful industrial relations, and believed it benefited the German

²²⁷ TNA LAB 13/2192, Cullingford to Oates, DEP, 29 October 1968.

²²⁸ TNA LAB 13/2192, James Note, 4 April 1968.

²²⁹ E.C.M. Cullingford, *Trade Unions in West Germany* (London, 1976), p.22; see also: TNA LAB 13/2638, Note, Cullingford, Industrial Relations in their relation to Western Germany's Economic Prosperity, December 1968.

²³⁰ The TUC's written evidence to The Royal Commission made no mention of the German system but made a demand for workers on the boards of companies: TNA LAB/2950, TUC Press Release on evidence to the Royal Commission, 9 November 1966.

²³¹ HMSO, *Royal Commission on Trade Unions and Employers' Associations – Minutes of Evidence*, Vol 1, IPC Newspaper Editors, 20 July 1965.

economy as a whole.²³² The heads of the Foreign Office German Department were all impressed by what they heard about German industrial relations.²³³ However, the Royal Commission and policy-makers remained stoutly wedded to the British voluntarist traditions which put them in no mood for a root and branch reorganisation of industrial reasons.²³⁴

Industrial relations were absolutely critical to Germany's post-war economic success and the Germans considered them the key to producing a flexible and co-operative workforce which could adapt to change, a point only finally picked up by British researchers much later.²³⁵

²³² TNA, LAB 10/2185, E.C.M. Cullingford, Note on Industrial Relations in the Federal Republic of Germany, 24 September 1964.

²³³ The successive High Commissioners General Robertson, Sir Hoyar Millar, Sir Ivone Kirkpatrick, Sir Christopher Steel, Sir William Strang and Sir Nicholas Henderson all commented or wrote about how impressed they were by the peaceful state of industrial relations and the strength of the economic recovery.

²³⁴ See above for a discussion on Bullock.

²³⁵ Eric Jacobs, *The Approach to Industrial Change in Britain and Germany: a Comparative Study of Workplace Industrial Relations and Manpower Policies in British and German Enterprises* (London, 1979).

Part III Issues in British-German Economic Relations

Chapter 10: Introduction

The success of Germany's post-war economy put Britain's under greater pressure than would otherwise have been the case. A surprising number of economic issues arose in British-German economic relations which only served to make matters more complicated for British policy-making. This Chapter looks at British attitudes to the German economic miracle in the light of some of these complicating issues which put Britain on the back foot.

British ministers could easily be forgiven for thinking that it was 'Germany again' which lay at the bottom of each issue—the 1953 London Debt Agreement, strong German trading competition, Germany's huge trading surpluses and reserves and the 'financial disequilibrium' to which the British said it gave rise, the fifteen year-long tussle over Britain's stationing costs in Germany and Britain's frustrations over the help it got from the Germans over its European policies.

In the 1952 London Debt Conference negotiations, the British were pressed by their American allies to reschedule a significant part of both pre-war and post-war German debts in the interests of kick-starting the German economy. The British were reluctant to write off any amount of German debt but as a good ally felt they had to do something, but as time went by and the German economy went from strength to strength, came to resent having done so and let the Germans off the hook so lightly. British ministers remembered the tough stance taken with Britain by the Americans in 1946 over the terms of the Anglo-American Loan and compared it with the generosity meted out to the Germans only a few years later. The worse off Britain felt, the more Germany's debt relief rankled with Macmillan and his ministers.

Following the relief of Germany's debts, Britain began to worry about the rapid growth of German exports and the inroads they were making into many of Britain's traditional export markets. It was not the Americans or the French that were resented as competitors taking away business from the British, it was the Germans who were seen as posing a strong trading threat. British exporters sometimes excused their poor performance by accusing the Germans of sharp practices suggesting they were 'low-balling' or offering excessive amounts of credit. However, the real problem was that Britain's efforts to compete were often too lacklustre and, as a result, its share of world markets fell during the 1950s and 1960s. Britain continued on its way, with poor productivity, wage inflation, poor balance of payments and low reserves, and so rendered itself at a disadvantage to its main European competitor, Germany. Stuart Holland suggested Britain fell into 'a low effort equilibrium' struck between British industry and its unions. Under this, Holland thought employers accepted low productivity because of a lack of competition and workers allegedly made low wage demands for being left alone by employers but most on the right saw little 'equilibrium' about this because they only saw accelerating wage demands amidst poor productivity and growing union militancy.¹ Britain's inability to compete successfully inevitably made all British-German economic issues so much more complicated and difficult.

Britain's major financial objective in the post-war period was to prepare for a return to convertibility. This had been an obligation taken on at Bretton Woods but was also seen as an emblematic step in regaining sterling's role as an international reserve currency and London's as an international financial centre. An early unilateral British declaration of convertibility proved too much of a risk because of the poor level of reserves and Britain's balance of payments difficulties. Britain's relatively poor economic performance therefore delayed convertibility and Britain had to come round to the idea that it would need to act in step with its neighbours. Germany, on the other hand, had the reserves and a strong enough economy to support convertibility more or less at any time after 1951. It was another humiliation which irked the British that the Germans were so

¹ Stuart Holland (ed.), *Beyond Capitalist Planning* (Oxford, 1978).

much further ahead in their preparedness for convertibility. The British spent these years regularly urging the Germans to reduce their surpluses by spending much more both at home and abroad to reduce the so-called 'financial disequilibrium.' The time spent beating the Germans over the head on this was again a reflection of how Britain was falling behind it economically.

British political leaders and officials regarded the stationing costs of British troops in Germany as an intolerable burden. Macmillan, Home, Wilson and Callaghan all made it a priority to extract reimbursement from the Germans for the 'foreign exchange' costs of the troops stationed on the Rhine. British ministers resented the Germans benefiting from the Bank of England's injection of foreign exchange into their economy. The British only had a partial view of the situation as they ignored the benefit they received on account of the foreign currency received from the stationing of US and Canadian troops in Britain which did much to equalise the burden.

Britain did not initially believe the Six would succeed in their customs union negotiations at Messina but, the longer discussions continued, the more the British began to wonder if they might succeed after all and Britain might simply be left in the cold on the outside. The government began a search for an alternative to joining the EEC and came up with the idea of a Free Trade Area which would incorporate both the Six as well as other OEEC countries and, when that was vetoed by De Gaulle, began the search which on the third attempt led to joining the EEC in 1973. British ministers were long convinced that Germany 'held the key' to Britain's progress in its seeking to join Europe and so keep up with the Germans but became progressively more disillusioned about this over time as German efforts never seemed to bear fruit.

Chapters 11 to 15 examine each of these issues in more detail.

Chapter 11: Debts

In a recent study of the political economy of sovereign debt, Jerome Roos noted with some irony that: “the first country to have its debts voluntarily cancelled after World War II was the perpetrator itself, Germany”.² Until recently, historians had not shown much interest in the post-war relief of German debts agreed by the 1953 London Debt Agreement, with one group of economic historians still maintaining in 2019 that: “to our knowledge there has yet to be an analysis of the economic consequences of the [German] debt relief”.³ The 1953 settlement was certainly very different to 1919 when, under the Versailles Treaty, Germany was burdened with reparations in the form of open-ended and evergreen debts which seemed to have no prospect of redemption.⁴ In 1953 the impetus for the debt relief came not from the struggling debtor, Germany, but unusually from the principal creditor, the United States. Indeed, as Roos put it, the United States “coaxed its allies... into signing the [1953 Agreement] and at the stroke of a pen eliminated about half of West Germany’s external obligations, and allowed the country to repay the remainder under favourable terms” and, as a consequence, substantially eased the repayment of Germany’s internal debts.⁵

So what was the scale of the debt relief? In 1950, Germany’s debts were about £300m in total and fell into two categories: first, about £50m of pre-war debts owed by the Reich, the Länder and the municipalities, and commercial loans owed by businesses and private debtors to external creditors in some 20 or so countries, but principally the United States and Britain and, secondly a further £250m of post-war debt incurred as economic assistance given by the United States, Britain and France in emergency funds which the Allies expected to be repaid. The 1953 Agreement reduced Germany’s total

² Jerome Roos, *Why not Default? The Political Economy of Sovereign Debt* (Princeton, 2019), p.304.

³ Gregori Galofré-Vilà, Martin McKee, Christopher M. Meissner and David Stuckler, ‘The Economic Consequences of the London Debt Agreement,’ *European Review of Economic History*, 23, 1, 2019, p.4.

⁴ Margaret Macmillan, *Peacemakers: The Paris Conference of 1919 and its Attempt to End War* (London, 2001), p.191. Evergreen debts are long-term debts where the principal amount is replenished each time a repayment is made which is not exactly an incentive for a debtor to make payments in the meantime.

⁵ Roos, *Default*, p.304 .

debts from DM 30bn to DM 14bn.⁶ This DM 16bn reduction was very substantial when compared to the Federal Republic's budget of DM 24bn for 1952.⁷ The United States wrote off about two thirds of its post-war economic assistance debts to Germany whilst Britain wrote off about a quarter.⁸

With hindsight, the allied negotiators at the London Conference had cause for wondering if they had agreed too much debt relief. This was because, after the 1953 Agreement, Germany's economic growth was so strong and inflation kept so well under control, its public debt broadly remained at less than 20 per cent of GDP throughout the post-war period, an astonishingly low figure relative to other economies including those of Britain and the United States as the table below shows-

Table 12 German, British and United States public debt as a percentage of GDP

	German Public Debt as a percentage of GDP	British Public Debt as a percentage of GDP	US Public Debt as a percentage of GDP
1945		232	112.7
1950	19.3	197	44.8
1955	23.2	141	55.5
1960	19.7	110	44.8
1965	19.0	87	36.5
1970	17.8	67	28.2

⁶ Kenneth Dyson, *States, Debt and Power: 'Saints' and 'Sinners' in European History and Integration* (Oxford, 2014), p.594 .

⁷ Dyson, *States*, p.594.

⁸ HMSO, *Agreement on German External Debts*, Cmd. 8781, 27 February, 1953.

(Source: for Germany: *Statistisches Bundesamt Schulden der öffentlichen Haushalte, Finanzen and Steuern, Fachserie 14, Reihe 5, 2010: 1.1.1*; for the United Kingdom: *Governmental Statistical Service 1999:46*; for the United States: *Congressional Budget Office 2010a*), cited in Kenneth Dyson, *States, Debt and Power: 'Saints' and 'Sinners' in European History and Integration* (Oxford, 2014) pp. 214-216 and p.190.

It was not as if Germany reined in its public expenditure to keep its debt to GDP ratio under control. Its debt per capita in fact grew six-fold between 1950 and 1970 on the back of its strong economic growth. The authors of a 2019 study of the 1953 Agreement associated this with “a substantial rise in real per capita social expenditure, in health, education, housing and economic development, the rise being significantly over and above increases in other types of spending including military expenditure”.⁹ Whilst the Germans in fact had plenty of capacity to take on even more debt, they were as the British had noticed, almost pathologically conservative about doing so.¹⁰

Germany had emerged from the Second World War with a terrible reputation as an international borrower. Weimar Germany had struggled with its post-war reparations liabilities, and trust in Germany was impaired, as it was perceived to have “resorted to systematic inflationary behaviour as the way to avoid [the reparations] commitment which deep down, they could not even acknowledge”.¹¹ Matters went from bad to worse as the repayment of foreign obligations was suspended in the financial crisis in 1929 and repudiated altogether when Hitler came to power in 1933, with no further payments of interest or capital.

With the establishment of the Federal Republic, both the Germans and the Allies were anxious to reach an agreement that might rehabilitate Germany’s reputation and identify the quantum of these debts and the timing of their repayment.¹² The Germans,

⁹ Galofré-Vilà, *Economic Consequences*, p.13.

¹⁰ TNA 7236/4817 *Germany’s Good Creditor Policies*, 30 October 1958.

¹¹ F. Taylor, *The Downfall of Money: Germany’s Hyperinflation and the Destruction of the Middle Class* (London, 2013), p.352.

¹² *Economist*, *German Debt Moves*, 25 November 1950.

eager to grow their economy, realised there was little hope of obtaining full access to international markets or attracting overseas investment until the pre-war debts were formally recognised and some form of schedule drawn up for their repayment. The allies, particularly the Americans, were concerned to see an early recovery of the German economy as a step towards a general recovery of the European economy and, for that matter, for achieving America's longer-term goal of greater European integration. The allies also wished to tie Germany firmly into the western alliance to increase western security. Germany therefore found itself in the enviable position for any loser of a war that its most powerful adversary, its principal creditor, the United States, conveniently wished to rebuild its economy. To the British, the United States even seemed to give a higher priority to rebuilding the German economy over that of its principal ally, Britain, which was in any event struggling with its own burden of debt. Germany's post-war liabilities were in the end to be paid off early by 1970, whilst Britain's indebtedness under the 1946 Anglo-American agreement took until the next century.¹³

Economists have offered widely differing views on the reasons Germany did so well in the post-war years and why it was able to catch-up with French GDP by 1959 and UK GDP by 1970. The various explanations were reviewed in Chapter 2.1 and include a catch-up with Germany's long-term growth path, the switch from low-productivity agriculture to high productivity manufacturing.¹⁴ Another, was the opportunity for Germany to switch its economy from low productivity agriculture to high productivity manufacturing.¹⁵ Gregori Galofré-Vilà and his colleagues though were sceptical about this in Germany's case as most of the absorption of labour was in fact by the service sector which did not have particularly high productivity.¹⁶ Others have suggested that growth arose from the formation of new trading partnerships in the late 1940s and

¹³ Robert Skidelsky, *John Maynard Keynes: Fighting for Britain 1937-1946*, (London, 2000), p.454.

¹⁴ Grillschaal Ferenc Jánosy, *The End of the Economic Miracle* (New York, 1969).

¹⁵ Peter Temin, 'The Golden Age of European Growth reconsidered,' *European Review of Economic History*, 1997, Vol 6 (1), pp. 3-22.

¹⁶ Galofré-Vilà, *Economic Consequences*, p.2.

1950s.¹⁷ However, the conventional view remains the free-market reforms brought about as a result of US, British and French intervention in the German economy.¹⁸

Following the 2009 Greek debt crisis, interest has been sparked in the economic effects of the 1953 Agreement and some commentators have speculated on the extent to which the debt relief might explain the ‘economic miracle’. Albrecht Ritschl thought the economic miracle, the stability of the deutschmark and Germany’s substantial reserves could all be traced back to the debt relief.¹⁹ Others have recognised that it helped Germany move from being a large debtor to a large creditor. Timothy Guinnane, for instance, thought that the debt relief was an important precondition for investment and “normalising economic relations with the rest of the world”.²⁰ Galofré-Vilà and his colleagues investigated the level of economic activity and public opinion by extracting the data available from the Deutsche Bundesbank monthly reports during the period and concluded that the 1953 Agreement fuelled economic growth in three ways: by creating the fiscal space for public investment, by lowering the costs of borrowing and stabilising inflation.²¹ The deutschmark which had been highly volatile prior to the Agreement in 1953, was notably stable after that date.²²

The relief of the pre-war and post-war debts were only one of a number of deals which Chancellor Konrad Adenauer’s government had to make at about the same time in 1952 to clear the decks for the Federal Republic’s emergence as an independent sovereign state. Other issues included agreements on German rearmament, Germany’s contribution to the western alliance’s defence costs, the treatment of war criminals, negotiations over a settlement with the Israelis over compensation for the victims of Nazi persecution, and an agreement on how the burden of war loss was to be equalised between different groups

¹⁷ Michael Bordo, Barry Eichengreen and Douglas Irwin, ‘Is Globalisation today really different than Globalisation a hundred years ago?’ NBER Working Paper No.7195, 1999.

¹⁸ Barry Eichengreen, ‘Institutions and Economic Growth: Europe after World War II’ in Nicholas Crafts and Gianni Toniolo (eds.), *Economic Growth in Europe since 1945* (Cambridge, 1996), pp.38-70.

¹⁹ Albrecht Ritschl, ‘Germany owes Greece a Debt,’ *Guardian* 21 June 2011.

²⁰ Timothy Guinnane, ‘Financial Vergangenheitsbewältigung: The 1953 London Debt Agreement’, in Economic Growth Center Discussion Paper, 880, Yale University (http://www.econ.yale.edu/growth/pdf/cdp_880.pdf) accessed October 2018.

²¹ Galofré-Vilà, *Economic Consequences*, p.1.

²² *Ibid*, p.3.

in German society. An internal settlement also had to be reached between employers and labour which was achieved by the co-determination laws.²³

To the three occupying powers, the pro-western CDU led by Chancellor Adenauer and his Economics Minister, Ludwig Erhard, seemed far and away the best prospect for a co-operative West German state which would be tied into the western alliance. The allies calculated that an offer to transfer greater sovereignty to the Germans over their foreign relations would not only help consolidate the CDU in power but it would also smooth the path for the Federal Republic accepting responsibility for the pre-war debts and agreeing to repay some or even all the post-war economic assistance which had been given to the western zones of Germany. The Germans were eager to recover sovereignty as soon, and as completely, as possible. They knew that in order to achieve this the country had to be prepared to take responsibility for its debts and so recover its reputation as a reliable creditor nation if it were to be able to push ahead with its ambitious plans for economic expansion.²⁴

So how did the debt relief come about? Following the founding of the Federal Republic, the foreign ministers of Britain, France and the United States met in New York in September 1950 to review the Occupation Statute, and they decided further sovereign rights should be granted to the Federal Republic, but only on condition it acknowledged and undertook to repay the pre-war debts and post-war economic assistance. Until then the British government had not regarded the repayment of Germany's debts, particularly the pre-war debts, as an imminent prospect. A variety of pressure groups had sprung up over the previous twenty years representing the various classes of creditor in different countries but they had not secured any payments and had done little more than keep the issue alive.²⁵ The Chancellor of the Exchequer, Stafford Cripps, before the founding of

²³ Adam Tooze, 'Reassessing the Moral Economy of Post-war Reconstruction: the Terms of the West German Settlement in 1952,' in *Past and Present* (2011), Issue supplement 6, p.46.

²⁴ Mark Spicka, *Selling the Economic Miracle*, p.145.

²⁵ In the postwar period there were creditor groups operating in each of Britain, the US and France as well as a half dozen or so other interested countries such as Belgium, the Netherlands and Italy. In the US, the US Reich Loan Bondholders became influential representatives especially on the gold clause issue. In Britain, the Committee of British Industrial Interests in Germany, chaired by Cavendish-Bentinck (later the 9th Duke of Portland) and a former head of the Joint Intelligence Committee was particularly active and continued for some years to monitor the German repayment of debts.

the Federal Republic, had offered some comfort to one group of British creditors when he told them that the government would “seek to maintain intact the original contractual basis of foreign claims” and “where prejudiced or destroyed by the Nazis or by Allied acts to seek at the appropriate time to restore the original terms”.²⁶ In other words, the creditors would in due course have to look to enforcing their claims in the German courts which few of them thought a reassuring prospect in the absence of a supervising authority. To one trustee of the pre-war Dawes loans, Cripps wrote “HMG intends to take all steps that are open to it to ensure that the obligations are maintained unimpaired and that the economy of western Germany does not develop in such a way as to weaken the ability of the country as a whole to discharge these obligations as soon as it is in a position to do so”.²⁷ The fact that the British, whilst in military occupation of Germany, were unable to expedite repayment by the German debtors did not augur well for the future outcome of the issue.

The problem for the British creditors was that the government was more concerned about current trading payments than historic debts. It was also much more concerned about recovering the larger sums it had laid out in post-war economic assistance than the pre-war debts which were largely owed to private investors. Pre-war debts owed by German state institutions were also subject to the possible objection that they were arguably not the responsibility of the new Federal Republic however much creditors thought of it as a ‘successor’ state. But any repudiation by the Federal Republic risked rendering it a pariah and would most likely have impeded Germany’s chances of raising the external finance it needed to propel its economic recovery.

The Treasury insisted that all the economic assistance advanced to Germany had been made involuntarily as ‘emergency’ foreign aid. As such, it argued, it was in a morally different position to the pre-war debtors who had advanced money as willing lenders on normal commercial risks. It was unfortunate for them that their debts had been blighted by the catastrophic events of the Nazi era but it was a risk they knew they

²⁶ TNA, T 236/3138, Letter Chancellor of the Exchequer to Lever, Chairman of the Committee of Medium and Long-Term Creditors of Germany, 21 June 1948.

²⁷ TNA, T 236/3138, Letter, Chancellor of the Exchequer to Lord Kennet, Dawes Plan trustee, 31 January 1949.

were taking when they advanced the money.²⁸ The Treasury therefore insisted on the right to repayment of the economic assistance in priority to the private investors saying it was in a fiduciary position obliged to recover the debts on behalf of taxpayers. In any event, the creditors had been waiting for repayment for many years and, frankly, in most cases would no longer have had much expectation of repayment and no chance at all if the Germans decided to vote for reunification with East Germany and fall into the communist sphere which was the nightmare scenario for the allies.²⁹

Whilst there was sympathy in the City of London for the private investors, the British creditors did not have the same influence with their government as their American counterparts.³⁰ The best hope for the British creditors it seemed was to claim equality of treatment with the American private investors should they manage to extract anything out of the Germans.

There was nervousness in the Treasury about another category of potential claimant who it was feared could destabilise the negotiations. These were the possible claims that might have been brought in respect of the damage to property arising from acts of war. They were most likely to be brought by Germans in the German courts either against the German authorities or individual Germans but there was also the possibility of claims which might be made against the occupying powers. The allies had insisted that this type of claim was a matter only for consideration as part of a general peace treaty. However, with the division of Europe into East and West, no comprehensive peace treaty would ever be concluded and no compensation for wartime damage agreed. Under the 1946 Reparations Treaty with the Allies both East and West accepted that any reparations would be limited to their 'own' side which avoided some of the possible complications. The Germans in the end dealt with the issue of wartime damage by setting up a state welfare programme rather than relying on judicial compensation. Under its *Lastenausgleich*, or burden-sharing programme, those who had suffered material loss in the war or suffered political persecution, or were the dependants of soldiers held by the

²⁸ TNA T 236/ 3138 Memo J.R. Barratt, History and Background of German debts, 2 March 1951.

²⁹ TNA T 236/3138 JR Barratt, Note on pre-war debts, 29 January 1951; TNA T236/3138 Note on Treasury concerns about impairing rights of original creditors, 30 January 1951.

³⁰ TNA FO 371/104073 Meeting with UK creditors, 27 January 1951.

Soviets, or who were rendered blind in the war, were entitled to claim welfare benefits and in this way the burden of the war was spread across the entire population.³¹

At the 1950 meeting of foreign ministers, the allies did not know whether the Germans would have the capacity to repay the outstanding debt. The US Secretary of State, Dean Acheson accepted “there was a political objection to making demands which could certainly not be complied with”. However, the Americans believed that if a suitable acknowledgement and recognition of the liabilities were obtained it would at least be “a first step towards normalising the economic and financial relations of the Federal Republic with other countries”.³² Ernest Bevin, the British Foreign Secretary, followed the American lead agreeing “it was not a question [at this time] of actually repaying the loans” but of obtaining an “acknowledgement of the German liability to repay”. It was, he thought “the opening stage in a negotiation” and much further down the line “they could consider Germany’s capacity to repay”.³³ The *Financial Times*’s correspondent in Germany was cautious about whether this meant the debts would ever actually be repaid. “As I have said before” he wrote, “recognition is one thing; paying up may be another”.³⁴

The British High Commissioner, Sir Ivone Kirkpatrick, acted as the spokesman for the three allies in the negotiations over the recognition of liability with the German Chancellor who was presented with the form of the undertaking sought by the allies.³⁵ They insisted that this needed to be approved not only by the German cabinet but also by the Bundestag to ensure it had the widest possible validity but Adenauer still found himself haggling with the reluctant parliamentarians for six months or so before they would agree to ratification.³⁶ The undertaking made clear that the Federal Republic would be treated as the proper ‘successor’ of the Reich so it would assume responsibility for all the Reich’s pre-war liabilities in addition to the post-war economic assistance

³¹ Federal Minister for Labour and Social Services, *Survey of Social Services in the Federal Republic*, June 1970, p.249.

³² TNA, T 236/137, Note of Instructions to the High Commissioners respecting settling claims, 23 September 1950.

³³ TNA, T 236/3137, Minutes of Tripartite Meeting, 18 September 1950,.

³⁴ *Financial Times*, German Debts, 25 October 1950.

³⁵ TNA, T 236/3137, Note Kirkpatrick to Foreign Office, 21 October 1950.

³⁶ TNA, T 277/ 175, Letter to the German Federal Chancellor from Ivone Kirkpatrick as Chairman of the Allied High Commissioners, 23 October 1950.

debts. An Intergovernmental Study Group (later the Tripartite Commission) was established to handle all the claims and to recommend arrangements for the appropriate participation of other interested governments, creditors and debtors as well as the Federal Republic.³⁷

In a Treasury briefing, it was anticipated that the Germans might argue “that the Federal Republic does not have jurisdiction over the whole of Germany” meaning all of its pre-war territory, and that this might have a “bearing on the ability of the Federal Republic to make [full] payment on these debts”.³⁸ The British had originally insisted that the Federal Republic should recognise one hundred per cent of the pre-war debts including those relating to the dissolved State of Prussia and other parts of East Germany despite the Federal Republic only amounting to about 65 per cent of the former Reich’s land area. A compromise was eventually reached on this whereby the debts attributable to the eastern part of the former Reich were deferred but would become payable in the event of German reunification. As it happened, when reunification suddenly occurred in 1990, the debt residue of DM 239.4m not only unexpectedly became repayable but also with interest - this was more than six years after the transfer of the last instalment under the 1953 London Debt Agreement.³⁹ The western powers also agreed that Germany’s recognition of its debts “would not cover any war-time claims” on the basis they were a matter for any eventual peace treaty.⁴⁰

The British were upset to think that the war had involved them in incurring large obligations to the sterling area countries which had to be repaid, whilst the Germans had supported their war effort out of the taxes and levies they had involuntarily extracted from their conquered territories without any corresponding obligation to repay, at least in the absence of a general peace treaty when everything would have been on the table for discussion.⁴¹ Whilst the Germans huffed and puffed that they could barely afford their

³⁷ The Tripartite Commission consisted of representatives of the United States, Britain and France. The British representative was Sir George Rendel, a career diplomat from the Foreign Office.

³⁸ TNA, T, 277/175 Economic Progress Report – Germany, October 1951.

³⁹ The last payment of 69m Euros was paid on 3rd October 2010, *Stern*, 3 October 2010.

⁴⁰ TNA, T 236/3137, Note from the Foreign Office to German High Commission, 25 November 1950.

⁴¹ Adam Tooze, *The Wages of Destruction: the Making and Breaking of the Nazi Economy* (London, 2006), p.643.

repayment obligations it would seem most unlikely that German ministers did not realise, like their British counterparts, that Germany had been let off very lightly. Almost certainly, the total amount the Germans had to pay under the London Debt Agreement of 1953 was much less than the reparations that might have been demanded if there had been a general peace treaty in 1945 before the Cold War made a German recovery the priority.

An announcement on the opening of the Conference declared: “the primary purpose is to settle the German debt problem so that normal commercial and financial relations between Germany and the other countries concerned may be established”. The British negotiator, Sir George Rendel, thought the Federal Republic’s “readiness to honour its obligations should help to re-establish international confidence and good faith and sound international relationships”.⁴² At the start, though, most commentators expected that the Germans would have trouble repaying all its debts. The *Economist* noted that: “a considerable change ... will be needed in Germany’s balance of payments if the service of the pre-war external debts is to be resumed and capital debts honoured”.⁴³ Before the start of the Conference, the Germans had been issuing pessimistic forecasts of growth and a variety of arguments about why Germany had only a very limited capacity to pay and initially the British did not demur. However, as negotiations got under way it was becoming clear that the Germans were exaggerating the difficulties. British officials grew increasingly exasperated by their negotiating tactics which they said were based on looking at the past rather than future prospects.⁴⁴ One Treasury official commenting on the principal German document, the Memorandum on the Capacity to Transfer, noted that: “an analysis of the German capacity to pay now is really quite irrelevant to the question of her capacity to undertake these long term liabilities”.⁴⁵ The Foreign Office’s Economic Intelligence Department also agreed that the document was “concerned almost exclusively with past developments” and noted with some irritation that “debt service

⁴² *Daily Herald*, 28 February 1952.

⁴³ *Economist*, ‘German Debt Moves’, 25 November 1950.

⁴⁴ TNA, FO 371/100077, Memorandum on the Capacity to Transfer, November 1951 and TNA, FO 371/100078 Germany’s Supplemental Note on Ability to Pay, April 1952.

⁴⁵ TNA, FO 371/100077, Treasury Memorandum, Symmons, 18 January 1952.

represents only 3 per cent of public expenditure in the Federal Republic, compared with nearly 15 per cent in the UK".⁴⁶ The German arguments on their capacity to pay increasingly rankled with British officials who described them as "wearisome".⁴⁷ The *Financial Times* was also sceptical noting: "there are many indications that the country's payments position is now developing so satisfactorily that there is every prospect of Germany being able to provide a full service on a much larger amount than they had in mind a year or two ago...but it is clear the Germans are coming to the London Conference determined to fight all the way".⁴⁸

Shortly before the Conference opened, the Americans had sought to persuade the British (and French) into making a goodwill gesture towards the Germans by agreeing a substantial abatement of the amount of economic assistance the allies were looking to have repaid.⁴⁹ Some parts of the press thought this would be letting the "Germans off too lightly".⁵⁰ By June 1952, the well-informed *Economist* in an article 'Germans Embarrassed by Prosperity' mocked "the obvious ways in which the economy's progress is becoming an embarrassment to the Germans".⁵¹ One of the ways was how an impoverished Britain was being asked to give a generous financial accommodation to a resurgent German economy. The British finally gave in to American pressure for an abatement of the post-war economic assistance debts which had been put forward on the basis it would sweeten the pill and encourage the Germans to accept the package as a whole. The Treasury simply felt that too much was being given away, complaining: "the UK has reached its limit and if there is to be any further scaling down, it will have to be by the Americans".⁵² In the end, of the three powers, the Americans made by far the largest abatement. They took a 64 per cent abatement of the economic assistance compared to the 25 per cent agreed by the British and French. The British claim was

⁴⁶ TNA, FO 371/100077, Economic Intelligence Department, Comments on German Memorandum, 6 February 1952.

⁴⁷ TNA FO 371/104073, Palliser to Minister of State, 25 February 1953.

⁴⁸ *Financial Times*, 'Germany's Case', 13 February 1952.

⁴⁹ TNA, T 236/3137, Treasury Brief for Sir Leslie Rowan for the London Debt Conference, 26 February 1952.

⁵⁰ *Daily Express*, 28 February 1952; *Coventry Evening Telegraph*, 28 February 1952.

⁵¹ *Economist*, 'Germans Embarrassed by Prosperity' 14 June 1952, p.733.

⁵² TNA, T236 3137, Memorandum Symons to Barratt, 26 October 1952.

reduced from £201m to £150m repayable in equal instalments which converted into £7.5m a year over 20 years without interest which, given Britain's rate of inflation during that period, turned out to be fairly harsh. However, the Americans had originally insisted when agreeing the Marshall Plan, that all aid would be given priority over all other classes of debt, but in the negotiations agreed it would rank only *pari passu* with the post-war economic assistance, in effect giving the pre-war creditors a much greater chance of repayment. The Americans also converted a substantial proportion of the Marshall Plan loans into grants which was tantamount to writing them off.

It is an irony that over the four-year life of the Marshall Plan the Germans received about 11 percent of the total Marshall Plan funds, representing only about one half their 22 per cent legal entitlement, because they expected it would all have to be repaid at some stage, and they were cautious about taking on any more debt than they felt they could reasonably manage. The British, on the other hand, drew down all of their 26 per cent entitlement to the total Marshall Plan funds, a large proportion of which was not used for investment in infrastructure as the Germans had done, but to support sterling's value. Correlli Barnett later derided the British government's use of Marshall Aid as "a general subsidy for whatever they decided to do, like clinging on to the dream of world power".⁵³

In Britain, the negotiations were generally perceived as 'rancorous' especially after the initial German offer was rejected by the western powers as inadequate. The British were irritated by German antics such as when their chief negotiator, Hermann Josef Abs, staged a dramatic walk out from the negotiations, and had to be coaxed back six weeks later.⁵⁴ They felt the Germans had throughout the talks during the summer of 1952 kept up a constant refrain that they could little afford to repay both the pre-war and post-war external debts. However, British officials, increasingly sceptical of German claims of impoverishment, were also under pressure from the Americans who were determined to

⁵³ Correlli Barnett, 'The Wasting of Britain's Marshall Aid', BBC History website, last updated 3 March 2011.

⁵⁴ Hermann Josef Abs, a very prominent and powerful German banker from Deutsche Bank, was the leader of the German delegation to the London Debt Conference.

get the deal done leaving the British with little alternative other than to accept the concessions the Americans seemed to be offering the Germans.⁵⁵

In the meantime, German exports rose inexorably, those to the US alone rising fivefold from \$51.9m in the first quarter of 1950 to \$284m in the last quarter of 1951. The British were frustrated by German explanations that this was only a short-term blip. The German Supplemental Memorandum on its capacity to pay issued after the start of the Conference in April 1952, was intended to reinforce the claims of impoverishment, but was dismissed by British officials as an exercise in “selected statistics”.⁵⁶ The Treasury pointed out that the figures for the first quarter of 1952 showed “the Federal Government has sustained and increased its level of exports well above the 1951 average ... The Federal Government cannot deny or conceal the fact that on foreign trade account things are still growing comparatively well for Germany, particularly in the EPU Area”.⁵⁷ Although the German economy was still at this time smaller than Britain’s, the Treasury was convinced that in the negotiations the Germans were continually playing down the size of its GNP. The German Supplemental Memorandum suggested Germany’s GNP was 60 per cent of Britain’s but the Treasury analysts believed it was already not less than 70.5 per cent.⁵⁸ The Treasury noted various areas of German economic life that were going better than the Germans portrayed: the terms of trade were steadily moving in Germany’s favour, the falling prices of raw material imports by Germany was set to benefit Germany significantly, export orders looked set to improve even further and, as mentioned in Chapter 14, Germany had not even started to divert its production into rearmament.⁵⁹

The press picked up on the Treasury and Bank of England’s scepticism about Germany’s claims that it lacked capacity to pay. When the German delegation at the

⁵⁵ TNA, FO 371/100077, Treasury Memorandum to the Foreign Office on Germany’s capacity to pay, 18 January 1952.

⁵⁶ TNA, FO 371/100078, Treasury Memorandum to the Foreign Office on Germany’s Supplementary Memorandum on its Capacity to Pay, 4 April 1952.

⁵⁷ Ibid.

⁵⁸ TNA, FO 371/100077, Letter Symons, Treasury to R.S. Crawford, Foreign Office, 18 January 1952.

⁵⁹ TNA, FO 371/100078, Treasury Memorandum to the Foreign Office on Germany’s Supplementary Memorandum on its Capacity to Pay, 4 April 1952.

Conference argued Germany should be relieved of interest payments which had fallen due during the war years, parts of the British press were incensed, pointing out that it would be unfair for the Germans to obtain relief from interest payments during a war they had started.⁶⁰ The *Financial Times* condemned the Germans for, on the one hand, seeking a “whittling down of her external indebtedness by two thirds to a mere £340m or so” whilst at the same time “asking for the easiest of easy-payment terms in respect of the amounts ultimately agreed”. It continued: “there are indications that [Germany’s] payments position is now developing so satisfactorily that there is every prospect of the Germans being able to provide a full service on a much larger amount than they have in mind in a matter of a year or two”. The paper could only assume that “these demands are intended as a basis for discussion... and for that reason they should not, perhaps, be taken so seriously”.⁶¹

Germany’s tough negotiating stance was reflected in the hostility of the Bundestag and the German press which irritated the British even more. There was dismay in the Foreign Office and the Treasury about the German attitude towards these debts.⁶² The *Times* in a leader expressed frustration saying that “the Germans had borrowed the money and so had an obligation to repay it and should be very grateful for the huge concessions made by the allies”.⁶³

The generosity towards the Germans came more from the Americans than the British. The British were probably too financially pressed to do otherwise and only agreed to reduce their claim for £201m after pressure from the Americans. The US forgave more than half of the debt which arose out of post-war assistance.⁶⁴ The Americans also removed the gold clause from most of the US held Young and Dawes

⁶⁰ TNA, FO 371/ 100134, Press Release and Cuttings, 26 February 1952; HMSO, *Report of the Conference on German External Debts*, Cmd. 8653, August 1952.

⁶¹ *Financial Times*, ‘Germany’s Case’, 13 February 1952.

⁶² TNA, FO 371/100134, Notes on West German Official Government Information Service Communications, 11 August 1952. The *Frankfurter Rundschau* rued the post-war colonial confiscations as depriving Germany of its resources, the *Hannoversche Press* blamed the Federal Government for agreeing a crushing deal which left Germany with no resources for decades to come and The *Essener Allgemeine* believed the creditors had unfairly wrung too many concessions out of the Germans.

⁶³ TNA, FO371/100134, Press release and newspaper cuttings, 26 February 1952.

⁶⁴ TNA, FO 371/104073, German Debt Settlement, 23 February 1953.

loans, replacing them with dollar clauses, thus abrogating the effects of inflation on the amounts the Germans had to pay in foreign currency on the loans.⁶⁵

The British thought that the inclusion of an ‘economic fluctuations’ clause in the agreement was another example of the Americans being too generous. Under this unusual provision there was a cap placed on the amount the Germans had to pay in any year of no more than what would “take into account the general economic position of the Federal Republic, notably the increase of its burdens and the reduction of its economic wealth”. The clause also stated that “the general effect of this plan shall neither dislocate the German economy through undesirable effects on the internal financial situation nor unduly drain existing or potential German foreign exchange resources”.⁶⁶ The British were reluctant to accept such a term but in the end felt they had no alternative but to go along with the Americans on this even as it was beginning to become clear that Germany’s economic growth rendered any cap spurious and unnecessary.⁶⁷

Germany’s remarkable economic performance over the next twenty years meant its debt obligations under the 1953 Agreement were managed very comfortably. It was under no obligation to start repaying the principal on the post-war debts for five years so as to give it the breathing space in which to make substantial compensation payments to the State of Israel (DM 3bn) and the Jewish World Council (DM 450m). For the first five years, interest payments of DM 567m were more than covered by Germany’s trade surplus each year. In 1953 the trade surplus was DM 708m and this grew rapidly over succeeding years. Starting in 1958, Germany’s total annual payments towards all its debts was DM 765m. By 1968, Germany was running a total trade surplus of DM 18.4bn against which its debt repayments were insignificant and indeed it voluntarily chose to accelerate some payments with the result that the London Agreement was as good as satisfied by the early 1970s, well before the 1984 end date set in 1953.⁶⁸

⁶⁵ Guinnane, *German Debt*, p.337.

⁶⁶ TNA, T 236/3137, Letter to the Allied High Commission from the German Federal Chancellor, 6 March 1953.

⁶⁷ TNA, PREM 11/169, Note ‘The Settlement of German Debts’, May 1951.

⁶⁸ *Ibid*, p.338.

As far as the British were concerned, Germany had continually talked down its prospects in the London Conference negotiations and continued to do so afterwards. Yet they noticed the Germans paid the whole amount demanded as compensatory payments to the Jewish world and avoided challenging Israeli claims in the Hague negotiations which took place after the 1953 Agreement. None of this could have escaped the attention of British ministers who would have noticed how this was in such a contrast to the tone of Hermann Josef Abs and the German negotiators at the London Debt Conference. They also felt it was irritating that the German negotiators had made a point of saying at the London Conference that they could only reach an acceptable settlement with Israel if the London settlement was not too onerous.⁶⁹ In the event even this argument on examination seemed specious to the British.

During the London Conference, Fritz Schäffer, the German Finance Minister, had been quietly contemplating a fiscal stimulus to the German economy. To the annoyance of Foreign Office officials, he announced his tax cuts in February 1953, carefully timed for just after the signing of the London Debt Agreement.⁷⁰ Germany's large credit surpluses in the European Payments System in the 1950s were another reason for Britain to think it was being hard done by.

The multilateral Agreement on Germany's External Debts dealing with pre-war debts and the various bilateral agreements including the Anglo-German agreements on post-war debt were all signed on 27 February 1953.⁷¹ After receiving repayment instalments for just a few years, Britain's outstanding claim in 1961 stood at £67.5m and was unexpectedly paid off early after Selwyn Lloyd, the Chancellor of the Exchequer, visited Bonn for talks with his German counterpart. In an exchange of notes, it was agreed a repayment would be made of £45m by drawing down sterling balances held in London at the Bank of England by Deutsche Bundesbank and the balance from an existing Treasury Bond also held by Deutsche Bundesbank. At the same time, so as to treat the

⁶⁹ Adam Tooze, 'Reassessing the Moral Economy of Post-war Reconstruction: The Terms of the West German settlement in 1952' in *Past & Present* (2011) (Issue Supplement 6), p.52.

⁷⁰ *Economist*, Germany Curbs its Taxes, 7 February 1953, p.196; TNA FO 371/104090, Note, JG Wood, Foreign Office, 23 September 1953.

⁷¹ HMSO, *Agreement on Germany's External Debts*, Cmd. 8781, 27th February 1953.

Americans in the same way, the Germans also decided to repay them \$567m being most of the amount due to the US.⁷² Such gestures only underscored the impression British officials had that the Germans had indeed received lenient terms.

Although officials in the Treasury and Bank of England might at times have wished to reopen the terms of the 1953 Agreement in the light of Germany's exceptional growth, this was never a serious policy option. It would have needed the agreement of the United States and in the circumstances this was most unlikely to be forthcoming. In any event British diplomats were only too well aware that, ignoring mutual security, they wanted a lot more from the Germans in financial terms (trade, 'good creditor' policies, an end to 'financial disequilibrium' and reimbursed stationing costs) than the Germans wanted from themselves (just trade) so reopening the subject would have been a hazardous course of action. Britain needed to focus on the issues most likely to bear fruit and renegotiating the debt relief never looked a winner. Because a renegotiation was not available, Britain perhaps inevitably turned to the only way it could recover something, by pressing for a greater reimbursement of its stationing costs in Germany, as will be examined later in Chapter 14.

The terms of the debt relief continued to rankle with the British for the remainder of the 1950s and much of the 1960s and the more so as Germany's economic success became increasingly obvious. Harold Macmillan, on landing in New York on one occasion in 1959, goaded by reporters about Britain's relatively poor economic performance compared to Germany's, angrily retorted that Britain would be "rich too if it had lost two world wars and had all of its external debts written off".⁷³ Of course, it was far from 'all its debts' that had been written-off - in fact about half - but he was expressing the exasperation of many in Britain in the 1950s and 1960s about Germany which, by the late 1950s, seemed to be in a much better place than Britain. It was irritating that it had been slow to start its rearmament programme agreed at the Treaty of Paris, would comfortably manage to repay its pre-war and post-war debts (as abated), make huge compensation payments to the Jewish State and World Jewish Council, and yet still

⁷² TNA, T277/1064, Overseas Financial Progress Report, April 1961, p.3.

⁷³ *Daily Mirror*, 21 September, 1959.

manage to run up a huge surplus under the European Payments Union, whilst Britain had become a large debtor of the EPU, and therefore in effect, Germany was its biggest creditor.⁷⁴ The fundamental threat felt by the British though was the successful trading competition Germany presented, to which we turn next in Chapter 12.

⁷⁴ After the Final Monthly Operation of the EPU in December 1958, the UK owed the EPU \$378m whilst Germany was owed \$1,026.7m by the EPU (Overseas Finance Progress Report, December 1958). Initially, Britain had been a creditor and Germany a debtor of the EPU but by 1954 the position had reversed and Britain became the major debtor country for most of the 1950s as it struggled with its balance of payments.

Chapter 12: Competition from Germany

Sir Winston Churchill's view at the end of the war was that Germany should be kept "fat but impotent," in other words, neither a millstone around the neck of the British economy nor a military threat to European security.⁷⁵ Although initially expressing support for the pastoralisation of Germany under the American Morgenthau Plan, he knew that would be taking things too far.⁷⁶ There were many others who had thoughts on Germany's post-war economic future usually seeking to limit it as a trading competitor. John Maynard Keynes wished for a 'normalised' Germany and suggested a levy on German exports to be put towards financing world peace. Herbert Morrison pressed for the German economy to be co-ordinated with the British economy so that Germany exported to Britain "the things we need and export to others the things we do not mind".⁷⁷ Some ministers preferred suppressing whole economic sectors such as armaments and dyestuffs. The Levels of Industry Act imposed by the allies on Germany in 1946 was intended to fix its standard of living at 75 per cent of its 1936 level which was equivalent to its 1932 level and then take any surplus as reparations, again implying Germany would not present a threat to British exports. A one third reduction in the output of German engineering was agreed which the Board of Trade thought might give British engineering "a 10 year period of grace".⁷⁸ British industry had a number of proposals for the dismantling of, and bringing to Britain, key export producing plants such as the Salzgitter steelworks. Lord Rootes considered taking the Wolfsburg Volkswagen plant but dismissed the idea as he did not see a great future for the Beetle car.⁷⁹ However, at the 1948 London Conference on Germany and at the Petersberg Agreement of 1949 with

⁷⁵ Alan Milward, *The European Rescue of the Nation-State* (New York, 1992), p.377.

⁷⁶ *Ibid*, p.377.

⁷⁷ *Ibid*, p.360.

⁷⁸ *Ibid*, p.363.

⁷⁹ M. Lupa, *The British and their Works: The Volkswagenswerks and the Occupying Power 1943-1949* (Wolfsburg, 1999), p.6; see also R. Richter, *Ivan Hirst: British Officer and Manager of Volkswagens post-war recovery* (Wolfsburg, 2002).

the new Federal Republic, the British went along with the emerging Cold War realpolitik that the restrictions on German industry and its dismantling should be ended by the Allies in an effort to stand the country on its feet, make the best use of the offer of Marshall Aid and make Germany resilient against the growing threat from the East.⁸⁰

Although Britain in 1945 was well placed to take advantage of Germany's absence from European markets, it was frustrating for officials that British exporters did not seem to seize the opportunity. As one Board of Trade official noted in 1948 after a meeting with a group of British exporters: "The general trend of the discussions at which I have been present has been defeatist, that is to say, there is a presumption that Germany will be successful in ousting British exports".⁸¹ Even before German exports entered world markets again, British trade associations were pessimistic about the effect on their overseas markets and lobbied the Board of Trade for protection against the potential threat presented by the Germans. British exporters believed that once the competition from Germany began, it would be necessary for British manufacturing capacity to be correspondingly shrunk in the face of the expected level of competition.⁸² British pessimism over competing with Germany and a lack of confidence in their own products even went so far that some felt that British interests might best be served if a bargain was struck with Germany which allowed it a predominant exporting position in Europe in the hope this would occupy the Germans and leave Britain a free rein in its extra-European markets, in other words the sterling area countries where in any event it still enjoyed a positive discrimination on tariffs. The Interdepartmental Committee on the Co-ordination of the German Economy concluded in 1946: "German exports to European destinations would now relieve the pressure on the United Kingdom and on those other markets where, for overall balance of payments reasons, we urgently wish to increase our exports and where we think we stand the best chance of obtaining long-term goodwill".⁸³ British exports to Germany in the post-war period never exceeded 3 per cent of its worldwide

⁸⁰ The Petersberg was at the time the seat of the Allied High Commission.

⁸¹ TNA, BT 11/4024, Memo by G. Bowen, 19 November 1948.

⁸² TNA, T 229/157, 'Exports of Capital Goods in the Long Term', 9 March 1949.

⁸³ TNA, BT 211/82 Draft report of the Interdepartmental Committee on Co-ordination of the German Economy with the United Kingdom, 1 November 1946.

exports which was a disappointing performance considering Germany was pulling in so many exports.

When the Conservatives were returned in 1951 they were as concerned as Labour about increasing export earnings but pursued a different approach by removing physical controls, putting their faith in free enterprise and generally pursuing trade liberalisation through the OECD. But a pattern had already been established where German exports were successfully opening up overseas markets often at the expense of the British.

Despite the worldwide recovery of exports in the period 1951-55, Britain's share fell year on year relative to other countries and, in particular, Germany, whose share rose from 7.3 per cent to 15.5 per cent in these years, and continued to rise for the next twenty years, surpassing Britain's share by 1959.⁸⁴ It was the fall in exports to the overseas sterling countries which was at the heart of the problem. In 1951, Australia alone took no less than 12 per cent of British exports, a proportion which fell almost by half to 6.9 per cent by 1957.⁸⁵ It was a similar situation in other sterling area countries. Whilst world trade was buoyant, the growth in British exports was no better than sluggish. In 1953-55, Britain's exports grew 13 per cent whilst Germany's grew three times faster at 40 per cent, admittedly from a lower base but nevertheless at a rate of increase which threatened to soon close the gap.⁸⁶

Analysed by destination, British and German manufacturing exports (with the percentage increases over the period in brackets) were-

⁸⁴ TNA, CAB 130/88, Note on Export Performance, 26 March 1957.

⁸⁵ Milward, *European Rescue*, p.353.

⁸⁶ Germany's exports were two thirds of Britain's in 1953, a gap that was closed by 1958.

Table 13 Destination of British and German exports and percentage Increases 1953-55 (in \$USm)

	OEEC	Non-OEEC £ area	Eastern Europe	North America	Latin America	Rest of World
Germany	1,054(39%)	188 (58%)	67 (124%)	114 (35%)	73 (17%)	215(39%)
UK	208(10%)	451 (14%)	60 (138%)	24 (3%)	8 (2%)	155(24%)

(Source: O.E.E.C. Series IV and Foreign Trade of Federal German, *Teil V: cited in TNA CAB 130/93, Working Party on United Kingdom Export Trends. 13 March 1956*)

It was obvious to British policy-makers that in every destination except the sterling area, Britain was doing poorly and, in the dynamic OEEC market which included Germany, very poorly. The Germans having lost one third of their domestic market due to the Cold War division and access to its eastern markets was under pressure to export. It was to rapidly expand exports in all major markets including, painfully for Britain, in the sterling area and in North America where Britain had hoped to do much better.⁸⁷ British exporters principally aimed to increase sales in their traditional Commonwealth markets but the offering was rarely more than ‘bog standard’, not the increasingly attractive high quality goods offered by the Germans and also for that matter the French. The Treasury official, Sir Frank Lee, later commented that Britain’s concentration on standard goods had tended to discourage innovation and the production of luxury goods which had become the hallmark of German exporters.⁸⁸ British manufacturers seemed all too often to fall back on selling to the home market where there was the lightest competition. As the Working Party on United Kingdom Export Trends noted: “There will, of course, be a

⁸⁷ TNA CAB 130/93, ‘Working Party on United Kingdom Export Trends’, 13 March 1956.

⁸⁸ TNA T236/6352, Introductory Statement of Sir Frank Lee, AGECS Session, 11, January 1961.

general tendency for buoyant demand at home to reduce to some extent the incentive which manufacturers have to seek marginal exports in difficult markets, and a danger that export prices may be pushed up, or prevented from falling, by rises in wages".⁸⁹ German manufacturers were in any event much more intent in exploiting new overseas markets and British exporters seemed intimidated by what they perceived as aggressive marketing and salesmanship by the Germans.

British commentators were aware of the typical *mittelstand* structure of German family businesses, heavily supported by the banks, which were able to take a longer-term view than many firms in Britain. German businesses retained more of their profits for reinvestment, and were under less pressure to distribute profits to shareholders than British public companies. The *mittelstand* companies were associated with many of Germany's premium goods which were proving so successful in overseas markets and were able to innovate and produce the high quality products which boosted Germany's growth.⁹⁰

It was clear even by the mid-1950s that British industry's strategy of allowing Germany free rein to focus on exports to the OEEC, whilst itself focusing on the sterling area, had not worked, and that unless it could achieve much greater success in the large US market, which seemed unlikely, there was no alternative for British exporters than to rethink how they might expand their exports to the fast growing European market.⁹¹

Public disquiet about Britain's export performance was apparent from a flurry of parliamentary questions starting in March 1953, and continuing over the next few years. Sir Waldron Smithers, who became a perennial thorn in the side of the government on Germany's economic resurgence, asked the President of the Board of Trade, Peter Thorneycroft: "why industrial production since 1948 had risen from an index number of 100 to 119 in Britain and 253 in Germany" which he shrugged off on the basis that industrial production in Germany had been at a low base in 1948.⁹² This was true but

⁸⁹ TNA, CAB 130/92, Fourth Report of the Working Party on United Kingdom Export Trends, 9 February, 1955.

⁹⁰ *Economist*, German Lesson, p.xii.

⁹¹ Alan Milward, *European Rescue*, p.365.

⁹² HC Debates, Oral Questions, 10 March 1953, Smithers to Thorneycroft.

there was no disguising the fact that Britain was nevertheless not doing well. Many of the parliamentary questions raised concerns from constituents. These included questions on German ‘low-balling’ in export pitches worries about excessive German export credits, German discriminatory taxes to relieve exports, British participation in trade fairs in Germany, German shipbuilding subsidies, the fall in UK pottery exports to Germany and Board of Trade policy on the importation of German pit prop equipment by the nationalised Coal Board.⁹³ Thorneycroft’s usual response to questions about British exporters faced with severe competition from Germany was to emphasise that the government’s policy was to “ensure the economy is as healthy as possible and that there is a major responsibility on everyone in industry to keep costs down and improve productivity”.⁹⁴ There were some in business who thought more export tax incentives were required similar to Sir Stafford Cripps’s schemes in the 1940s but the Conservatives were a free enterprise party so did not believe in them and in any event Britain and Germany had agreed to dismantle all tax incentives on exports. If there was one common element in all the questions it was a concern about Britain’s competitive power compared to Germany. There were few concerns raised in parliamentary questions about British exports to other countries. The perennial concern was Germany.

The Working Party on United Kingdom Export Trends 1953-1959

Whilst ministers began worrying about Britain’s ‘competitive power’ in mid-1953, the Treasury’s Overseas Finance Division was charged with responsibility for

⁹³ HC Debates, Oral Questions, 2 April 1953, Stokes to Thorneycroft.
HC Debates, Oral Questions, 2 April 1953, Gaitskell to Thorneycroft.
HC Debates, Oral Questions, 2 April 1953, Fletcher-Cooke to Thorneycroft.
HC Debates, Oral Questions, 8 April 1953, Henderson to Thorneycroft.
HC Debates, Oral Questions, 17 June 1954, Harold Davies to Maudling.
HC Debates, Oral Question, 19 November 1953, Smithers to Thorneycroft.
HC Debates, Oral Question, 16 April 1953, Nabarro to Thorneycroft.

⁹⁴ HC Debates, Oral Question, 12 November 1953.

monitoring the issue.⁹⁵ The situation was considered so important that a standing cabinet inter-departmental committee of officials was appointed under Treasury Chairmanship with the title ‘Working Party on United Kingdom Export Trends’ and a remit “to establish the facts and provide an analysis of them”, but remarkably its terms of reference did not extend to considering any remedies”.⁹⁶ It was tasked with simply seeing “if there were grounds for the view that there had been a general falling off in the competitive power of the United Kingdom vis-à-vis its main competitors”. The Working Party met regularly over the next six years before its responsibilities were passed on to the Board of Trade.⁹⁷ Whilst it was set up to monitor exports to all countries, an examination of its voluminous papers reveals that its primary concern, indeed its only concern, was Britain’s export performance vis-à-vis Germany. In particular, the focus was on engineering, textiles and chemicals which were the three key areas in which the competition from Germany was most keenly felt.⁹⁸

Reviewing Britain’s performance during the first half of 1953, the Working Party believed that Britain had broadly “maintained its share of the world market” but went on to note “the continued rise in the value of total German exports was none the less disconcerting”.⁹⁹ In many of its papers and at the regular meetings of the Working Party, concern was frequently expressed about the threat posed by the fast recovering German competition.¹⁰⁰ Eventually, at a meeting of the Working Party in early 1954, the committee’s focus was formally reset as a narrower examination of every aspect of the competition from Germany. Reports were commissioned from a wide range of government departments on comparative British-German pay rates, hours and length of service in Germany, labour supply in the metal working industry, German export

⁹⁵ TNA, T 236/3369, Overseas Finance Division, ‘The World Market and United Kingdom Competitive Power’, May 1953.

⁹⁶ TNA, CAB 130/88, Minutes of the Working Party on United Kingdom Export Trends, 30 July 1953. The Treasury Chairman was initially F.F. Turnbull and later Burke Trend.

⁹⁷ TNA, CAB 134/2557, Minutes of Meeting of Working Party to discuss Dissolution, 23 December 1959.

⁹⁸ TNA, CAB 130/88, Minutes of Meeting of Working Party, 30 July 1953.

⁹⁹ TNA, CAB 130/88, Minutes of Meeting of Working Party, 21 December 1953.

¹⁰⁰ See, for example: TNA, CAB130/88, Minutes of Meetings 30 July 1954, 24 August 1953, 28 August 1953, 21 December 1953, 11 January 1954, 19 January 1954.

incentives, comparative British and German tax burdens, German material prices, German delivery dates, risk capital inside Germany, German export trades, German engineering industries, export credit guarantees in Germany, investment in Germany, German competition, German and UK export performance, development of western Germany's Exports 1953-55, changes in unit values of German machinery and vehicles and miscellaneous other British-German competition issues.¹⁰¹

So what were the Working Party's concerns about the British export performance compared to that of Germany? Initially, it had defended the British export effort saying that the growth of German exports before 1954 could be explained in part at least as a 'catching up' given the low level from which Germany had begun. However, the Board of Trade accepted that Germany's remarkable 40 per cent expansion of exports by volume in the two years between 1953 and 1955 could no longer be explained merely in terms of a catch-up.¹⁰²

By the mid-1950s as British performance over the previous five years came to be reviewed, a number of concerns were expressed. In one meeting, it was thought the main factors affecting poor UK exports included unattractive short term credit terms, an inflexibility in meeting customers wishes, the unreliability of delivery dates and inflexible pricing policies which were compared to "the German readiness to cut prices to obtain sales".¹⁰³ British officials studied almost every aspect of British export performance and compared it to that in Germany which provided, as one industrialist expressed it: "a kind

¹⁰¹ TNA, CAB 130/88, Memorandum, Ministry of Labour, 2 July 1954.

TNA, CAB 130/88, Memorandum, Labour Adviser, Bonn, 2 July 1954.

TNA, CAB 130/88, Memorandum, Board of Trade, 26 June 1954.

TNA, CAB 130/88, Memorandum, Joint Committee Secretaries, 25 June 1954.

TNA, CAB 130/88, Memorandum, Central Statistical Office on Material Prices, 5 July 1954.

TNA, CAB 130/88, Memorandum, Central Statistical Office on Delivery dates 2 July 1954.

TNA, CAB 130/88, Memorandum, Joint Secretaries, 7 July 1954.

TNA, CAB 139.91, Memorandum, Board of Trade, 2 October 1954.

TNA, CAB 130/91, Memorandum, German Engineering, 6 October 1954.

TNA, CAB 130/91, Memorandum, ECGD Department, 26 July 1954.

TNA, CAB 130/93, Memorandum, Investment in Germany, Joint Committee Secretaries.

TNA, CAB 130/91, Memorandum, German Export Trade, 2 October 1954.

TNA, CAB 130/99, Memorandum, Cabinet Office, Export Performance, 15 September 1954 .

TNA, CAB 130/93, Memorandum, Secretaries, 22 March 1955.

TNA, CAB 130/92, Memorandum, Board of Trade, 1 February 1955.

¹⁰² Board of Trade Journal, 28 July 1956.

¹⁰³ TNA, CAB 130/88, Minutes of Working Party Meeting, 11 January 1954.

of yardstick against which to check this country's practice and performance". German working practices, in particular its "aggressive salesmanship, different pricing of exports for different markets, the greater discipline of German labour, and the advantages in tax concessions thought to be given to German exporters" were all examined and compared to British practices.¹⁰⁴ One survey summed it up by saying that the general quality of British goods was high but was let down by poor delivery, price factors, poor salesmanship and marketing, and an unwillingness to meet the individual needs of the purchasers.¹⁰⁵

It was assumed by British officials that Germany "enjoyed some advantage in wage costs" but the Working Party's researches concluded that this did not really seem to be the case. Various detailed comparisons of labour costs particularly in engineering had been made with the help of the Labour Adviser in the Bonn High Commission.¹⁰⁶ It was found that basic wages were "substantially lower" in Germany but once account had been taken of the substantially higher social security payments, longer paid holidays, and other additional costs (sports facilities, training time, housing and family assistance) this all went a long way to reduce the difference. It was also found that German workers worked on average as much as two hours more a day and their productivity was commensurately greater. Overall labour costs were moving in favour of Germany with output per man increasing at a much faster rate in Germany whilst in Britain earnings were accelerating at a far greater rate than output per man. Between 1953 and 1955, output per man in manufacturing was found to have improved almost twice as fast in Germany as in the United Kingdom.¹⁰⁷

The Germans were perceived as having a competitive advantage in that they had invested more in industrial re-equipment than Britain. This may have explained why German productivity rose faster despite the slightly higher costs of raw materials. Particularly disturbing was that earnings in Britain consistently rose at a faster rate than

¹⁰⁴ TNA, CAB 130/88, Note of Industrialists Comments on the 7th Report of the Working Party on Export Trends.

¹⁰⁵ PEP Report, *Competition from Germany*, 21 June 1954.

¹⁰⁶ TNA, CAB 130/88, Note, Ministry of Labour and National Service, 2 July 1954.

¹⁰⁷ TNA, CAB 130/88, Note, Ministry of Labour and National Service, 2 July 1954.

productivity, whilst in Germany it was found the opposite was the case. German export success was not at the expense of domestic consumption or investment, both of which were rising faster than in Britain.¹⁰⁸ Stephen Broadberry has argued that the rate of German manufacturing productivity was only marginally ahead of that in Britain over the long-term other than in the 1970s when German productivity temporarily moved sharply ahead.¹⁰⁹ On a ‘whole economy’ basis, taking into account services and agriculture, the British rate of productivity growth may have been not far behind Germany’s but taking manufacturing alone it was the view of most contemporaries that the dynamism of German manufacturing was impressive. British officials and businessmen in the 1950s were aware German wages rose at no less a rate than in Britain – which was up to 8 per cent - but prices in Germany, unlike Britain, were broadly static. German reserves increased at a rate that was disturbing to the British. The only explanation for these trends was that German manufacturing productivity was in fact rising much faster than in Britain. The index of the unit value of British and German exports rose in both countries by over one-fifth between 1950 and 1955 but the volume of German exports increased two and a half times over the same period suggesting that Germany was getting a bigger share of the larger orders.¹¹⁰

On the geographical pattern of exports, the Working Party had found that by 1955 Germany was exporting a “substantially greater volume of goods” to “practically every country in the world” than five years earlier and that since 1953 Germany “had increased its exports to each of the main markets, except Eastern Europe, by a considerably greater proportion than the United Kingdom”.¹¹¹ It was not just exports to Austria, the Netherlands and Sweden which had provided “particularly expanding markets for Germany” since 1953, but Germany had also expanded her exports to sterling area countries by more than 50 per cent with even larger increases to India and Australia.

¹⁰⁸ Board of Trade Journal, *Report on German Competition*, 28 July 1956.

¹⁰⁹ Stephen Broadberry, *The Productivity Race: British Manufacturing in International Perspective, 1850-1990* (Cambridge, 1997), p.40.

¹¹⁰ *Ibid*, p.41.

¹¹¹ Broadberry, *Productivity Race*, p.296.

“This illustrates the readiness of German exporters to seek alternative markets” noted the Board of Trade Journal.¹¹²

In terms of the pattern of export growth in the main commodity groups, all German exports had grown significantly in the two year period since 1953 whilst the rate of growth in British exports was at best only chequered. In the period 1953-55, the percentage change in German and British exports by commodity was as set out below-

Table 14 Change in German and British exports by sector 1953-55

	German (%)	British (%)
Food, drink, tobacco	+50	+15
Crude materials	+41	+12
Mineral fuels	+9	-1
Oils and fats	+93	+2
Chemicals	+43	-1
Metal Manufactures	+31	+11
Machinery/vehicles	+47	+15
Textiles	+39	-5
Other Manufactures	+50	+11

(Source: *TNA, CAB 130/93 Working Party on United Kingdom Export Trends, 13 March 1956*)

British exports overall were still greater by volume than those of Germany in 1955 but it was clear from the figures just how quickly Germany was closing in on British exports and indeed those of most other countries. Germany’s exceptional increases in some categories was particularly worrying. Britain was proud of its great shipbuilding tradition but German shipbuilding exports, which had been negligible in 1950, recovered so

¹¹² Board of Trade Journal, 28 July, 1956.

quickly that they exceeded Britain's by 1954. Huge inroads were also made by Germany in textiles (where German exports doubled over the years 1951- 1954 whilst Britain's fell by one seventh) and by motor vehicles.¹¹³

The Working Party found that in the years 1950 to 1955, the number in employment in Germany had grown from nearly 14m to nearly 18m as large numbers of refugees and previously unoccupied women were absorbed into the workplace. Unemployment had fallen from 1.5m in 1950 to 920,000 in 1955 and was set to continue falling. The Working Party felt it was possible to see a time when Germany might find it difficult to continue expanding at the rate it had done in recent years, nevertheless this time was evidently not imminent.¹¹⁴

On company taxation, similar rates of about 45 per cent applied in Britain and Germany, with heavier local taxes in Germany. Both Britain and Germany operated statutory depreciation allowances which accelerated the writing-off of the cost of investment. This did not, however, stop both countries complaining about the generosity of the others' allowances which were criticised as an export subsidy.¹¹⁵ Income tax rates on employees were found to be generally higher in Germany than in Britain although as the British had more progressive rates there was a greater burden on the higher pay grades. The levels of indirect taxation though were found to be largely similar in Germany and Britain although there was a substantial tax on fuel in Germany which had no counterpart in Britain. Although the Inland Revenue in 1954 found there was no greater burden of tax in Britain than in Germany, the higher threshold for the top rates of tax in Germany may have sustained the higher demand for luxury goods in Germany.¹¹⁶

The Working Party officials made a detailed study of the credit terms available to German exporters. British exporters had long had access to the huge resources of the British banking system and the London money markets and many took the view that this gave the British exporters an advantage over the German. However, the Working Party

¹¹³ Broadberry, *Productivity Race*, p.345.

¹¹⁴ TNA CAB 130/88 German Competition- Wage Rates, Hours, Length of Service 2 July 1954.

¹¹⁵ See papers relating to Erhard's visit to London in 1953 in TNA, FO 371/104031.

¹¹⁶ TNA, CAB 130/88, Inland Revenue, Comparative Burden of Tax in the UK and Germany, 25 June 1954.

found that whilst the German exporters of capital goods did not have the same access to the banking system, as often as not they were able to rely on the resources of the German export credit company, the AKA-Bank, which was funded from official sources with credit of up to between 60 and 80 per cent of the value of an export contract. Credit was believed to be more expensive in Germany, which it was assumed led German exporters to restrict dividends and rely on self-financing. The British and German systems for export credit guarantees were fairly similar though it was noted that the rates of insurance under the German scheme, which was financed by the German government, could also be slightly higher than in Britain.¹¹⁷

In a British Trade Journal article on the German Competition in July 1956, a great deal was made about the so-called “pull of the home market”.¹¹⁸ It noted “there is little doubt that it had been stronger in the United Kingdom than in Germany during the past 18 months”.¹¹⁹ As British manufacturers were unable to satisfy all home demand, it was accepted this would reduce the incentive to export. However, after examining retail prices, changes in imports and exports and the length of order books, the Board of Trade had concluded, much to everyone’s surprise, that: “Germany was able to expand her output (and her imports) sufficiently to satisfy all the extra demand without running into balance of payments difficulties ... and without substantial increases in prices, while the United Kingdom has not been able to do so”.¹²⁰ It was felt there had been a reduction in Britain’s competitive power which was reflected in prices, the length of delivery and the soundness of sales promotion practices (advertising, technical advice, after-sales service).¹²¹

Another conclusion of the Working Party was that labour costs per unit of output in the key metal industries at least had remained steady in Germany whereas in Britain they had risen by as much as one-quarter. It was not thought that German exporters received any more favourable treatment from their government than British exporters.

¹¹⁷ TNA CAB 130/91, ECGD British German Comparison, 26 July 1954.

¹¹⁸ Nick Tiratsoo and Jim Tomlinson, *The Conservatives and Industrial Efficiency 1951-1964: Thirteen Wasted Years?* (London, 1998).

¹¹⁹ *Board of Trade Journal*, 28 July 1956, p.6.

¹²⁰ *Ibid.*

¹²¹ *Board of Trade Journal*, Report on German Competition, 28 July 1956.

What was seen as different was that the Germans simply demonstrated “a sales effort in overseas markets which has been exceptionally vigorous” which it put down to “the determination of employers and workers alike to rebuild their country and restore Germany’s power and prestige abroad after their collapse which followed defeat”. In particular, it noted, the rate of investment had been higher than in Britain.¹²²

Even after the cabinet office passed responsibility for monitoring UK export trends back to the Board of Trade, Britain’s falling share of world exports did not cease to be a key worry for government. In 1963, the National Economic Development Council, set up to help revive the economy, published its own paper on ‘Export Trends,’ most of which comprised a chapter on the ‘Reasons for our Falling Share’ which made no effort to hide how Britain had continued to lose share to most of the other leading manufacturing countries but none more so than Germany over the past 10 years: “Germany’s gain was rather larger than that of the United States, but she also made large gains elsewhere, whereas the United States lost to the rest of the world as a whole”.¹²³

The Attitude of Others in Britain

The Working Party was active in distributing its various reports around Whitehall. They were intended to be “sufficiently short and readable for ministers and at the same time contain enough meat to serve as background for official discussions” not that there is much evidence that politicians in the 1950s did much more than worry about the situation putting a great deal of faith in the power of competition, however imperfect.¹²⁴ Copies of the Reports went to trade associations such as the Federation of British Industries, The Engineering Employers’ Association and even the TUC and individual unions, particularly in the case of reports on the engineering sector. They were also sent to various individual industrialists although the Board of Trade was “disappointed” that

¹²² TNA CAB 130/99, Germany and United Kingdom Exports, 15 September 1954.

¹²³ HMSO, NEDC, *Export Trends*, 1963.

¹²⁴ CAB 130/88, Note by the Chairman, 18 September 1953.

the industrialists “more often than not only had their own company in mind rather than how to advance the national effort”.¹²⁵

Other commentators were encouraged to make their views known. The planning think-tank Political and Economic Planning (PEP) published a paper ‘Competition from Germany’ which pointed out that “Germany’s share of world exports has been rising whereas the United Kingdom’s has been falling” and proceeded to review the problems with British exports many of which had been described in the pages of the Working Party’s papers, perhaps suggesting the paper had been written with the benefit of prior sight of the Working Party papers.¹²⁶

The *Times* regularly published an annual survey of exports in these years. In its 1954 survey, it noted that “the punctuality of German deliveries has made a deep impression”.¹²⁷ He then added that:

United Kingdom businessmen are seen in Germany, but not frequently enough.

Unlike his German competitor, the British representative does not travel enough, is not prepared to rough it in the provinces, and expects a standard of living which may be fitting for official representatives of an imperial power but is unsuitable and too expensive for the travelling salesmen of hard-pressed companies.”¹²⁸

It was implied that many of the German working practices were a reproach to British export efforts.

The Financial Editor of the *Manchester Guardian* responded to the Working Party with his views on the competition from Germany. He suggested there should be “a serious and unprejudiced study made of the connection between the liberal economic policy usually associated with Dr Erhard and the spectacular rise in German production and exports. My suspicion is that incentives have had a great deal to do with the success”, raising the old complaint that the Germans were manipulating export subsidies and tax

¹²⁵ CAB 130/93, Note on Industrialists Comments, Board of Trade, 1 October 1957.

¹²⁶ PEP, *Competition from Germany*, 21 June 1954.

¹²⁷ CAB 130/88, Note on The *Times* Survey of Exports, Board of Trade, 24 June 1954.

¹²⁸ *Ibid.*

reliefs despite the agreement with Germany to stop them.¹²⁹ He was also critical of Britain's "stop-go" economic policies, poor British design and a dogged devotion to craftsmanship - he wanted standard goods churned out in greater quantities.

In 1956, the Board of Trade used the Working Party's comprehensive research findings to publish two long articles in its journal, the first under the heading 'West Germany's Rising Competition with British Exports' and the second under the broader title of 'United Kingdom Exports Expand, but less rapidly than World Trade'.¹³⁰ The articles recited most of the long list of concerns the Working Party had expressed in its reports on Britain's export performance.

When the British first proposed a Free Trade Area to include the new Common Market, the *Economist* published an article 'The German Competition', in which it expressed concern that "there is no doubt the German manufacturers are more confident than anyone else of their prospects in the Common Market".¹³¹ The *Economist* believed "the Common Market and the Free Trade Area will not work if one country continually earns more foreign exchange than it pays out" and drew the conclusion that "the central task for many years will be to combat this German problem".¹³² The *Economist* fully supported the Conservatives' turn towards Europe. In 1957 it observed: "Germany will be a driving force behind the expansion of industry everywhere in Europe as it has been the past eight years." It summarised the structural advantages the Germans had as exporters as "highly developed capital goods industries, special abilities in design instilled by technological education and the German worker's diligence, loyalty to firm and community".¹³³ However, it welcomed any increase in the exposure of British business to the European markets as it would introduce more competitive forces which might improve performance.

¹²⁹ TNA, CAB 130/93, Note on Industrialists Comments, Board of Trade, 1 October 1957.

¹³⁰ 'West Germany's Rising Competition with British Exports' in *Board of Trade Journal*, 28 July 1956; 'United Kingdom Exports Expand, but less rapidly than World Trade' in *Board of Trade Journal* 18 August 1956; see also *Board of Trade Journal*, 27 March 1954.

¹³¹ *Economist*, The German Competition, 15 October 1957.

¹³² *Ibid.*

¹³³ *Ibid.*

Public comment on the German competition continued for several years even after it had receded as a political priority once Britain began its search to align closer with Europe. The Conservative Political Centre published a pamphlet in 1963 under the title *Men at Work: The Expansion of Exports, by a group of Conservative MPs* in which Germany's impressive export growth was acknowledged and ideas and encouragement given about how exporters might still beat off the German competition though it believed Britain had "been too slow to appreciate the chances for expansion in the western European market".¹³⁴ The CPC endorsed the NEDC's aim of expanding exports by 5 per cent per annum but had little to say on how it would be done. It believed marketing could be improved and it thought the NEDC should be given responsibility "for co-ordinating the study of foreign markets and discussing the findings with Britain's export companies." They also felt that the quality and training of export staff should be improved including paying "good men" more. They also favoured a switch to German turnover taxes and believed the French value-added tax system would help with exports.

Conclusion

Britain had been concerned about German competition since the end of the nineteenth century. American competition never appeared to threaten British exports as much as German. When presented with the opportunity to steal a march on its defeated rival in the aftermath of war, it failed to make anything much of it. The government's initial objective to ramp up trade with the sterling area countries was found after a few years to have stalled. Worried at the spectacular rise in German exports, ministers set-up the inter-departmental Working Party to monitor UK export trends and, in particular, the pressing issue of German competition. By 1959, Germany had replaced Britain as the world's second largest manufactures exporter. The Working Party looked at every aspect of British exports and how Britain was doing against Germany but had hardly

¹³⁴ Conservative Political Centre, *Men at Work: The Expansion of Exports*, 1963.

anything to say on what to do about the situation which really came down to how well Britain was organised and able to export effectively. All the jolts it was receiving did not lead to fundamental reforms of how Britain was organised, its industrial relations in particular, but nudged it in the direction of thinking more about how it might draw closer to Europe and share in its and, in particular, German growth.

Chapter 13: 'Financial Disequilibrium' and Convertibility

After the war, Britain was under severe financial strain with a fixed but increasingly overvalued currency, vast debts, much depleted reserves and a loan from the United States on terms which, for the loyal ally it thought it had been, were much tougher than it felt it deserved. It had US \$9bn liabilities to the sterling area countries and reserves of only US \$1.3bn and had to contend with the post-war dollar shortage at a time when it needed to re-equip. In order to pay its way, it was obvious it needed a vast expansion in export earnings but this was to prove beyond its reach given the tough conditions of world trade. A devaluation was an option but it would undoubtedly have upset the overseas sterling holders.¹³⁵ The Bank of England hoped the City of London's status as an international financial centre could be restored and bring in some of the much needed overseas earnings but this first required sterling becoming convertible. Britain had in fact agreed this at Bretton Woods in 1944 but it would take far more time and effort, indeed 15 years. British officials in the 1950s put a lot of the blame for the delay on what they called the 'financial disequilibrium' caused by what they saw as Germany's economic recklessness. Making Germany a 'good creditor' became a major objective of Britain's international financial diplomacy in the period.¹³⁶

After the 1948 currency reform, Germany had begun to enjoy an export boom on a scale Britain could only envy and within a few years it was accruing large surpluses and reserves which also made it into the principal creditor of the European Payments Union which had been established in 1950. This was a system sponsored by the OEEC to facilitate the multilateral settlement of international payments and overcome the problems of the dollar shortage in Europe. At the same time, Britain rapidly turned from a creditor

¹³⁵ Kenneth Dyson, *States, Debt, and Power: 'Saints' and 'Sinners' in European History and Integration* (Oxford, 2014), p.600.

¹³⁶ TNA, T236/4817, Germany – Good Creditor, 5 November 1958.

of the EPU into a debtor, inflaming the ‘financial disequilibrium’ which so upset Treasury officials.¹³⁷

This Chapter looks at what the British felt about the international financial issues that affected British-German economic relations in the period. First, the British and German reversal of creditor and debtor roles in the EPU. Secondly, it examines how the British felt about Germany’s massive trading surpluses and reserves and the so-called ‘financial disequilibrium’ to which they gave rise in British eyes. Thirdly, the issue of the deutschmark exchange rate and British suspicions of the German manipulation of its value. Fourthly, the British adaptation to the German approach to bringing about convertibility.

European Payments Union

The European Payments Union, set up by the OEEC with US encouragement to facilitate international payments, was generally regarded as a success but no one thought it a substitute for fully convertible currencies. Operating on a monthly cycle, amounts due between members were offset and the excess taken as a credit, up to a specified limit, and beyond that amounts due had to be settled in gold and dollars. The British were initially wary of joining the EPU fearing it would be a supra-national organisation with powers to intervene in the domestic economy, but once they were comfortable about this, and encouraged by an offer of US \$150m in conditional aid from the ECA, they set about making full use of the payments union.¹³⁸

On the EPU’s first monthly settlement date in 1950 it was found that Germany had already exhausted 56 per cent of its quota and was on course to rapidly using it all up.¹³⁹ Some on the EPU Managing Board thought Germany needed to temporarily suspend the trade liberalisation programme it was energetically pursuing until payments were more

¹³⁷ TNA, T236/3944, Minutes of a meeting on Bank of England Paper on Germany, 6 September 1957.

¹³⁸ Jacob Kaplan and Gunther Schleiminger *The European Payments Union: Financial Diplomacy in the 1950s* (Oxford, 1989), p.87.

¹³⁹ Kaplan, *European Payments*, p.97.

in balance, whilst others, realising that Germany's rapidly reviving economy was driving much intra-European trade, thought it preferable for the EPU to extend a special credit to Germany and support it through its payments crisis. There were some in the Treasury who took a particularly hard line on Germany suggesting that having brought the crisis upon itself, Germany should be left to figure out precisely how it would lay its hands on sufficient gold and dollars to pay what was due to the EPU. There was certainly a widespread feeling that the Germans had been "unnecessarily reckless", and newspaper headlines described the Germans as "rocking the boat", as many worried that there was more at risk than just Germany.¹⁴⁰ The British economist and OEEC representative, Alec Cairncross, who was asked by the OEEC to report on the situation, remained sanguine saying the situation disposed him "to think that a country whose exports doubled annually, whose currency was clearly undervalued, and whose price level was still falling in the middle of world inflation, was most unlikely to suffer for long from balance of payments difficulties".¹⁴¹ Germany was then granted a special EPU credit, which remarkably it repaid within a matter of months.

By the time of the London Debt Agreement in February 1953, and with ever more rapid economic growth beginning to take place in Germany, the British and German roles of creditor and debtor reversed. The EPU had granted the Germans several increases in their EPU quota to overcome their 1950-1952 liquidity crisis.¹⁴² However, the British were simply not as successful as the Germans at increasing their exports and between 1953 and 1957, as Germany became its largest creditor, Britain became a large debtor of the EPU, as the following Table shows:-

¹⁴⁰ Ibid, p.98 .

¹⁴¹ A. Cairncross, 'The First Year of EPU; the Handling of the German Case', unpublished paper (1951), quoted in Kaplan, *ibid*, p.99; Alec Cairncross (later Sir) was in the economic advisory section of The Treasury during the war and was later Economic adviser to the government.

¹⁴² Kaplan, *European Payments*, p.110.

Table 15 Britain and Germany’s Annual Net Deficits/ Surpluses under the EPU (1 July 1950-27 December 1958) (*in US \$m*)

	1950/1	1951/2	1952/53	1953/4	1954/5	1955/6	1956/7	1957/8	1958/9	Total
Germany	-281	+584	+260	+518	+296	+584	+1336	+826	+350	+4526
UK	+604	-1476	+371	+107	+136	-327	-225	-317	-267	-1392

(*Source: European Payments Union Board (1959) Final Report: 36- cited in Dyson, ibid, p.603*)

Britain made use of all the credit available to it under EPU rules, and argued for a larger quota and a ‘softening’ of settlement terms with a larger element of credit to the amount of gold and dollars it was obliged to pay each month, but no change in the British quota was ever allowed by the Managing Board.¹⁴³ In this some would see national differences in the British and German attitudes to debt in that the British had a greater appetite for debt nearing that of the Americans, whilst the Germans eschewed debt as far as possible and had much higher savings levels. As Sheldon Garon has said: “Germany promotes the saving mentality with strong doses of moral suasion and material incentives.”¹⁴⁴

¹⁴³ Kaplan, *European Payments*, p.98.

¹⁴⁴ Sheldon Garon, *Beyond Our Means: Why America Spends while the World Saves* (Princeton, 2012), p.363.

German Reserves

The post-war German attitude to finance has been described as a rules-based commitment to competition coupled with a strong commitment to balanced budgets and balance of payments surpluses and growing reserves.¹⁴⁵ The Treasury became increasingly alarmed by the build-up of the German reserves and in 1957 began an investigation into how it had come about.¹⁴⁶ Nita Watts of the Treasury reported that the percentage movements in the gold and foreign exchange reserves of Germany and Britain in the previous two years had been as follows:

Table 16 German and British Gold and Foreign Exchange Reserves, 1954-56

	1954-55	1955-56
	(per cent)	(per cent)
Germany	+63	+40
United Kingdom	-22	+1

(Source: OEEC Statistics Bulletin, July 1957 – cited in TNA, T236/3945, Note, Nita Watts, *Exchange Rates*, 17th September 1957)

Britain's foreign exchange reserves peaked at \$3bn in 1954 and then fell for the next few years until 1957 when they stood at only \$1.8bn, before making a small recovery in 1958 as a result of the deflationary policies applied over the previous two years. The Treasury wished to implement expansionist policies but recognised it was important for there to be a recovery in the reserves. The overseas holders of sterling needed to be given much greater confidence to make payments in sterling and to use it as a reserve currency.

¹⁴⁵ Markus Brunnermeier, Harold James and Jean-Paul Laundau, *The Euro and the Battle of Ideas* (Princeton, 2016).

¹⁴⁶ TNA, T 236/3945, Note, Nita Watts, *Exchange Rates*, 17 September 1957.

However, the position in Germany was very different as the reserves had increased dramatically every year since 1951, exceeding \$4bn by the end of 1957.

By the mid-1950s, British officials were expressing their frustration over the continually growing German reserves and their reluctance to spend enough of them at home or abroad.¹⁴⁷ Robert Hall in the Treasury boiled over saying: “They have never understood anything but a firm line and I am afraid that is still true”. He felt they had done little or nothing to moderate the growth of the reserves despite “their repeated suggestions over the previous two years that they were going to do something about it. We have just lost a lot of time, got into difficulties, and seen the situation worsening. My view is therefore that we should put our case to the world and attempt to organise discrimination against [the Germans]”.¹⁴⁸ The Governor of the Bank of England, Cameron Cobbold,¹⁴⁹ was also frustrated at the Germans intransigence, as he saw it, saying: “They will be very difficult to move and are unlikely to do so except under concerted and urgent international threats and/or action.”¹⁵⁰ But such a strategy was unrealistic given there was little hope that other countries would be prepared to apply economic threats, let alone sanctions, against the one country in Europe with which everyone wanted to do business. In any event, the Treasury could never really make its mind up whether it wished to work ‘with’ the Germans, or whether it thought them just too stubborn, and it was necessary to work ‘against’ them. Without general European support, no British initiative stood much chance as had been shown on various occasions.¹⁵¹ It was just simply too difficult for Britain, a weakening power, to apply pressure against Germany, which was by far Europe’s most successful economy.

What therefore were the adjustments to economic policy which the British wished the Germans to make? The *Economist* in August 1957 noted: “the root of the present troubles is that Germany is running a large surplus”. It thought that as far as Britain was concerned, there were three steps to be taken. First, discriminatory restrictions might be

¹⁴⁷ TNA T 236/3943, Robert Hall to Edward Bridges, Convertibility, 2 September 1955.

¹⁴⁸ TNA T 236/3945, Robert Hall to Sir Roger Makins, 22 August 1957.

¹⁴⁹ Later Lord Cobbold.

¹⁵⁰ TNA T 236/3945, Cobbold to Makins, Note for the Chancellor of the Exchequer, 22 August 1957.

¹⁵¹ Most famously, in the negotiations at the Messina Conference in 1957 when a British *démarche* failed to bring talks to a close.

imposed on German imports in the same way as on dollar imports. Secondly, a revaluation of the deutschmark. Thirdly, an increase of consumption in Germany which could be brought about by lower interest rates, higher wages and higher social expenditure although it reluctantly accepted that the Germans would most likely “recoil from any policies which might lead to higher inflation”.¹⁵² The British perhaps did not appreciate the substantial increase in social spending that the 1957 pension reforms would bring about.

A month later, The Bank of England put forward its list of actions it wished to see taken in Germany. It wanted a reduction in ‘the high local authority surpluses’, a reduction in the bank rate, and a general raising of the standard of living. It was also important, it felt, to contest the German “unwillingness to import inflation”. As far as Germany’s external policies were concerned, the Bank had to admit “the German record was on the whole good” in that they had practically abolished exchange controls and had increased trade liberalisation to 93 per cent.¹⁵³ It had also raised minimum reserve requirements for banks, lifted restrictions on short term credit from abroad, accelerated the payment of defence expenditure overseas and had placed £75m on deposit in London to meet future annual instalments of debt. This was an extensive list of ameliorative actions but the Bank of England also wanted the Germans to issue a public statement of their intention to step up internal consumption while keeping prices stable and a relaxation of budgetary and monetary policy. The Bank of England suggested the Germans might also make substantial loans overseas including substantial contributions to the European Fund under the proposed European Monetary Agreement, and to the IMF, and a further acceleration of debt repayments. It also wanted to see a more flexible upper (but not lower) exchange rate margin.¹⁵⁴

These demands became a staple fare of ministerial meetings with the Germans during the late 1950s as well as in the biannual meetings of officials in the Anglo-German Economic Committee (see Chapter 4). Harold Macmillan, for one, was never optimistic

¹⁵² *Economist*, ‘Pound Up to the Mark’, 24 August 1957, p.594.

¹⁵³ Britain was not to do so until 1979.

¹⁵⁴ TNA, T 236/3945, Bank of England Note, Germany, 6 September 1957.

about the reaction of the Germans to any British demands: “we must not be sanguine about our prospects of securing German co-operation. Many of them must feel that revenge is sweet. We can of course hope and encourage the good Europeans among them to prevail”.¹⁵⁵ British policy-makers were convinced that the blame lay not with the management of their own economy as the Germans often implied but with the large surpluses the Germans had built-up.¹⁵⁶ The British regularly demanded the Germans bring their reserves under better control.¹⁵⁷ Since 1945 there can have been few other instances where one European country (as distinct from international organisations) made so many demands for adjustments to be made in another’s domestic economy, an attitude which perhaps came from having, in recent memory, occupied the country.

By the end of the 1950s, Germany had in fact taken on board quite a few of the British demands for budgetary, fiscal and monetary adjustment. As one Treasury official admitted: “over the last 18 months, the Germans have shown a growing awareness of the serious problem which their continuing surplus presents to themselves and to other countries. Whilst always determined not to risk any inflation, they have taken the following important steps - they have lowered the bank rate in four stages from 5 per cent to 3 per cent; they have lent more abroad than ever before, and tariffs have been reduced and imports further liberalised”.¹⁵⁸

British pressure on Germany to adopt ‘good creditor policies’ would continue for many more years, even after convertibility was achieved in 1959. For so long as Germany retained a fixed though flexible exchange rate (as was the norm under Bretton Woods) and pursued deflationary policies, it continued to pile-up large surpluses which concerned policy-makers in Britain and, increasingly, in the United States, particularly when the Kennedy Administration began to feel the pinch caused by these large German surpluses.

At the July 1960 meeting of the Anglo-German Economic Committee, the German delegation defended its position saying that in its economic policies the “dominant motive

¹⁵⁵ TNA, T 236/3945, Harold Macmillan to Economic Secretary, 29 September 1957.

¹⁵⁶ TNA, FO 371/133213, Germany- Rich or Poor? 27 January 1958.

¹⁵⁷ TNA, FO 371/133213, Briefing: Germany and European Disequilibrium, 27 January 1958.

¹⁵⁸ TNA, T 236/ 3945, D.F. Hubback, Treasury, Unicorn – Good Creditor Policies, 23 September 1957.

was price stability, to be attained by monetary measures to restrain internal demand” but it had to agree that this had “the inevitable effect of discouraging capital exports and encouraging the repatriation of German funds from abroad and an inflow of funds from other countries” and it also “did nothing to discourage the continued growth of German exports”. It was reluctantly forced to admit that: “[Germany’s] overall surplus continued to accumulate”.¹⁵⁹

Exchange Rates and Deutschmark valuation

The Bretton Woods system, which largely reflected American thinking about international monetary policy, was based on fixed but flexible exchange rates.¹⁶⁰ The Germans and other Europeans were also generally committed to fixed exchange rates not least because of the Common Agricultural Policy and the need to minimise exchange rate fluctuations. The wartime British exchange rate of \$4.03 to the £ proved unsustainable and had been adjusted under protest from the overseas holders of sterling to \$2.78 - \$2.82 in the 1949 devaluation. The Treasury was wary about any further devaluation, or indeed any flotation of the pound, which would in effect be seen as a ‘camouflaged devaluation’. Rab Butler,¹⁶¹ as Chancellor, and the Treasury official Otto Clarke, had briefly toyed with the idea of a floating exchange rate as a means of improving competitiveness and encouraging exports but the idea was rejected by ministers for fear of its deflationary effects.¹⁶²

Alec Cairncross, the OEEC’s economic adviser at the time of Germany’s payments crisis in 1950-1951, had long thought the deutschmark was undervalued.¹⁶³ By the mid-1950s, this sentiment was shared with others in the Treasury and Bank of England. In 1957, the Governor, Cameron Cobbold, was confidently telling the Chancellor of the

¹⁵⁹ TNA T 236/6556, Anglo-German Economic Committee, July 1960, Note on German Exports .

¹⁶⁰ Harold James, *International Monetary Cooperation since Bretton Woods* (Oxford, 1996), p.228.

¹⁶¹ Rab Butler was Chancellor of the Exchequer 1951-1955.

¹⁶² TNA T 236/3240, Otto Clarke to Sir Leslie Rowan, Convertibility, 25 January 1952.

¹⁶³ Kaplan, *ibid*, p.107.

Exchequer that in his view “the German mark is clearly undervalued”.¹⁶⁴ The Germans meanwhile continued to insist that the deutschmark was in no way undervalued against the dollar, and, annoyingly in British eyes, insisted that it was the pound that was overvalued against the dollar because of the British failure to get a grip on its economy particularly the inflation and the industrial disruption.¹⁶⁵ The Treasury disagreed, arguing that as Germany was a capital goods manufacturer and that there had been an exceptional demand for such goods in the post-war reconstruction, it had inevitably enjoyed a large boost in its exports. The British also complained that Germany benefited from the debt relief given to Germany in the 1953 London Debt Agreement, the delays in implementing the rearmament programme it had agreed with its NATO partners, and also the benefit Germany received from the foreign currency spent by foreign troops stationed in Germany. However, there was no escaping the fact that, as the Working Party on United Kingdom Export Trends found, German products had a good reputation for quality, competitive prices and more reliable delivery dates than the British, so it was likely that Germany’s trading success would translate into greater reserves. The Treasury believed that the only real test for a correct valuation lay in the balance of payments and the reserves and, on that reckoning, it thought the deutschmark was the problem as it was in its view clearly undervalued.¹⁶⁶ German resistance to British pressure to revalue their currency in the three or four years prior to 1961 was seemingly a deliberate policy choice.

In a Treasury note in 1955 prepared in a review of the British arguments on exchange rates for future negotiations with the Germans, it was anticipated that the Germans would continue to defend the value of the deutschmark arguing it was not undervalued but that the pound was overvalued.¹⁶⁷ The Germans as usual were expected to point to Britain’s weak trading position as the reason for its falling reserves, irritating them by arguing that Britain needed to put its own house in order, in particular, with another bout of deflationary policies perhaps backed-up by an IMF loan. It was expected that the Germans would argue that Britain had been unable to control inflation which had

¹⁶⁴ TNA, T 236/3945, Cobbold to Makins, Note for the Chancellor of the Exchequer, 29 September 1957.

¹⁶⁵ THA, T 236/3945, Nita Watts, Note on ‘Exchange Rates’, 17 September 1955.

¹⁶⁶ Ibid.

¹⁶⁷ Ibid.

resulted in the lower exports and higher imports than would otherwise have been the case. The Treasury line on the economy was that: “In Britain we wanted expansion but had in fact been forced to maintain stronger disinflationary action than we wished because of the pressure on reserves. But we consider that this pressure is to a large extent due to the undervaluation of the deutschmark”. By 1957, the Treasury was even more convinced the deutschmark was undervalued probably in the order of 5 to 10 per cent.¹⁶⁸ It blamed the German (and Lander) budgets and the exchange policy of the Bundesbank which “by various methods had over the past few years succeeded in sterilising the potential inflationary effects of the German surplus”. No explanation was offered for how the Germans had managed this only that “the Germans are pathologically anxious about inflation”.¹⁶⁹ The Treasury were disheartened that they could only make “unsuccessful efforts to persuade the Germans to change their priorities”.¹⁷⁰

Treasury officials never ceased to be alarmed by Germany’s continuing growth of gold and foreign exchange reserves and began to press even more earnestly for a revaluation of the deutschmark or at least the adoption of even more strenuous “good creditor policies.” The British continued to be frustrated by the Germans generally dragging their feet over the “good creditor” actions urged upon them. They put it down to German fears about how it would affect their exports and imports.

British officials had demanded action be taken in successive meetings of the Anglo-German Economic Committee but had been met by the same stubborn refusal of the Germans to take action.¹⁷¹ The Germans were always concerned about the value of the deutschmark and its effect on their exports and imports and, unlike the British, were unconcerned about building their currency into a reserve currency.

By the late 1950s, the British thought their campaign might be beginning to have an effect. This was because the Germans had lowered their bank rate from 5 to 3 per cent in four stages, reduced more tariffs and further liberalised imports. Even so the Treasury

¹⁶⁸ Ibid.

¹⁶⁹ TNA, T 236/3944, Note of Meeting in Rowan’s Room at The Treasury, 6 September 1957.

¹⁷⁰ Ibid.

¹⁷¹ TNA T 236/5073, 8th Session of the AGECE, London, June/July 1959; TNA T 236/5073, 9th Session of the AGECE, Hamburg, February 1960 and TNA T 236/6565, 10th Session of the AGECE, Oxford, July 1960.

still urged them do more “towards the expansion of home demand and make further efforts to stimulate both imports and capital exports”.¹⁷²

It was not until 1961 that the Germans eventually decided to revalue the deutschmark, adjusting its exchange rate from DM 4.20 to DM 4.00, but at a mere 5 per cent adjustment was less than the British had in mind. There was a further revaluation in 1969 which the British still thought too conservative. On both occasions though the revaluations coincided with US-German ministerial meetings so were probably more the result of American rather than British pressure much to the annoyance of the British. The Americans had only begun to prioritise the exchange rate when they too began to experience balance of payments issues in the 1960s.¹⁷³

At one stage the Macmillan government had contemplated threatening a withdrawal of BAOR troops to obtain a revaluation, but this was never practical politics. Britain wanted German help with its Free Trade Area proposal and later with a possible application for admission to the Common Market and this ruled out the exercise of military leverage in this way.¹⁷⁴ The Americans also wondered whether they might threaten troop reductions in the 1960s when they too grew concerned about the German reserves but again found the exigencies of preserving the western alliance precluded any break with the Germans.¹⁷⁵

Convertibility

At first, the Germans barely figured in Britain’s calculations about convertibility. Under the Anglo-American Loan of 1946, the British had fatefully committed themselves to convertibility. When in 1947 Britain declared convertibility, there could scarcely have

¹⁷² TNA T 236/4817, ‘Treasury Brief: Germany and Good Creditor Policies,’ 5 November 1958.

¹⁷³ Harold James, *International Monetary Cooperation Since Bretton Woods* (Oxford, 1996), p.113.

¹⁷⁴ Hubert Zimmermann, *Money and Security: Troops, Monetary Policy, and West Germany’s relations with the United States and Britain, 1950-1971* (Cambridge, 2002), p.84.

¹⁷⁵ *Ibid*, p.162.

been a worse time to have done so, and, as a result of a disastrous outflow of sterling, Britain had to reverse the policy after only six weeks.¹⁷⁶

After this fiasco, the Treasury only resumed thinking about convertibility when the Conservatives were returned to power. In their 1950 manifesto, they had proclaimed themselves the party of Empire and declared that “the greatest possible development of Empire trade is our aim”.¹⁷⁷ It quickly became apparent that an Empire policy was not enough as the Commonwealth countries began to dismantle imperial preference, showing little or no enthusiasm for the type of co-ordinated trade programmes which Britain had relied upon in the immediate post-war years.¹⁷⁸ Britain’s share of colonial exports had begun to slide in the early 1950s and continued to do so throughout the post-war period as British goods, particularly automobiles and capital goods, lost their competitiveness in particular to German products.¹⁷⁹ In order to manage its sterling liabilities, Britain needed to make sterling as attractive as possible to its overseas holders and that meant making it as convertible as possible. The emerging Commonwealth leaders believed convertibility would “contribute to the strength and usefulness of sterling thereby increasing their prospects for development through an increase in multilateral trade”.¹⁸⁰ The Treasury official, Otto Clarke, took the view that convertibility was a necessity: “it must be in our interests to have sterling convertible, for we cannot possibly trade and ship and insure and all the other things we do unless sterling is convertible”.¹⁸¹ For the Bank of England Governor, Sir George Bolton, convertibility was an article of faith which presented a fundamental choice between “allowing sterling to become a domestic currency involving the collapse of the international sterling system and the sterling area, or accepting convertibility of non-resident sterling as an international currency”.¹⁸²

¹⁷⁶ Catherine Schenk, *Britain and the Sterling Area: from Devaluation to Convertibility in the 1950s* (London, 1995), p.12.

¹⁷⁷ Conservative Party, ‘*This is the Road*’, 1950; David Goldsworthy, *The Conservative Government and the End of Empire, 1951-7: Part I, International Relations* (London, 1994).

¹⁷⁸ Catherine Schenk, *The Decline of Sterling: Managing the Retreat of an International Currency, 1945-1992* (Cambridge, 2010), p.88.

¹⁷⁹ *Ibid*, p.97.

¹⁸⁰ *Ibid*, p.99.

¹⁸¹ TNA, T 236/3240, Otto Clarke to Sir Leslie Rowan, Convertibility, 25 January 1952.

¹⁸² David Kynaston, *The City of London, Volume IV: A Club No More, 1945-2000* (London, 2001), p.48.

As their economy grew rapidly after the 1948 currency reform, the German government became ever more eager to import cheap goods from abroad and keep prices in check. This necessitated the acquisition of the dollars to buy dollar goods. The Germans viewed the acquisition of dollar goods as a reward for their hard work and success and it was frustrating in the early years that they were constrained by a shortage of them. The European economies built up their dollar reserves between 1950 and 1954, doubling their value from US\$ 2.4bn to US\$ 5bn, but they were not evenly spread as Germany took the lion's share and the UK's share fell. By 1952, the Germans had reached a point where they could contemplate making the deutschmark convertible but for the time being held off until the British were ready to move in tandem. The *Economist* had noted that Ludwig Erhard was "now conducting ... a campaign for convertibility of the deutschmark".¹⁸³ It declared that "the deutschmark is now so strong that there is almost no difference between the free market and official rates". In 1953 after the CDU's success at the polls, Adenauer made it clear in his inaugural survey in the German parliament that his government would work for convertibility but was careful to say it would only be in line with other countries.¹⁸⁴ The *Economist* noted "a flood of money [which is] seeping through the German economy as a result of the continuous excess of exports over imports".¹⁸⁵ It observed with the relaxation by 1954 of so many of the German currency restrictions that: "the Germans are having a taste of convertibility long before that term acquires any meaning for the British man in the street".¹⁸⁶ It also noted that travellers from Germany to other EPU countries this summer "find that there is practically no trace of exchange controls".¹⁸⁷

The Treasury was apprehensive lest the Germans pre-empt them and unilaterally declare convertibility of the deutschmark, fearing that this would lead to another humiliating run on the pound and a disruptive outflow of sterling into deutschmarks. The Treasury official, Sir Leslie Rowan had been convinced that "the Germans would not act

¹⁸³ *Economist*, 'Germans Embarrassed by Prosperity', 4 June 1952, p.733.

¹⁸⁴ *Economist*, 'Opening Day in Bonn', 4 October 1953, p.233.

¹⁸⁵ *Economist*, 'New Phase of German Recovery', 11 April 1953, p.95.

¹⁸⁶ *Economist*, 'German Travel Shows the Way', 5 June 1954, p.790.

¹⁸⁷ *Economist*, 'German Economy Set Fair', 18 September 1954, p.984.

alone” but others were not so sure.¹⁸⁸ Erhard had reassured British ministers on several occasions that Germany would definitely not be ‘going alone’. In the end, much to the relief of the British, the Germans did not cause embarrassment and stuck to an undertaking only to declare convertibility “five minutes after Great Britain”.¹⁸⁹

Whilst the Germans in the 1950s wished to see the deutschmark fully convertible on current account at a fixed exchange rate which they believed would be good for their worldwide exports, the British approached convertibility with somewhat different aims, principally hoping it would boost sterling’s role as an international reserve currency and thereby make sterling more attractive for international trade. Their primary concern was to achieve convertibility for non-residents whereas for the Germans the primary objective was convertibility for residents and non-residents alike in order to boost economic growth by liberalising trade, services and capital movements.

It was widely assumed that if the British authorities decided to make sterling convertible, they would do so at a fixed exchange rate, regarded as the axiom of economic stability before 1914 and in any event an obligation under Bretton Woods. In principle, sterling could have been made convertible at a flexible or floating exchange rate. A floating rate had been proposed as the basis of the abortive ‘Operation ROBOT’ devised by the Treasury and Bank of England but rejected by the government after fierce debate in cabinet.¹⁹⁰ It came down to a question of whether the reserves could take the strain if there were a fixed rate, or, if sterling was convertible at a floating rate, whether the risk could be taken of a large fall in the exchange rate. Some in the Treasury thought that any changes in the exchange rate would automatically set up “equilibrating pressures on the economy” and so release Britain from worrying about the reserves.

The Governor of the Bank of England, Sir George Bolton, had told the Treasury in 1952 that “sterling is becoming convertible whether we like it or not” by which he meant that sterling could increasingly be exchanged into dollars on the markets by non-residents. However, having realised as a result of the investigation of ROBOT that the United States

¹⁸⁸ TNA, T236/3945, Treasury Note, ‘Margins for Sterling’, 31 October 1957.

¹⁸⁹ *Economist*, ‘Five Minutes After Britain’, 10 June 1954, p.962.

¹⁹⁰ TNA, T 236/3240, Septugesima Plus, 12 February 1952.

was still hostile to floating exchange rates, the Treasury decided that convertibility would have to be pursued in a more ‘collective approach’ taking into account not only the views of the Americans but also the Germans and French on how to approach convertibility. The Germans wanted a more institutional approach with market rates slowly being brought into line with official rates.

The Bank of England gradually prepared the ground for convertibility, arranging in 1954 for the unification of a wide variety of bilateral accounts into transferable sterling accounts and then the following year giving official support for the transferable sterling rate in New York so as to keep it within a margin of about one and one half per cent of the official rate.¹⁹¹ Planning by Britain for formal current account convertibility of sterling was harmonised with European planning for the end of the EPU, with agreement in 1955 on a European Monetary Agreement which would be implemented once the EPU was terminated. The EMA involved a European stabilisation fund to perform much the same role as the British had hoped the US would perform under ROBOT, namely, providing credit where it was needed, and providing a cushion against devaluation. The EMA involved bands around pegged but adjustable rates. In other words, Britain, in order to obtain the level of convertibility it was seeking, backed by a stabilisation fund, had accepted the European (and particularly the German) preference for broadly stable exchange rates. Britain had given up the idea of a floating exchange rate as envisaged by ROBOT and adopted the ‘collective approach’ more to the taste of the Germans and the Americans.¹⁹²

When convertibility finally came in 1958, it did so fairly suddenly, in a synchronised movement with the Germans and the French. In the mid-1950s, sterling had performed poorly and the reserves had fallen but, after another bout of deflation, the exchange rate and the reserves had staged a recovery and the official and transferable rates on the exchanges had broadly converged. The Treasury took the opportunity which presented itself and declared convertibility with the Germans and French at the end of

¹⁹¹ TNA, T 236/3946, Treasury Paper, ‘Pros for early amalgamation of Official and Transferable Sterling, 27 March 1958.

¹⁹² James, *International Monetary Cooperation*, p.101.

December 1958. There had been another incentive for the British to cooperate with the Germans in that they thought convertibility along the lines advocated by them might also help in their objective of agreeing a Free Trade Agreement with Germany, France and the other European powers. There were also worries that a failure to make the move might disappoint the markets which were expecting convertibility and suggest also a lack of confidence.¹⁹³

For most of the 1950s, the British and Germans had shared the same ultimate goal of convertibility. Both though approached the subject from different angles: the Germans with what seemed an undervalued currency, greater competitiveness and strong exports called for full convertibility as they believed it would strengthen their economy further. They wished to see convertibility at a stable exchange rate and accumulate ever larger reserves which would serve to underpin the deutschmark. There were no overseas territories tied into the currency in the same way as with the overseas sterling area. Britain, on the other hand, was concerned about the overseas sterling area and the amount of sterling held by overseas holders so it had a more defensive motivation in that it was anxious to avoid sterling holders exchanging too much sterling for dollars on some future financial crisis.

In its calculations over its aim of convertibility, Britain had to take account of the emergence of a powerful German economy with ever growing reserves and its ascendant currency, the deutschmark. Germany's international monetary policies were exerting an influence over British policy that Britain had not foreseen a decade earlier.¹⁹⁴

British Treasury officials were often frustrated by the attitude of the Germans who long tried to ignore the pressure coming from Britain to deal with their large surpluses. They had become weary of Germany's regular protestations that they were poorer than other people thought they were. The Bank of England in one internal note said "it must be expected that the Germans will again stress their unwillingness to "import inflation" and point to the responsibilities of other countries in not checking sufficiently their own

¹⁹³ TNA T 236/3946, Treasury Paper, 'Pros for early amalgamation of Official and Transferable Sterling', 27 March 1958.

¹⁹⁴ Martin Daunton, unpublished chapter read in 2018, 'The Road to Convertibility', p.56.

inflationary tendencies”.¹⁹⁵ However, convertibility was only achieved once the Treasury moved closer to the German approach of stable fixed exchange rates even though this would bedevil Britain’s international financial policies for the next 10 years or so especially as it implied that sterling was overvalued and the deutschmark undervalued much of the time.

¹⁹⁵ TNA, T 236/3944, Bank of England Memorandum, 6 September 1957.

Chapter 14: Stationing Costs

The costs of stationing British troops in Germany played into the latent anti-German feelings of many in Britain. The strategic deployment of a British Army on the Rhine was an obligation Sir Anthony Eden's Conservative government had assumed in the 1954 Paris Accords, which had settled the status of post-war Germany, but the more Germany flourished economically, the more many in Britain resented what seemed an expensive subsidy of their economy.

On any view, Britain's worldwide defence commitments in the post-war years outweighed its available resources and Britain constantly felt the need for pruning commitments whenever opportunity arose. Churchill's 1952 Global Strategy Review had made a start. The undertaking to station troops permanently in Germany under NATO was a strategic decision to defend the frontline against the communist East and reassure a nervous French government about the proposed programme of German rearmament.¹⁹⁶ It was the first time in centuries that Britain had agreed to station troops permanently on the continent during peacetime.¹⁹⁷ Under NATO rules, each country bore their own costs so the British contribution fell to the British taxpayer and not, as with the 'occupation costs' of British forces in Germany prior to 1954, extracted from the German taxpayer. Germany, of course, first had to rearm before it could make its own contribution. A final payment of 'occupation costs' was extracted from the Germans in respect of the year after military occupation had ended on the grounds that German rearmament was taking time.¹⁹⁸

¹⁹⁶ Saki Dockrill, *Britain's Policy for West German Rearmament 1950-1955* (Cambridge, 1991).

¹⁹⁷ David French, *The British Way in Warfare* (London, 1990), p.215; Anthony Eden, *Memoirs: Full Circle*, 1960 pp 368-70; Richard Dannatt, *Boots on the Ground: Britain and her Army since 1945* (London, 2016), p.2.

¹⁹⁸ The payment was treated as a final instalment of occupation costs so that it fell on the German taxpayer and the rationale was that the Germans would pay it in lieu of rearmament expenditure. The cost broadly equated to what Germany had been paying to the three allies as occupation costs between 1948 and 1954, about US\$ 762m each year.

The Defence White Paper of April 1957 ended conscription and heralded a further reduction in British defence expenditure which fell from 9.2 per cent of GNP in 1955 to 6.5 per cent 10 years later.¹⁹⁹ The White Paper had admitted that military spending was a key factor in Britain's economic problems, a view shared by many others in government and by other contemporary commentators.²⁰⁰

It was hard for some in the military to get used to the peacetime stationing of troops on the continent compared to the more traditional commitments around the Empire over which many were more sanguine. In a Parliamentary Question on the British forces in Germany, the Labour MP Eric Fletcher asked the Minister of Defence, Duncan Sandys:

Bearing in mind that we are making a disproportionate contribution to N.A.T.O. defence in comparison with our allies, will the Right. Hon. Gentleman confirm that it is our policy to seek a reduction of our burden, not only our manpower burden, but also our economic burden, in view of the fact that, unlike our allies, we have to incur the cost of stationing troops abroad?²⁰¹

Critics in Britain were often inclined to suggest Britain's contribution was 'disproportionate' but for a country professing a global defence role it was not particularly so. Under the Paris Accords, whilst the United States agreed to station 12 divisions (about 280,000 troops) on the continent of Europe, Britain had agreed to 4 divisions and a tactical air-force (about 105,000 men in total). France, Germany, Denmark, Luxembourg, Italy, Canada, Netherlands, and Belgium all agreed to station up to another 8 divisions in total between them (up to about 170,000 men in total on a circulating basis)

¹⁹⁹ HMSO, *Defence: Outline of Future Policy*, Cmnd. 124, April 1957; G. Peden, *Arms, Economics and British Strategy; from Dreadnoughts to Hydrogen Bombs* (Cambridge, 2007) p.306, citing NATO Information Service, *NATO Facts and Figures* (Brussels, 1976) pp. 294-5. The comparable figures for the USA were 10.7 per cent and 9.2 per cent; France 8.8 per cent and 5.9 per cent; Germany 4.2 per cent and 4.7 per cent.

²⁰⁰ See Andrew Shonfield, *British Economic Policy Since the War* (London, 1958). Referring to the arms build-up for the Korean War in 1951, Shonfield remarked that: "Britain's uncalculated act of sacrifice during the crisis at the start of the Korean War in embarking on a defence programme which used up all the resources in sight and more, continued to exercise an unfavourable influence on economic development long after the event".

²⁰¹ HC Deb, 27 February 1957, vol. 565, cc. 1205-6.

of which Germany and France would provide the bulk, although Germany first had to rearm which was not expected to be completed for about 4 or 5 years.²⁰² The remaining NATO countries were also to make a small contribution. France's contribution which is probably the best comparator for Britain would work out at not far off Britain's. The French, or for that matter, other European powers, did not demand any recompense for any of their expenses for stationing troops in Germany.²⁰³ NATO was about collective security, not a hire of foreign mercenaries.

Britain's complaint was that the monies expended on stationing costs benefited not the British but the German economy and this became increasingly hard to accept given that it was becoming only too obvious that economically Germany was recovering fast and so it was thought fair that Germany should bear more of the burden. As the *Daily Mirror* put it with its usual anti-German prejudice in 1957: "The old Teuton, fatter than ever, sits in the best and most lavish counting-house outside the shores of the United States".²⁰⁴ The British Army on the Rhine was a subject on which politicians, press and public fed off each other's negativity. The worst offenders amongst the press were the right leaning *Daily Express* and the left leaning *Daily Mirror* as well as the *Evening Standard*. The *Daily Mail* could also make provocative comments which conveniently forgot what collective security was all about:

If anyone can tell us a good reason why we should pour out money to protect our former enemies while they refuse to pay a pfennig to us, or to defend themselves, we should be glad to hear it.²⁰⁵

Sir C. Peter Hope, Head of the Foreign Office News Department, cynically lamented that: "the whole of Fleet Street is anti-German for the simple reason that the average reader in

²⁰² Journals of the Canada Senate 1955, Convention on the Presence of Foreign Forces in the Federal Republic of Germany under the Paris Accords (<https://archive.org/stream/journalsofsenate99canahashtagpage/n92/mode/1up>) Accessed 25 March 2019.

²⁰³ Hubert Zimmermann, 'The Sour Fruits of Victory: Sterling and Security in Anglo-German Relations during the 1950s and 1960s', *Contemporary European History*, 9, 2 (2000), p.243.

²⁰⁴ *Daily Mirror*, 7 August 1957, p.4.

²⁰⁵ *Daily Mail*, 1 May 1956.

England is anti-German – and the newspapers in England pander to their readers. Unless they pander to their readers, the street sales of any newspaper will fall”.²⁰⁶ A particular target of the press were the exaggerated accounts of the allegedly loathsome behaviour of German youths towards British soldiers in Germany. British readers were regaled with stories about BAOR soldiers who were merely going for a quiet drink being told: “ Out with the dirty English” by German louts.²⁰⁷ There were, of course, more balanced views of British-German relations, one such being the BBC Television ‘Special Enquiry on Germany’ which concluded that “ Europe cannot be prosperous unless Germany is” but too often during the 1950s the worst kind of press reporting prevailed.²⁰⁸ It made any policy involving expenditure on the German economy difficult for many to swallow. The situation was not helped when the content of a 1959 Bundesbank Report was noted in Britain confirming precisely how well Germany did from the stationing of foreign troops. It said that there had been a large surplus of 40bn deutschmarks in the balance of payments over the period 1950 -1959, and estimated the contribution from foreign troops was about half of this and concluded that “a considerable part of the augmentation of German monetary reserves can be attributed to the stationing of foreign troops in the Federal Republic”.²⁰⁹ The vast bulk of the expenditure on the German economy in respect of stationing costs in the same period was in American dollars but a reasonable estimate of the British share was some 15 per cent of the total, equivalent to about £350 million.²¹⁰

When ministers were examining the proposal for a permanent pledge of troops to the aborted multinational army known as the European Defence Community (EDC), Rab Butler, the Chancellor of the Exchequer, protested that “in the interests of sterling stability, he would not be able to take on substantial foreign exchange liabilities caused

²⁰⁶ TNA, FO 371/130857, Minute Sir C Peter Hope, 19 November 1957.

²⁰⁷ Peter Speiser, *The British Army of the Rhine: Turning Nazi Enemies into Cold War Partners* (London, 2016), p.47.

²⁰⁸ BBC Written Archives Centre, Reading, T4/57, Documentaries, “Special Enquiry on Germany, The Federal Republic,” 18 April 1955, cited in Speiser, *British Army*, *ibid*, p.48.

²⁰⁹ Zimmermann, Hubert *Money and Security: Troops, Monetary Policy, and West Germany's Relations with the United States and Britain 1950-1971* (Cambridge, 2002), p.30.

²¹⁰ This is based on Zimmerman's estimate that 75 per cent of the foreign receipts in 1950-1959 were in American dollars, leaving sterling somewhere between 12 and 17 per cent.

by the commitment to Germany”.²¹¹ Eden, perhaps in the hope that the Americans might be prepared to help out, wrote to the American Secretary of State, John Foster Dulles, saying:

Once...the Germans are bearing their share of defence expenditure we must face the certainty that after what may not be a very long period we shall cease to receive any German contribution towards the costs of maintaining forces in Germany ... At present levels this would mean that we should have to finance an extra 80 million pounds in foreign exchange. This would present us with very great difficulties.²¹²

Commenting on a meeting with German ministers, Macmillan, in the acid style he reserved for the Germans noted that they had:

...left a very bad taste both as to matter and manner ... ordinary people in the UK feel the fruits of victory are pretty sour for them; while Germany, with no burden of internal or external debt, and with no substantial military expenditure, is undercutting British trade in every part of the world.²¹³

On another meeting with German ministers he noted:

It's a very depressing story. The Germans have no feeling of guilt or shame... there is nothing about the financial agreement [on troop costs] on which they are not in default...Every time they mention Eastern Germany, we ought to remind them of the intolerable financial situation.²¹⁴

²¹¹ TNA, CAB 129/533, Rab Butler, Memorandum, Defence and Economic Policy, 3 October 1952.

²¹² TNA, T 312/53, Eden to Dulles, March 1954.

²¹³ TNA, PREM 11/1343, Macmillan to Eden, 13 July 1956; see also Peter Hennessy, *Having It So Good: Britain in the Fifties* (London, 2006), p.389 where he states “Macmillan simply could not stand the Germans”, no doubt explained by his suffering in World War I.

²¹⁴TNA, PREM 11/4259, Macmillan to Home, 21 August 1963.

At its height, the expenditure on the BAOR was equivalent to no more than about 2 per cent of GDP. It would no doubt have been easier to bear if the British economy had been growing at the same rate as the German.²¹⁵

Efforts to work out a strategy to reduce Britain's defence budget continued intermittently following the collapse of the proposed European Defence Community in 1954 and were given a strong push by the Suez debacle when Britain was shown that it could not rely on American support in all circumstances and the seriousness of the financial consequences where Britain was out of step with the Americans on its foreign priorities. A Report on the 'Future of the United Kingdom in World Affairs' in 1956, prepared by Treasury, Foreign Office and Ministry of Defence officials stated that: "the United Kingdom had an overloaded defence structure, placing the economy under constant strain".²¹⁶ The Report argued the priorities were keeping the Americans in Europe, developing closer co-operation with North America and maintaining the cohesion of the Commonwealth but no specific mention was made of keeping troops in Europe.²¹⁷ The centrality of North America in these priorities was based on the hope that the Americans might support Britain's nuclear strategy which it was thought offered the opportunity for substantial savings compared to the maintenance of conventional troops. The Report concluded that reductions in defence expenditure "must be found largely in our expenditure on our defence in Europe. It is there that the greatest scope exists for reducing demands on our engineering industry, our military manpower, our technical and scientific resources and our foreign exchange in the interests of re-establishing our economic strength".²¹⁸ It was the lost opportunities in what he saw as Britain carrying Germany's military burden which upset the Chancellor of the Exchequer, Harold Macmillan. He told the Foreign Press Association that Britain was devoting 9 per cent of her GNP to defence against an OECC average of 5 per cent, with the result:

²¹⁵ On the so-called 'financial disequilibrium' it created, see Chapter 13.

²¹⁶ TNA CAB 134/1315 Memo by officials of Treasury, Foreign Office and Ministry of Defence for Cabinet Policy Review Committee, 'The Future of the UK in World Affairs', 1 June 1956; Defence Policy: Macmillan and Monckton memorandum to Eden, 20 March 1956, cited in David Goldsworthy (ed.), *Conservative Government and the End of Empire 1951-1957* (London, 1994), p.60.

²¹⁷ Zimmermann, *Money*, p.47.

²¹⁸ Goldsworthy, *Conservative Government*, p.60.

For every rifle that our comrades in Europe carried we were carrying two. If we were to follow the European example, we would save £700 million a year. If only half these resources were shifted into exports the picture of our foreign balances would be transformed.²¹⁹

There was a tendency amongst British politicians to exaggerate the military burden including the cost of stationing troops in Germany as demonstrated by Macmillan's thinking they could save £700m a year- a more accurate figure would have been much less.²²⁰ Only about 25 per cent of the British army was stationed in Germany in the late 1950s and early 1960s although with the gradual withdrawal from East of Suez in the 1960s, the proportion grew slightly.²²¹ In 1958, for instance, there were 63,000 troops stationed in Germany out of a total army establishment of 328,000 army personnel and by 1962 this was down to 50,000 out of 202,000. There had been a higher proportion in the early 1950s when the expense fell on the German taxpayer. British defence expenditure exceeded the German every year in terms of the percentage of GNP as the figures in Table 17 on the next page show.

However, Germany, unlike Britain, France and the US, did not have far-flung overseas bases so it was not surprising that it spent a lower percentage of GNP on defence. It had no nuclear weapons, no large fighting ships or submarines and had no need of foreign currency. Until 1957, all its defence expenditures was in the nature of 'occupation costs' extracted by the Allies but after that when German rearmament did eventually get under way, the expenditure had to be incurred on procuring a large amount of new equipment from abroad.

²¹⁹ Harold Macmillan, *Riding the Storm* (London, 1971), p.53.

²²⁰ Some military historians have linked the costs to Britain's economic decline in the period: See Malcolm Chambers, *Paying for Defence: Military Spending and British Decline* (London, 1985), p.65.

²²¹ David Greenwood, 'Defence and National Priorities since 1945,' in John Baylis (ed.), *British Defence Policy in a Changing World* (London, 1977), p.197.

Table 17 Defence expenditure of leading NATO countries as a percentage of GNP at factor cost 1954-1969

	Germany	Britain	France	Europe as a whole	USA
1954	4.7	9.9	8.5	7.1	12.7
1955	4.8	9.2	7.4	6.5	11.0
1956	4.2	8.8	8.8	6.6	10.7
1957	4.7	8.0	8.4	6.3	10.9
1958	3.4	7.8	7.8	5.7	10.9
1959	5.0	7.4	7.7	5.9	10.3
1960	4.6	7.3	7.4	5.7	9.9
1961	4.6	7.0	7.3	5.6	10.0
1962	5.5	8.0	7.1	6.0	10.2
1963	6.0	6.9	6.5	5.7	9.7
1964	5.4	6.8	6.3	5.5	8.9
1965	5.0	6.6	6.1	5.3	8.3
1966	4.7	6.5	5.9	5.1	9.2
1967	5.0	6.5	5.9	5.2	10.3
1968	4.1	6.2	5.5	4.8	10.2
1969	4.1	5.8	4.9	4.5	9.6

(Source: *NATO Information Service, NATO facts and figures (Brussels, 1976)*
pp.294-5)

British frustration occasionally boiled over into a threat to withdraw all British troops such as at a WEU Council Meeting in February 1957. However, the repercussions such a move might have had on the NATO alliance inevitably moderated the British

reaction and settled for a relatively minor reduction in troops. However, there were three issues which were guaranteed to set the British and Germans at loggerheads over defence expenditure. First, German rearmament, on which the Germans were generally suspected by British ministers of dragging their feet. Secondly, the British demand for reimbursement of the ‘foreign exchange’ costs of stationing troops in Germany which was a campaign that continued for some fifteen years. Thirdly, Germany’s seeming reluctance to purchase the quantity of arms in Britain which the British had expected and indeed were thought to have agreed. These issues were often aggravated by British politicians and press which only too easily slipped into accusations of German skulduggery. Each of the issues is examined below.

German Rearmament

Germany’s economy grew rapidly helped in part, some believed, by the delays which initially arose in its rearmament programme.²²² Some thought the delays were a consequence of having to start rearming from scratch whilst others suspected Germany of simply dragging its feet over the rearmament programme agreed in the Paris Accords so as to limit the amount of money spent. However, by the mid-1960s, Germany’s total defence expenditure was growing closer to Britain’s in absolute terms even if a smaller percentage of GNP.²²³ Some thought the delays were probably inevitable given that the Germans were starting again from scratch and having to buy land, build new barracks, buy new weapons as well as recruit a sizeable army, and, as there was no armaments industry, much of the equipment inevitably needed to be sourced from abroad. None of this could be done quickly. However, the British felt it was all taking far longer than necessary and was another consequence of Germany’s conservative budgetary policies.

²²² In a Note prepared for the US government, RAND estimated the GNP (in billions of 1986 US dollars) of Britain and Germany as follows: In 1950: Britain \$251bn and Germany \$172 bn; in 1960: Britain \$349bn and Germany \$402bn; in 1970: Britain \$463bn and Germany \$622bn. A RAND Note, Long-Term Economic and Military Trends 1950-2010, Prepared for The Office of the Undersecretary of Defence for Policy.

²²³ See: Table 17 .

Schäffer, the German Minister of Finance, was undoubtedly a fiscal conservative and remarkably had pursued a budgetary policy of first saving up the money needed to lay out on defence, dubbed his 'Julius Tower' (of money) approach.²²⁴ The situation was complicated by the unpopularity of rearmament in Germany which the Social Democrats were happy to exploit. The British were further frustrated by Germany's seeming inability to produce a clear financial picture of its financial planning for rearmament. It encouraged the view that the Germans were not taking rearmament seriously or going about it with the necessary urgency.²²⁵ However, despite these initial problems, the Germans did in the end complete their rearmament obligations more or less within the time frame agreed in the Paris Accords.²²⁶

British ministers were anxious to reduce Britain's worldwide military commitments and were therefore anxious to see the German contribution of troops to NATO in place as soon as possible to lessen Britain's load. Military expenditure in 1945 had been as much as 50 per cent of GDP but had fallen to 9 per cent by 1950, and to 5.8 per cent by 1969. Whilst Britain still had other overseas commitments, all of Germany's troops were committed to the defence of Germany.

Schäffer worried about the effect of rearmament on the rate of inflation. He argued it was better to import arms than manufacture them as this would allow Germany to retain the maximum capacity for manufacturing its own exports. The Treasury agreed with the logic of this noting that: "the absence of any defence expenditure making claims on the economy, which compete with the claims of exports and investment, has been of great benefit to Germany during the period of reconstruction since the war, and has given the German economy a relative advantage over the UK, particularly in the export field".²²⁷ British ministers also noted that perhaps as much as 10 per cent of British manufacturing was devoted to making standard military equipment and they wondered if this was having the effect of crowding out opportunities for producing higher value products which might

²²⁴ The Julius Tower in the Spandau Citadel had held the reparations paid by France after the Franco-Prussian war of 1870-71. In the 1950s this figurative reference to the Tower referred to Schäffer's policy of first amassing the riches to pay for future defense expenditure.

²²⁵ Zimmermann, *Money*, pp.38-43.

²²⁶ Edward Fursdon, *The European Defence Community: A History* (London, 1980), p.329.

²²⁷ TNA, T 234/24 Memorandum, 13 December 1955.

in the long run at least have had a greater potential for export earnings. In another memo the Treasury stated that: “We shall be tying up our manpower and industrial capacity on defence to the advantage of our strongest competitor. The Germans do not try to conceal they have no intention of disrupting their civilian industry and export potential”.²²⁸ British ministers particularly feared that Germany’s high value goods would only increase German penetration of British markets.

When military conscription began in 1957, Schäffer insisted the period of military service for conscripts should be temporarily reduced from the eighteen months agreed in the Paris Accords to twelve months and this was not restored until 1963. This irritated British ministers who felt it showed that the Germans were only too willing to rely on the British and Americans to provide their security whilst doing as little as possible to provide it for themselves. As far as they were concerned, the Germans only began to approach rearmament more energetically once Schäffer was replaced in 1957 in part as a result of the pressure put upon Adenauer by Macmillan and partly because his tight fiscal policies came to be seen even by Adenauer as damaging Germany’s economic growth.²²⁹

The Foreign Exchange Costs of Stationing Troops in Germany

British ministers might have wished it were possible to renegotiate the financial provisions of the Paris Accords but knew it was out of the question. However, they felt it might be possible to recover something by asking for reimbursement of the ‘foreign exchange costs’. These were the Bank of England’s costs of purchasing the necessary amount of deutschmarks needed to supply the BAOR. It was not the budgetary costs which under NATO rules were borne by each country separately, only the costs of the foreign exchange spent in Germany. What caused British resentment was that the deutschmarks bought by the Bank of England simply benefited the German economy and (by the same token) depressed the British economy as they were sums which were

²²⁸ TNA, T234/25 Memorandum, 2 January 1956.

²²⁹ Zimmermann, *Money*, p.78

not now able to be spent in Britain. The Germans, however, made it plain that they did not see why they had to bear these costs and in any event were sceptical how the claim had been calculated.

The British insisted on asking for compensation as the Germans were felt to be doing very well out of the stationing of troops in Germany. This was in contrast to Britain which was not only failing to expand its financial reserves but was also, as a debtor, making burdensome settlements each month through the EPU. The American contribution to the German economy was in fact far greater than the British but until the 1960s, when they began to experience balance of payments problems themselves, the Americans seemed not to care too much about their 'exchange costs', and were not inclined to make anything of the issue. It was also frustrating for the British that the Germans preferred to spend their money on the more up-to-date American equipment which annoyingly, as far as the British were concerned, only served to put even more money into the flourishing American economy rather than the British.²³⁰

After the expiration in 1955/6 of the German obligation to pay 'occupation costs' under the Paris Accords, the British, frustrated by further delays in German rearmament, began to press for compensation for the foreign exchange costs. For 1956/7 the British demanded £70m which represented a significant proportion of the UK's accumulated deficit between 1955 and 1959 of £397m, with reserves fluctuating between £741m and £1,129m.²³¹ Schäffer initially refused even to discuss the issue, but later had to concede £34m, just half the amount demanded, but only on condition the Germans would not be asked to pay any more, though it was not long before the British were back asking for more.²³²

For 1957/8, the British demanded another contribution towards the foreign exchange costs, this time to be paid over a period of three years. The settlement achieved was for even less cash than before, just £12m a year, but included the early repayment of German pre-war debts. By the early 1960s, when German rearmament was completed,

²³⁰ Zimmermann, *Sour Fruits*, p.221.

²³¹ Zimmerman, *Money*, p.26.

²³² Zimmermann, *Sour Fruits*, p.225.

the focus changed to so called 'offset agreements' under which the Germans would agree to buy British weapons and goods to offset some of the money put into the German economy.²³³ These demands which were put by both Conservative and Labour governments always reaped less than the amount ministers expected, not least because the Germans were often unimpressed by the quality of the range of items offered by the British. More useful were the German investments in British Treasury bonds and the placing of German money on deposit in blocked accounts held with the Bank of England which could be released against the purchase of British armaments. Another idea that was discussed was that Germany might give foreign aid to third world countries on condition it was then used to buy British goods but nothing came of this. There were further offset agreements made in the 1960s; the last of them in 1971 for a five year period but no further agreements were made after Britain's admission to the EEC in 1973.²³⁴

The British felt it was demeaning begging for financial assistance time and time again from its former enemy to whom the British forces also happened to be providing military security. The basis of the British claims revolved around the stability of sterling and the exchanges and was linked to the argument that the Germans needed to do something about the 'financial disequilibrium' in the international monetary markets caused by the strength of the deutschmark and the German reserves, a situation which the British argued was impeding the growth of international trade.

The stationing costs had a negative effect on the balance of payments but the sums recovered from the Germans were never on the scale the British demanded. What is striking about the saga is the lengths Britain was prepared to go to in continuing its dispute with the Germans over the 'foreign exchange costs' and the 'offsets'. It was all in the interests of protecting the parity of the UK:US exchange rate and creating 'confidence' in sterling, whilst at the same time, it was at odds with Britain's principal diplomatic aim of calling on the Germans for help in furthering their European objectives.

The reimbursement of the foreign exchange costs was far and away the most common question raised in Parliamentary Questions about Germany in the period not

²³³ Zimmermann, *Sour Fruits*, p.234.

²³⁴Zimmermann, *Sour Fruits*, p.235.

least because it was rare for an opposition spokesman raising the subject not to draw some blood from any minister's embarrassment at never reaching a conclusion to these endless negotiations, whilst, on the other hand, ministers raising the subject were usually presented with opportunities to bash the Germans and demonstrate some action, if not results, on their part. Typical of the many parliamentary questions was one from Emrys Hughes to the Minister of Defence: "Does not the Minister see the irony of the fact that last year the Germans exported more motor cars than we did, and that now the people who will be thrown out of work in the motor car industry will have to help, by taxes, to finance the rearmament of Germany".²³⁵

Almost every ministerial encounter between Britain and Germany in the period included British lobbying on this issue. Similarly, many of the meetings of British and German foreign office and economics officials attending the Anglo-German Economic Committee sessions also involved British delegates raising this issue.²³⁶ Each of Macmillan, Home and Wilson as Prime Ministers and Selwyn Lloyd, Maudling and Callaghan as Chancellors of the Exchequer tackled their German counterparts on the issue – Callaghan was particularly incensed by what he saw as its injustice - and all, generally after much effort, were able to wring some further concessions out of the Germans who after all did not wish to see British troop levels run down too much. However, the compensation the British obtained in the form of offsets or early releases of debt repayments was often not in the form it was most desired, namely straight cash compensation.²³⁷

Buying British armaments

In the 1950s and 1960s as its rearmament programme gradually gathered pace, Germany emerged as the world's largest arms importer. Britain and the US inevitably

²³⁵ Hansard, Parliamentary Questions, 29 June 1956, col. 870.

²³⁶ See, for example, the minutes of the first, second, third and fourth sessions of the AGEC held in respectively London, Bonn, London and Munich (TNA 236/5073; TNA FO371/133214).

²³⁷ See, for example, *Economist*, Who will Pay the Piper? 23 May 1964, p.827; *Economist*, Getting Bonn to Foot the Bill, 21 May 1966, p.809; *Economist*, That Defence Bill- Callaghan Visit to Bonn- Ultimatum 23 July 1966, p.333; *Economist*, BAOR Costs – Face Save for Mr Callaghan, 23 July 1966, p.373.

competed for arms orders but, as we have seen, the Germans usually preferred American products. The trouble was that there were too many instances where British arms were found to be of poor quality. One of these was the British Centurion tank which the Germans, after much hesitation, and much British lobbying, was eventually passed over in favour of the American M-48. The British expected a very large order for the P-177 aircraft but that too was also rejected on the grounds of quality. There was a large £50m order British Leyland won on an agency contract to build under licence the Hispano-Suiza armoured track vehicle, until then Britain's largest-export success in Germany, but two-thirds of this had to be cancelled when the vehicles were found to be dreadfully poor quality.²³⁸ In the case of the Hispano-Suiza there were also an embarrassing accusations by the Germans that they were being fobbed-off with an outdated version of the vehicle rather than the latest state of the art product which the Germans expected.²³⁹ In a Foreign Office telegram to the Bonn Embassy, it was noted that:

The Germans must realise that these disappointments and the way in which they have come about are having an adverse political effect in the UK and are seriously disturbing Anglo- German relations. In particular, they strengthen the hands of those ... who do not wish the UK to co-operate with Germany ... The view is gaining ground in some quarters that the Germans have been leading us up the garden path".²⁴⁰

The Germans turned more and more to the Americans for equipment, and the more American equipment was preferred, the more the Germans were tied into American systems because of their compatibility with previous orders for equipment. In this way, the US tightened its grip over German arms sales to the disadvantage of the British.

The British also showed a diffidence about becoming involved in co-operative arms developments with continental manufacturers and made little or no effort to

²³⁸ Zimmermann, *Money*, p.66.

²³⁹ *Ibid*, p.66.

²⁴⁰ TNA, FO 371/137471, FO to Bonn, 21 January 1958.

manufacture mutually compatible products, in effect ruling themselves out of joint ventures with continental arms manufacturers. As one writer commented: “As long as British policy seemed to be one of maintaining economic, military and political distance from the continent, it was not surprising that the Germans felt it would be more politically efficacious to co-operate with France and the US”.²⁴¹

Conclusion

The political capital the British obtained from establishing its garrison on the Rhine was often overshadowed by the remarkably long and, to some extent, fruitless battle to obtain German recompense for some of the costs. The greater the German economic expansion, the more the British felt they might have been more generous in reimbursing the costs of stationing troops there. The foreign exchange costs were largely seen as increasing Germany’s already huge reserves and adding to the ‘financial disequilibrium’ of the international monetary system.

Whilst “bullying” Germany to obtain a bigger contribution to the stationing costs of British troops was strongly in tune with public opinion, it was inconsistent with the policies of the foreign policy officials and ministers who were relying on Germany to influence the French attitude towards the various British approaches to Europe which are discussed in Chapter 15.²⁴² The regular huffing and puffing in Parliament and the press over the issue of financial redress brought only marginal results and, given Britain’s other priorities, was more of a symbolic than a real fight. It probably went on for so long because it was against the recent enemy, Germany, so it was just too difficult emotionally to let it drop, at least before the strongly-pro European government of Edward Heath.

²⁴¹ Zimmerman, *Money*, p.66.

²⁴² Martin Schaad, *Bullying Bonn: Anglo-German Diplomacy on European Integration* (London, 2000).

Chapter 15: The Approach to Europe

Britain's pivot towards Europe in the 1950s had momentous implications for Britain's international trade and finance.²⁴³ Between 1950 and 1955 British exports to western Europe grew from 21.5 per cent to 27.5 per cent of its worldwide exports whilst those to the Commonwealth fell slightly from 48.7 per cent to 47.8 per cent. As the *Economist* put it: "Germany was at the same time Britain's first competitor and most inviting market".²⁴⁴ What were the reasons the British regarded Germany as such a significant trading partner? First and foremost, there was Germany's great economic boom and its hoovering up of imports. Secondly, as the two leading countries in the manufacturing and engineering sectors, competition was bound to intensify. However, the economies complemented each other as the products of one country were often developed with an eye on the products developed by the other, or even exported to be fitted into the goods of the other, making the two economies to some extent complementary, engendering a degree of regular business co-operation. Thirdly, Germany proved to be a tough competitor in export markets and the biggest threat to Britain's own export efforts around the world. Fourthly, it was apparent that Britain could no longer rely on its traditional Commonwealth markets which increasingly opted for German and American goods which they perceived as having better quality, price and after-sales service.²⁴⁵ Germany had, therefore, by the late 1950s, resumed its role as an important trading partner and, though British exports to the USA, Australia and Canada were greater, there was a feeling in Britain, particularly in business and government circles, that it was the German market which offered British exporters the best

²⁴³ Barry Eichengreen, *Reconstructing Europe's Trade and Payments: The European Payments Union* (Manchester, 1993), p.32; see also Helge Berger and Albrecht Ritschal 'Germany and the Political Economy of the Marshall Plan, 1947-52: a re-revisionist view' in Barry Eichengreen (ed.), *Europe's Post-War Recovery* (Cambridge, 1995), p.228.

²⁴⁴ *Economist*, 3 February 1962, p.397.

²⁴⁵ See: Chapter 12 (Competition from Germany).

opportunities. A PEP Report put its finger on the problem when it noted that “whilst Britain’s exports were in largely declining industries, a large proportion of Germany’s were in expanding industries”.²⁴⁶

The Americans had been urging the Europeans to seek greater economic integration since the war but, in the 1950s, there was little enthusiasm for this amongst British ministers, particularly for anything involving supra-nationality.²⁴⁷ In Britain, inter-governmental organisations which respected national sovereignty were much preferred as a model of economic co-operation. The inter-governmental OEEC was particularly favoured as a forum for voluntary economic discussion and research. Admittedly Britain had supported the formation of the supra-national European Coal and Steel Community (ECSC) and the aborted European Defence Community (EDC), but the Conservative government made clear that Britain would not itself be seeking membership of either.²⁴⁸ In general, since the war, the usual response of the British government to any supra-national proposal was to try and stifle it at birth or, failing that, seek ‘safeguards’ to protect Britain’s vital interests or, as in the case of the ECSC, obtain some form of ‘associate’ status so it could enjoy as many of the benefits of participation as possible without actually joining.²⁴⁹ British business believed a majority of the Germans thought the same way, but after Messina were disappointed to find that in fact they were prepared to go further in integrating than the British.²⁵⁰

The initiative for a customs union had come from the Benelux countries. As an associate member of the ECSC, Britain had been invited to send a ministerial delegation to the Messina Conference but the Treasury had immediately made it clear that it was not interested stating that “there are... special reasons which would preclude [Britain] joining

²⁴⁶ PEP, *Competition from Germany*, 21 June 1954, p.2.

²⁴⁷ For example, the Western European Union was promoted by the British to encourage the European powers to cooperate more fully but it was a distinctly inter-governmental body.

²⁴⁸ Miriam Camps, *Britain and the European Community, 1955-1963* (Princeton, 1964), pp.17-18.

²⁴⁹ James Ellison, *Threatening Europe: Britain and the Creation of the European Community* (Basingstoke, 2000), p.4.

²⁵⁰ Martin Schaad, *Bullying Bonn: Anglo-German Diplomacy on European Integration 1955-1961* (Basingstoke, 2000), p.25; Neil Rollings, *British Business in the Formative Years of European Integration, 1945-1973* (Cambridge, 2007), p.96.

a European Common Market” and it let it be known it would be sending no more than a ‘special representative’, a Board of Trade official with mere observer status.²⁵¹

Whilst working to make sure Germany was tied into the western alliance as tightly as possible, some politicians in Britain were as much worried about a strong Germany emerging which might overwhelm its neighbours. Macmillan’s first thoughts on the customs union proposal was that: “Europe would be handed over to Germany, a state of affairs we had fought two world wars to prevent”.²⁵² A Foreign Office official expressed a similar view saying: “the Germans have on the whole been modest and well-behaved new boys ...[but] as they begin to feel their strength, we may not have such an easy time of it. One of the most important tasks of the Alliance for the coming year ... is to ensure the Germans continue to play the game and are not allowed to get above themselves”.²⁵³

Initially, the Foreign Office was complacent, thinking that there was little chance of the Europeans managing to “get [any customs union] off the ground”.²⁵⁴ The French were expected to refuse to have anything to do with it. Thorneycroft, the President of the Board of Trade noted: “France is very doubtful about joining a common market which Germany would rapidly dominate in the absence of the United Kingdom” so he thought “it was unrealistic to suppose the six countries would be able to create a common market or free trade area”.²⁵⁵ Britain had been so used to taking a leading role in Europe especially over matters affecting Germany and usually sought to direct all matters into the safe hands of the OEEC where it expected to be able to exercise more control. However, such manoeuvres overestimated Britain’s diplomatic authority especially in the eyes of the many Europeans who were determined, after the successful establishment of the ECSC, to seek more European integration.

Board of Trade officials with contacts in German business were less dismissive of the Europeans’ efforts and thought a common market might just succeed.²⁵⁶ Officials in the Treasury’s Economic Section believed that if the Europeans went through with the

²⁵¹ Martin Schaad, *Bullying Bonn*, p.19.

²⁵² TNA FO 371/116042/114 Stretton, Record of Conversation with Macmillan, 29 June 1955.

²⁵³ TNA FO 371/116053/312, Minute, Edden, 9 November 1955.

²⁵⁴ Martin Schaad, *Bullying Bonn*, p.14.

²⁵⁵ TNA, BT 11/5715, Minute, Swindlehurst, 24 October 1955.

²⁵⁶ Schaad, *Bullying Bonn*, p.18.

proposed common market, and Britain remained entirely outside it, then its assessment was that Britain “would certainly lose”.²⁵⁷ The distinguished Treasury official, Edward Bridges, fretted in a memorandum he sent to the Chancellor of the Exchequer, Rab Butler, that “if the ‘little Six’ form a Zollverein without us, not only will the authority of the OEEC wither away, but in addition West Germany will gain an unhealthy position of power as the dominant partner in the new union”.²⁵⁸ Such responses revealed that British ministers and officials recognised at an early stage what a super-charging effect a successful customs union could have on the German economy, and how this could translate into raw political power. The *Economist* put it even more strongly, observing that: “if Germany is in the scheme, and Britain is outside it, the results could be disastrous for our trade”.²⁵⁹ One respected commentator suggested that many in Britain’s business and political circles had concluded that: “if Germany had access to a protected market in western Europe, Britain could not afford to stay out”.²⁶⁰

Germany was always perceived as the crucial EEC state as far as Britain was concerned. As one commentator put it when writing in *The Director*: “reflecting concerns about German competition, ... Germany always received the most coverage in business circles”.²⁶¹ Once the establishment of the Common Market looked likely, Britain was forced to begin thinking about strategies for minimising the threats. The Germans had been energetic in opening up overseas markets across the globe in Europe, the Far East and Latin America which demonstrated the global reach of its ambitions and the threat it posed as a trading competitor of Britain. Through the biannual meetings of the Anglo-German Economic Committee, Treasury and Foreign Office officials sought to divert German attention into development aid as a way of absorbing German energies away from their capturing more traditional British markets.²⁶² All this and their common commercial outlook meant that the British felt the Germans were some form of ‘natural

²⁵⁷ TNA, CAB 134/1029, Report of Treasury Economic Section, 14 July 1955.

²⁵⁸ TNA T 232/432, Bridges to Butler, 20 September 1955.

²⁵⁹ *Economist*, ‘Opportunity in Europe’, 14 July 1956.

²⁶⁰ Miriam Camps, *The Free Trade Negotiations* (London, PEP, 1959), p.32.

²⁶¹ *The Director*, R. Bailey, ‘How Germany Sees the Common Market’, October 1957.

²⁶² TNA, FO 371/133217, Minutes of the AGEC, 7-9 January 1958, Anglo-German Co-operation in Under-developed Countries, p.4.

ally' amongst the Europeans and the obvious European country to which Britain might turn when it needed help despite, as we have seen, all the areas of tension between the two.²⁶³

The Board of Trade's view in the mid-1950s was that even if there were long-term attractions in a customs union, in the short term at least it was impractical for Britain, as it would first need "a clear public decision" and on that it thought there were "insuperable difficulties" in the form of a sceptical public opinion.²⁶⁴ There were also those in Britain who thought Britain should first sort itself out and build a stronger negotiating position before engaging with the Europeans. The Labour MP Richard Crossman was one who objected that "we cannot accept the view that we must enter the Common Market because the country cannot manage to pull itself together and organise its economy properly outside the Common Market".²⁶⁵ There was also strong resistance from British industry and agriculture to the removal of all tariff protection against Europe. It would have meant the loss of control over internal economic and financial policies which it would be difficult to accept.²⁶⁶ The Board of Trade listed Britain's options as refusing to have anything to do with any customs union, redirecting the initiative into the OEEC, seeking some form of 'associate status' and, lastly, offering a 'free trade area which encompassed the Six as well as other interested OEEC countries'.²⁶⁷

Otto Clarke's Treasury Working Party which launched Britain's turn to Europe started by considering the position of Germany, saying a closer interest in Europe "stems from the growing fear of a course of events in Europe which would disrupt our interests and undermine our security and economy".²⁶⁸ "This threat", it said, "arises from the growing strength and independence of Germany... Germany can no longer be forced to remain in the orbit of the West...[and] without Germany, the future of the Alliance on the Continent would be precarious".²⁶⁹ The Report argued that it was necessary to

²⁶³ Schaad, *Bullying Bonn*, p.25.

²⁶⁴ Robert Nicholls, *The British Political Elite and Europe 1959-1984: a higher loyalty* (Manchester, 2019), p.37.

²⁶⁵ *The Times*, 19 September 1961, p.16 .

²⁶⁶ TNA, BT 11/5715, Bretherton, Minute, Possible Courses of Action, 22 October 1955.

²⁶⁷ TNA, BT 11/5715, Report on the 'New European Initiative', p.1.

²⁶⁸ TNA, BT 11/5715, Report on the 'New European Initiative', p 2.

²⁶⁹ *Ibid.* p.2.

consider “how Germany might be brought to see how her interests lay in remaining allied to the West” and the solution it postulated was for “some form of closer association of the United Kingdom with the Continent; a closely knit Western Europe, militarily and economically strong, which would otherwise pass under German hegemony, might well become as dangerous to our interests (though in a different way) as a disrupted Europe”.²⁷⁰ The Report dismissed any idea of joining the proposed common market – saying it “would be incompatible with the United Kingdom’s Commonwealth and world –wide interests” but argued for Britain “to develop a closer economic association with Europe, without weakening our links with the Commonwealth and the United States ... our weight would balance Germany’s”.²⁷¹

The Treasury Working Party Report put forward a number of options—Plans A to G as they were known—of which Plan G for a free trade area found general favour in the cabinet and formed the basis for diplomatic negotiations over the next year or so. The proposal was for an industrial free trade area which entirely ignored the question of agricultural interests implying that Britain would continue its system of Commonwealth preference. The proposal had been designed to particularly appeal to Ludwig Erhard and his colleagues in the Ministry of Economics. It chimed very closely with their views and those of many in German business circles on the need to expand industrial free trade throughout Europe. The idea also tapped into the wishes of the various OEEC countries, known as ‘the Seven’, which were worried about being excluded from the Common Market and the damage they feared might be done to them.²⁷² The essence of the Plan was to erect a larger free trade area for industrial products on the superstructure of the Common Market’s schedule of tariff reductions which were planned at the rate of 10 per cent a year during the Common Market’s transitional period due to begin on 1st January 1959. The EEC would be treated for the purposes of the Free Trade Area as a single country with its own common external tariff but there would be no common external tariff applying to the likely larger grouping of 13 countries so that each country in the free trade

²⁷⁰ Ibid, p.2.

²⁷¹ Ibid, pp.1 and 3.

²⁷² The outer ‘Seven’ were Austria, Ireland, Denmark, Norway, Sweden, Switzerland as well as the United Kingdom.

area had the flexibility to apply such tariffs as it wished. Although the French strongly objected to the proposal as excluding agricultural products, the Germans were less concerned because, like the British, they did not have large agricultural exports and in any event their aim was to expand free trade but they came to accept that it might create difficult problems of deviation of trade. This was a concern that a low tariff country might import goods and redirect them into other countries tariff free.

The Bonn Embassy reviewed Plan G and rather optimistically believed it would be warmly welcomed in Germany and did not think the proposed exclusion of agricultural products would present any great difficulty.²⁷³ When Macmillan and Thorneycroft announced their proposal at a press conference in November 1956, in addition to heralding "the great opportunities" it would bring, they also warned: "on the negative side, do not forget the dangers of staying out of a European bloc dominated by our principal competitor, Western Germany".²⁷⁴ Academic economists were generally supportive, Roy Harrod welcoming the potential economies of scale it would bring but Thomas Balogh, as usual over gloomy, warned about the danger of German dominance and the collapse of the Sterling Area.²⁷⁵ The *Economist* disentangled the various arguments behind the proposal labelling them 'the forced suitor argument' on account of "an ebullient Germany establishing an unchallengeable hegemony over the export markets of the continent"; the 'Disturbance Argument' for freer trade which would lead to the "wholesale rationalisation of European industry"; and the 'Imperial Argument' which "accepted the decline of imperial preference and assumed the future lay in competing with the growing European manufacturing sector".²⁷⁶

After the British announcement, the British lobbied hard for the adoption of the plan by the Six and 'outer seven.' In May 1958, De Gaulle came to power in France and, suspicious of Britain's Commonwealth and Atlanticist connections, in December 1958 vetoed the FTA outright.²⁷⁷ The 'outer seven' persisted with the idea of a free trade area

²⁷³ Schaad, *Bullying Bonn*, p.96.

²⁷⁴ Schaad, *Bullying Bonn*, p.86.

²⁷⁵ *Economist*, A Free Trade Symposium, 6 April 1957.

²⁷⁶ *Economist*, Free Trade without Emotion, 27 October 1957.

²⁷⁷ Schaad, *Bullying Bonn*, p.89.

initially encompassing just themselves, and agreement on this was sealed by the 1959 Treaty of Stockholm with the participation of an aloof Britain which was in two minds about how best to use the idea of a free trade area with 'the Six'.²⁷⁸ Ministers remained ambivalent about EFTA and unsure whether it could provide the stimulus the British economy needed, or whether they should use it as a stick to beat the EEC countries, particularly Germany, into joining a free trade area along the lines vetoed by Dr Gaulle. The confusion demonstrates how reluctant ministers were to relinquish what they believed was the real prize of greater access to European industry and, in particular, Germany. Within a little over a year after the Stockholm Treaty, during which Britain had continued to put out feelers to the Germans about reviving a modified form of the free trade proposal, British ministers finally decided to launch an application to join the EEC. This was the first of three it made in 1961-3, 1966-7 and the successful one of 1971-3 under the pro-European Edward Heath.

In the 1960s, British ministers and officials held the German economy in some awe and were inevitably drawn to join the Common Market club over which Germany was taking a leading role. Ministers received regular reports from the Bonn Embassy which confirmed the dynamism of the German economy and British officials at the biannual Anglo-German Economic Committee were equally given to express wonder at the growth of the German economy.²⁷⁹ What Britain wanted more than anything else was an expansion of trade which would help it achieve higher economic growth rates and help in combatting the chronic economic crises Britain found itself in throughout the 1960s. Michael Stewart, Foreign Secretary at the time of the discussions about a second application, expressed it succinctly as follows: "The German economy is so strong that the Federal Government has a part to play second only to the United States in deciding whether we obtain what we need from the international community".²⁸⁰

²⁷⁸ Schaad, *Bullying Bonn*, p.122.

²⁷⁹ Sir Frank Roberts, Memo to the Foreign Secretary, 'The German Economic Miracle: How Do They Do It?' 18 January 1965. British officials expressed how impressed they were about the performance of the German economy, for example, at the Oxford Session of the AGECE in February 1960.

²⁸⁰ TNA, CAB 129/122, Michael Stewart to Cabinet, 5 August 1965.

In their pursuit of Britain's European objectives, the free trade area and then joining the Common Market, British ministers regularly espoused the mantra that "the Germans hold the key".²⁸¹ Sometimes though they tried to 'use' the Germans to smooth their path and sometimes 'abused' the Germans by playing on imagined French fears and arguing how important it was to have Britain as a counter-weight to the dynamic Germans.²⁸² Playing one member off against another whilst hoping one of them would persuade the other in the applicant's favour was an odd way of applying to join a club and it was made even more confusing by Britain sometimes trying both approaches simultaneously.

The British had identified the anglophile Economics Minister, Ludwig Erhard, as the major figure in Germany who they expected to be able to help them with the free trade proposal and the subsequent applications to join the EEC but, as discussed in Chapter 3, the faith placed in Erhard never bore the fruit for which they hoped. Erhard was more than willing to help but he never had sufficient influence over German foreign policy to outweigh his pro-French colleagues. The Foreign Office official, Gore-Booth, seethed after feeling he had been let down by Erhard over the FTA: "At every stage in this argument, the Germans have arrayed themselves in a great panoply of doctrine and defiance, only to run away when the first shot is fired".²⁸³ Macmillan on hearing about the FTA veto, was left to rue: "They have not given us the assistance which we had hoped for. It seemed clear that the Federal German Chancellor would be extremely reluctant to prejudice in any way his overriding objective of securing a lasting political reconciliation between France and Germany".²⁸⁴ When Macmillan in June 1958 became particularly frustrated with the Germans, he instructed his Foreign Secretary, Selwyn Lloyd, that threats needed to be employed against them: "We ought to make it quite clear to our European friends that ...we shall have to reconsider the whole of our political and economic attitude towards Europe ... we would take our troops out of Europe. We would

²⁸¹ Helmut Phillippe, *"The Germans Hold the Key": Anglo-German Relations and the Second British Approach to Europe* (Augsburg, 2007).

²⁸² W. Kaiser, *Using Europe, Abusing the Europeans: Britain and European Integration, 1945-1996* (London, 1996).

²⁸³ TNA, FO 371/ 133251 Gore-Booth to Hoyer-Millar, 10 November 1958.

²⁸⁴ TNA CAB 130//123 Macmillan, 17 November 1958.

withdraw from NATO. We would adopt a policy of isolationism”.²⁸⁵ Without the same commitment to European integration as the members of the Six, the British were inclined to reduce what should have been a more fundamental assessment of underlying policy and objectives to a rather narrow issue of personalities, ‘good and bad,’ and so were in danger of ending up disappointed and disillusioned when negotiations inevitably failed. Even the normally sensible ambassador, Sir Christopher Steel, out of frustration, allowed himself a lapse in his usual good judgement by descending into make-believe threats urging: “Adenauer should be made to understand the political consequences of failure and these cannot be pointed out to him too strongly”.²⁸⁶ Arguably, only a committed pro-European such as Edward Heath stood any chance of understanding the Common Market sufficiently to be able to conduct successful negotiations which he managed to do on Britain’s third application leading to its accession to the EEC in January 1973.

What Britain feared throughout the twelve years of negotiations with the Europeans was the German economy accelerating ahead and leaving Britain behind. In the negotiations on the second application to join the EEC, the German Chancellor, Kiesinger, echoing Harold Wilson’s declaration: “We mean business”, retorted “We too mean business”.²⁸⁷ It was an indication that the British thought their German colleagues were grown-ups like themselves and the two countries could sort out a deal in a grown-up way without worrying too much about the others. However, it was another serious overestimation of the help they would in the end receive from the Germans who often had different priorities. Adenauer and the German Foreign Office simply had far more say over German foreign policy than Erhard’s Economics Ministry, a position made worse for the British by the fact that Erhard often allowed himself to exaggerate his ability to influence Germany’s overseas policies.²⁸⁸ The British were in the end disappointed about how little their biggest European trading partner and ally, Germany, and its anglophile minister, Erhard, were able to achieve in the course of helping Britain.

²⁸⁵ TNA PREM 11/2315, Macmillan to Selwyn Lloyd, 24 June 1958.

²⁸⁶ TNA FO 371/134501, Steel, Briefing, 21 March 1958.

²⁸⁷ Oliver J. Daddow (ed.), *Harold Wilson and European Integration: Britain’s Second Application to join the EEC* (London, 2003).

²⁸⁸ Martin Schaad, *Bullying Bonn*, p.75.

Conclusion

British politicians and officials in the late 1950s and 1960s had a number of overseas economic models available when thinking about ways to improve Britain's economic performance. The successful United States economy was the most obvious because of its dynamism but post-war Britain, after the 'People's War', was more in the mood for collectivist solutions than American economic liberalism.¹

The surprise feature of the post-war world turned out to be the successful European economy which soon began to exert a great 'pull' on the British economy.² Europe provided a number of economic models most notably the Swedish, Soviet Union, French and German economies. To many observers on the left, social democratic Sweden was much admired, an avant-garde moderately collectivist society with high taxation, high universal benefits, subsidised housing, planning and environmentalism. However, its centralised wage bargaining and worker consultation did not attract either employers or trade unionists, and interest in the model faded.³

Soviet state direction had its admirers, especially amongst proponents of Clause 4 of the Labour Party constitution who advocated nationalisation and planning. In one speech the Labour politician Aneurin Bevan declared:

The challenge is coming from Russia...not from the United States. The challenge is not going to come from West Germany nor from France. The challenge is going to come from those countries ... able to reap the material fruits of economic planning

¹ Angus Calder, *The People's War* (London, 1969).

² Glen O'Hara, *Governing Post-War Britain: The Paradoxes of Progress, 1951-1973* (Basingstoke, 2012)

³ O'Hara, *Governing*, p.32.

and of public ownership".⁴

Michael Shanks, author of the declinist polemic *The Stagnant Society* also gave a nod to 'the new Sparta of the East' for much the same reason.⁵

France in the late 1950s began to enjoy high levels of growth with an economic model originally fashioned by Jean Monnet after the war based on national planning involving indicative targets agreed with private enterprise and later propelled by membership of the Common Market. In the early 1960s, France's national planning attracted much interest in Britain as it involved a revival of the 1930s interest in planning and an ambition for grand projects. The Macmillan government, duly impressed, set up the National Economic Development Council as a forum in which employers, trade unions and government might meet together and jointly plan the economy with agreed targets for wages, dividends and productivity. This was developed by Labour in 1965 into a National Plan with what turned out to be an over-optimistic target of 4 per cent growth per annum. Whilst the French achieved rapid growth on the basis of their national planning, British efforts were rather more of a shambles because of the general absence of commitment on both sides of industry so that no grip was obtained over the wage inflation which was identified in Britain as the main problem even if this was mainly a surrogate for poor industrial relations and poor productivity.⁶

What then of the German model? Britain wished for the industrial peace, price stability and productivity all of which were to found in abundance in Germany. It is surprising therefore that the German model did not commend itself more strongly to the British. There were flashes of interest, as we saw in Chapter 8, but largely only in Conservative circles.⁷ There was little interest from Labour during the period which is surprising given the strong culture of welfarism, industrial training and education and a very effective system of industrial relations which was held in such high regard around

⁴ Aneurin Bevan cited in Ben Pimlott, *Harold Wilson* (London, 1992), p.230, quoting *The Observer*, 8 November 1959.

⁵ Michal Shanks, *The Stagnant Society: A Warning* (London, 1961), p.16.

⁶ O'Hara, *Governing*, p.20.

⁷ Martin Wassell and Nigel Vinson, CPS Leaflet, *Why Britain Needs a Social Market Economy* (London, 1975); Keith Joseph, *The Social Market: Containing some lessons from Germany* (London, 1992).

the world. The label ‘social market economy’ never struck a chord in Britain as it did in Germany at least until much later when it was taken up by the Social Democrats. Erhard had masterfully sold the concept to the German public as a new political formulation which would appeal to both those wishing for their capitalism to be more ‘social’ and those wishing for their social democracy to be more ‘market-orientated’.⁸ In Britain, this ambivalence in the phrase ‘social market economy’ led the political left to reject it as ‘laissez-faire’ economics and those on the right to reject it as too social democratic. Erhard’s book *Prosperity through Competition* had been well publicised in Britain and hammered home how his policies had brought down prices, expanded exports and made Germany prosperous.⁹ He was undoubtedly held in awe by both Conservative and Labour governments for his economic achievements, and especially by Margaret Thatcher and some of her supporters,¹⁰ Nevertheless, remarkably little of the German model was studied let alone taken up by policy-makers in Britain so that in Glen O’Hara’s words, the model did indeed remain “relatively silent” in Britain.¹¹ Thatcher was too worried about the corporatism she perceived in the concept of the ‘social market economy’ in Germany to associate herself too openly, much though she admired Erhard.¹² The ambiguity, indeed contradictions, at the heart of the concept of the ‘social market economy’ played a part in making it difficult for commentators in Britain in the 1950s and 1960s to get to grips with the German model. However, perhaps the real difficulty for British politicians in the post-war era was to even admit they were looking at overseas models as the British did not see themselves as a country needing to learn from foreigners and, of the overseas models available, the German model was, because of history, the one

⁸ Mark Spicka, *Selling the Economic Miracle: Economic Reconstruction and Politics in West Germany 1948-1957* (New York, 2007).

⁹ Ludwig Erhard, *Prosperity through Competition* (London, 1958). See also Ludwig Erhard, *Germany’s Comeback in the World Markets* (London, 1954); Ludwig Erhard, *The Economics of Success* (London 1958).

¹⁰ John Campbell, *The Iron Lady: Margaret Thatcher: From Grocer’s Daughter to Prime Minister, Vol 1* (London, 2007), p.372. See also Charles Moore, *Margaret Thatcher: The Authorised Biography: Vol 1, Not for Turning* (London, 2013), p.312.

¹¹ O’Hara, *Governing*, p.14.

¹² Adrian Williamson, *Conservative Economic Policymaking and the Birth of Thatcherism 1964-1979* (Basingstoke, 2015) p.47, citing Kent Matthews and Patrick Minford, ‘Mrs Thatcher’s Economic Reform Programme’ in *Economic Policy*, Vol 2 No 5, p.94.

the British were least likely to stomach. Why should a country that had been on the winning side ever need to look at an overseas model? This was demonstrated most clearly when the Royal Commission showed how little interest it had in the successful German model of industrial relations. In Vic Feathers words, what worked well in Germany could not work in Britain because Germany was a ‘different place’.

Britain’s inability to turn its industrial relations around meant that after almost 30 years of economic growth of between 1 and 2 per cent. per annum less than its European competitors, notably Germany, as well as its higher rate of inflation, Britain was by 1979 perhaps some 50 per cent poorer than it might have expected to have been if it had grown at a rate commensurate with the performance of its European neighbours, particularly Germany. Britain had debts, sterling liabilities and military commitments around the world about which it constantly complained but in 1945 it also had significant advantages on which it failed to capitalise. It was the one major European nation that did not suffer the devastation caused by invasion so its infrastructure was reasonably undamaged though in need of repair and conversion to civilian use. It still had access to its overseas markets but its poor industrial relations was such that it was so often unable to supply goods at the right price and quality. Britain had European goodwill in abundance for its wartime role but in the ten years after the war Britain managed to throw that all away by mishandling the economy so appallingly and failing to win enough export sales to grow the economy adequately. Britain’s poor state of industrial relations was reflected in the high level of days lost through industrial disputes and the poor state of shop-floor co-operation. British management had long refused to introduce works councils and put worker representatives on the boards of companies, yet in Germany they became a key element in ensuring industrial consent and co-operation though some commentators have recently begun suggesting that this mentality is now in decline under the pressures of globalisation.¹³

Britain’s relative economic underperformance affected how Britain interacted with Germany in diplomatic terms throughout the post-war period and how it approached

¹³ See: *Economist*, Labour in Deutschland: Unseating an old idea, 1st February 2020, p.57.

British-German economic issues. British ministers and officials were often frustrated and annoyed by Germany's success in the post-war world and felt it a millstone around their own necks, whether in having to write off its debts, experiencing 'disequilibrium' as a result of its trade surpluses, or bearing the foreign currency costs of its military commitment to the British Army on the Rhine. With the financial pressures on it after the war, Britain could not shed its responsibilities for Germany fast enough. As a weary victor, it was often driven to lecture the German authorities on the actions they should take in the interests of the stability of the international financial system but without the authority to press home its complaints successfully.

The Conservatives came to the conclusion in 1958 that Britain needed in one way or another to keep up with the Germans and participate in Europe more fully, with Labour soon reaching the same conclusion. As a result Britain spent fifteen frustrating years knocking on Europe's door in the hope of enjoying the benefits of the Common Market whether through a free trade area or by joining the Common Market. The British saw the German economy as the main driver of European growth which they wished to tap into and more fatefully they also saw Germany as "holding the key" to their diplomatic access. Whether agreeing a European Free Trade Area or obtaining approval of their applications for membership of the Common Market, the British employed both 'bullying' and 'charm' offensives on the Germans in about equal measure and sometimes both at the same time. Britain never kept to a consistent line for obtaining help from the Germans.

British attitudes to Germany and its economic miracle were in part a response to the various economic issues which arose in its diplomatic dealings with the Germans but many of the British frustrations arose simply because the Germans were developing their economy so much more successfully. It is hard not to see that attitudes to Germany often prevented the British understanding Germany better and benefiting more from its remarkable economic success not least in the lessons it had to teach.

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