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When Greece Forgave Germany's Debt

AP | By PAN PYLAS and DAVID MCHUGH

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LONDON (AP) — Forgiving debt, if done right, can get an economy back on its feet.

The International Monetary Fund certainly thinks so, according to a new report in which it argues Greece should get help.

But Germany, another major creditor to Greece, is resisting, even though it knows better than most what debt relief can achieve. After the hell of World War II, the Federal Republic of Germany — commonly known as West Germany — got massive help with its debt from former foes.

Among its creditors then? Greece.

The 1953 agreement, in which Greece and about 20 other countries effectively wrote off a large chunk of Germany's loans and restructured the rest, is a landmark case that shows how effective debt relief can be. It helped spark what became known as the German economic miracle.

So it's perhaps ironic that Germany is now among the countries resisting Greece's requests for debt relief.

Greek Finance Minister Yanis Varoufakis claims debt relief is the key issue that held up a deal with creditors last week and says he'd rather cut off his arm than sign anything that doesn't tackle the country's borrowings.

The IMF backed the call to make Greece's debt manageable with a wide-ranging report on Thursday that also blames the Greek government for being slow with reforms.

Despite years of budget cuts, Greece's debt burden is higher than when its bailout began in 2010 — over 300 billion euros (\$332 billion), or 180 percent of annual GDP — because the economy has shrunk by a quarter.

Here's a look at when Germany got debt relief, and if such action might help Greece.

FORGIVE US OUR DEBTS

1953's London Agreement, hammered out over months, was generous to West Germany. It cut the amount owed, extended the repayment schedule and granted low interest rates.

And crucially, it linked West Germany's debt repayment schedule to its ability to pay — tying repayments to the trade surplus it was running and expected to run. That created an incentive for trading partners to buy German goods.

The deal effectively blocked claims for reparations for the destruction the Nazis inflicted on others.

But it wasn't a one-way street.

"The London Agreement gave Germany sweeping debt forgiveness and protection from creditors, in exchange for pro-market reforms," said Professor Albrecht Ritschl of the London School of Economics.

West Germany was able to borrow on international markets again, and, free of onerous debt payments, saw its economy grow strongly.

Development activists cite that case when arguing for easier terms for troubled countries today.

"The same opportunity should be given to Greece that was given to Germany in 1953," said Eric LeCompte, executive director of debt relief organization Jubilee USA.

Greece has had some relief. Private sector bondholders lost 53 percent of face value in a 2012 restructuring, and remaining debts have been stretched out.

Now most of Greece's debt is owed to bailout creditors. While they, notably the IMF, have indicated that the debt load should be made more manageable, little has been done of late.

—

NOT CHARITY

The German debt forgiveness was driven by the United States, which pressed others to get a deal — British creditors gave up two-thirds of what they were owed.

It wasn't charity. The U.S. needed a strong West Germany as an ally against the perceived threat of the Soviet Union.

Yale University Professor Timothy Guinnane warns against making too many comparisons, partly because Germany was so much more important geopolitically than Greece today.

And Germany had economic pedigree, being a big exporter. Greece, on the other hand, hasn't, and isn't. That's partly why Germany in particular is insisting on reforms to make Greece more competitive — if they are enacted, then it's indicated it would be open to help out on the debt front.

"The U.S. was basically the last man standing after the war and essentially decided to cut Germany's debt in half," Guinnane said. "It was a hard-nosed decision it's wrong to say it was an act of generosity."

—

LESSONS LEARNED

Still, there are echoes from the German case that are relevant to Greece today.

The deal to help Germany was based on a realistic way for the country to pay its debts — Greece's Varoufakis has suggested debt repayments be linked to growth. Over the bailout years, Greece has had to meet debt commitments even though its economy was in a depression.

Germany's deal also acknowledged that mistakes after World War I in imposing punitive conditions helped boost extremists. In its misery, Greece has seen votes go to radical parties of left and right, including Nazi-inspired Golden Dawn.

"It's deeply ironic that it's forcing Greece into a position that's prompting the rise of extremist parties," said Guinnane.

—

CHANGE AHEAD?

One of the reasons why relations between Greece and European creditors deteriorated is the disagreement over what to do about the country's debts. It's difficult for anyone, especially those that have endured austerity too, to accept a lower return.

But there are signs of movement as Sunday's referendum nears in Greece on recent reform proposals from the country's creditors.

Cyprus has said it could consider writing off 330 million euros (\$370 million) in rescue loans to Greece. The U.S., while not directly involved, has consistently advocated debt relief.

The IMF came out most forcefully on Thursday, arguing in a report that Greece needs large-scale debt relief alongside more than 60 billion euros (\$67 billion) in financing between June 2015 and the end of 2018. Given the recent economic shock related to the capital controls and the referendum uncertainty, Greece's needs will likely be significantly higher, the IMF said.

It blamed the current government for being slow on reforms and privatizations, but said it was clear the debt needed to be made more manageable.

"A significant haircut could possibly do it," an IMF official said, on condition of anonymity in line with department rules. "So could an extension, so Greece would not have to go back to the markets for a very long time."

One option the IMF mentioned was doubling the grace period on Greece's loans from EU countries to 20 years and the subsequent repayment period to 40.

"Greece needs a sort of breathing space," the IMF official said.

David McHugh reported from Frankfurt, Germany. Paul Wiseman in Washington contributed.

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Lacy-Bella Buster · Dog Man's Coliseum Sunday School

In all the talk of debt forgiveness one massive debt has been overlooked... & was not forgiven. Nazi Germany confiscated the Greek treasury when it occupied Greece. The Greeks never forgave that debt & in today's currency, it would be more money than Greece owes.

Like · Reply · 30 · 23 hrs



Abraham de Mooy · Portland, Oregon

they took all the gold that dutch bank held as well in 1941.....they stole every ones money.....

Like · Reply · 7 · 22 hrs



John Gregory · Works at Government Jobs

Lacy-Bella, and NOW the Greeks are selling the Honor of their War Dead for Euro's,...so? What's your point? Italy invaded actually and since Mussolini wanted to "pay Hitler back in his own coin" not telling Hitler - he wasn't amenable to letting Mussolini get anything from Greece after delaying "Operation Barbarossa" - Hitler's Military Staff would've preferred letting Mussolini carry on by himself - but a defeat might have brought the British navy and air fields closer if it wasn't ended quickly. As thought, Turkey then refused Britain bases on their islands to attack them. Germany paid 2 times to Greece. If Greece didn't reconcile on those occasions, when were they planning to? Waiting for today?

Like · Reply · 14 hrs



Chuck Figgins · Lutz, Florida

Did they ever give the money back?

Like · Reply · 2 · 14 hrs

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Karen Kennedy



How can an economy crushed by a bad idea -- this time, austerity -- generate big profits to feed creditors -- Germany was saddled with huge debts after World War I, and it did not work out well for a lot of countries. Austerity was so bad, Greece needs a Marshall Plan to get going again.

Like · Reply · 21 · Jul 2, 2015 10:27pm



David Rich · Charlotte, North Carolina

Greece is not Germany. Germany was burdened by countries as punishment for a war, Greece created the debt themselves by mismanagement of their economy, begging other nations for help and then mismanaging that money.

Like · Reply · 22 · Jul 2, 2015 10:53pm



Lacy-Bella Buster · Dog Man's Coliseum Sunday School

Greece is partly in this difficulty because its most significant industry, ship building, moved to China. Tourism, alone, was not sufficient to replace ship building.

Like · Reply · 12 · 23 hrs



Abraham de Mooy · Portland, Oregon

Lacy-Bella Buster that was a long long time ago.....

Like · Reply · 22 hrs

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Craig Dillon · Northwestern University

The EU's structure is destined to fail.
 The only questions are when and how.
 To have a single currency, as if you had a single country, with a single government making social and fiscal policy, but to not have that single government, is doomed to fail eventually.
 Now we have bankers making governmental policy decisions. Bankers are not trained or structured to make such decisions.
 American banks did not make the decision for the Marshall Plan, it was politicians who wanted to see Germany and Europe to succeed not only as economies but as societies.

The troika do not seem concerned with t... [See More](#)

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Joe Mathis · Ferndale, Michigan

Damn....hit the nail in the head, much like the USA when states had their own currencies. Too much fluxuation rendering good and services from some states worthless and good from others too expensive. Were talking way way way back here.

Like · Reply · 3 · 22 hrs



Lamberto Go

"Now we have bankers making governmental policy decisions."

Are you talking about the US?

Like · Reply · 4 · 12 hrs



Ronald Bruce Robinson

The families of the black victims of a r a c i s t mass muurderer in a Charleston Church could forgive the k i l l e r but the richest individuals, institutions, and countries on earth can't forgive Greek debt. Says a lot about the lack of humanity and grace at the top.

Like · Reply · 32 · 23 hrs



Eric Bacon · Fair Haven Unified High School District 16

Economies, systems in general, are much more complex, and need planning. They have more consequences than individuals.

Like · Reply · 5 · 23 hrs



Stanley Hoffman · University of Washington Huskies, Seattle. WA.

Eric Bacon Yes Eric. but remember 25% of the people about your age

are unemployed, pensioners, ect, my point here is that it is people who have no way to solve their lack of economic security, their lives are very bad and will not change with any austerity program. This is why they are pushing the bankers of Northern Europe to negotiate. Remember these bankers will get 89% of this money for interest due, it is not the people who get this money.

Like · Reply ·  9 · 22 hrs



Suzy Young

Good one Ronald..

Like · Reply ·  4 · 20 hrs

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James M. Lambion II

Germany is giving itself a bad reputation it can ill afford.

Like · Reply ·  11 · Jul 2, 2015 10:33pm



David Rich · Charlotte, North Carolina

Germany has been doing everything in their power to hold the EU together the last six years. they have given Greece hundreds of billions and Greece's politicians keep spitting in their face.

Like · Reply ·  5 · Jul 2, 2015 10:48pm



James M. Lambion II

David Rich

Germany has not given hundreds of billions to Greece, Germany has been buying up billions of Greece's debt from other EU countries, which is not the same thing.

Like · Reply ·  18 · Jul 2, 2015 11:00pm



David Rich · Charlotte, North Carolina

James M. Lambion II - no it is absolutely the same thing. without Germany doing that, this would have happened much sooner. it is debt consolidation, that reduces the number of Greece's "creditors" and lowered the interest amount. the trouble is, Greece's governeemnt made no effort to repay any of it after they assured Germany they would if they helped.

Greece's government is the source of all of their problems.

Like · Reply ·  3 · Jul 2, 2015 11:04pm

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Jeff Newman · New York, New York

The EU is an idea good for Germany and nobody else.

Like · Reply ·  10 · 23 hrs



Joe Mathis · Ferndale, Michigan

Jeff the EU is good for everyone in europe, to stabilize currencies and economies. It has yet to absorb and stabilize some countries. What your saying is what if all the states in the US still had their own currency. Some states would be worthless as others would not. Trade between the states would be a mess.

Like · Reply ·  2 · 22 hrs



Jason Williams

Joe Mathis Never been to Europe huh? The EU and specifically the Euro have been nothing more than a war for northern Europe to exploit the southern states.

Like · Reply ·  6 · 22 hrs



Phil Freihofner · UC Berkeley

Joe Mathis But Europe hasn't taken the next crucial step. We don't tell

states that take in more Federal expenditures than they collect in taxes that the difference is just a loan and then charge them interest.

Like · Reply ·  4 · 21 hrs

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Ross Cotterill

Germany, the IMF and World Bank are the FIFA of the world economic system. Crooks International.

Like · Reply ·  9 · 22 hrs



Craig Schultz

It would probably have been better had Greece not gotten in bed with Crooks International but Greece chose to do so anyway.

The can can't be kicked down the road forever and short-cuts can get rather costly, as Greece has found out.

Like · Reply · 14 hrs



Morgan Gritley

Craig Schultz when you say "Greece hadn't gotten in bed with Crooks International,:" do you mean the people of greece did that or the bankers of greece did that? this whole thing seems like class warfare to me.

it was the globalization of the financial sector that screwed everyone but the bankers. the big banks in the usofa are richer than ever. their ceos are so smug they tell the senate go ahead and fine us. knowing their banks, not them, will pay. the stock holders will get screwed not the banksters.

Like · Reply · 8 hrs



Jane B Webb · Dept. Head, Med-Surg Unit ; Code Team ; assisted all departments at Transylvania Community Hospital, Brevard, NC (retired)

I am not a world class economist. ... but even I (and I bet a solid majority of readers see it as well) can clearly see the utterly RAW DEAL GREECE HAS BEEN FORCED INTO BY THE WEALTHY CHARACTERS THAT GOT THEM INTO THIS MESS FROM THE GIT-GO. !!!!

Germany, the IMF, THE CREDITORS, ETC have been merrily dancing to a different deal that works for them.while CRUSHING GREECE.! !!!

And it's not like they have their own unblemished records. Shame, SHAME, SHAME on those trying to weasle a deal favorable only to themselves. While GREECE FAILS.)

GREECE ... make it as UNPALATABLE AS POSSIBLE

Like · Reply ·  13 · 21 hrs



Tom Donohue · San Francisco State University

Agreed. And the thing is, it wasn't the Greek people who brought this on themselves, it was the banksters. It won't be the Greek people who reap the benefits of any loan forgiveness, either, it will be...the bankers, AGAIN who reap the spoils of loan forgiveness.

Like · Reply ·  4 · 15 hrs



Craig Schultz

People who go to pay-day loan companies to get money shouldn't complain about having gone to a pay-day loan company.

Like · Reply · 14 hrs



Nick Daniels

Yeah they got a raw deal but all that matters now is how to get out of the hole and move forward.

Like · Reply ·  1 · 12 hrs

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Aurelie-Anne Gilly · Lawyer at European Commission



Say the EU does forgive the 240 billion debt it is owed by Greece - no-one in their right mind thinks Greece can produce a working economy any time soon given the rampant corruption and inept leaders - so who bails them out in a few years when they come begging ?

Like · Reply · 5 · 23 hrs



Timothy Kane

Sadism is a fetish, with its own moral hazards. One such hazard is it doesn't appear when one looks in the mirror.

Like · Reply · 21 hrs



Edward Stew

Exactly. So far we don't know if Tsipras would actually turn the whole country around. He needs to prove himself first. More action, less talk and then I'll respect the guy.

Like · Reply · 2 · 20 hrs



Tom Donohue · San Francisco State University

Timothy Kane Brilliant! Very true.

Like · Reply · 15 hrs

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Kares Talis

AUSTERITY NEVER EVER WORKS.
It is just that simple.

Like · Reply · 6 · 18 hrs

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