

# I Introduction

For the great enemy of truth is very often not the lie – deliberate, contrived, and dishonest – but the myth – persistent, persuasive, and unrealistic. Too often we hold fast to clichés of our forebears. We subject all facts to a prefabricated set of interpretations. We enjoy the comfort of opinion without the discomfort of thought.

John F. Kennedy, Yale University Commencement Address June 11, 1962, twenty years after Edward A. Tenenbaum's graduation at Yale.

I am pursuing two goals with this book: First, I want to debunk the myth that Ludwig Erhard was the originator of the West German currency reform of June 20, 1948, and do justice to the historical truth that Edward Adam Tenenbaum was the key figure in shaping and implementing that reform. Second, contrary to my original intention to write only an introduction to the publication of some Tenenbaum documents on the 1948 currency reform, I have decided to write a biography of Tenenbaum. This is because during my initial review of his papers at the Harry S. Truman Presidential Library in Independence MO in November 2017, I came across Tenenbaum's many exciting rendezvous with world history throughout his "Life and Fate."<sup>1</sup>

Before recounting Edward Tenenbaum's life story in the following chapters, I want to make readers aware of three points. First, I divert from the traditional design of a biography. I not only put the puzzle pieces together that I collected in the process of my research. But at times the finding of such pieces was so unusual and thrilling that I want to share such search experiences with my readers.<sup>2</sup>

Second, a secret service wouldn't deserve its name, if information on its agents and their tasks would freely be disseminated by their employers, the media, and other channels of communication. Even in scholarly publications on institutional structures, activities, and histories of secret services, authors seem to be reluctant to attach name tags, the more so the less distant the object of study is away from the present. Therefore, in order to reconstruct Tenenbaum's life I will make extensive use of early postwar publications on the Organization of Strategic Services (OSS), the wartime US secret service in Washington, DC, by which Tenenbaum was employed from June 1942, and on the battlefield in North Africa and Europe, as well as on military outfits in which Tenenbaum served, but where his name and his specific tasks are not mentioned. Likewise, I make use of biographies of people with whom he shared war and postwar professional experiences on a personal level, like Lucius D. Clay, or of those who played an important role in shaping the policy framework in which Tenenbaum acted. Examples of the latter case are the memoirs and published papers of George F. Kennan as well as biographies by others about Kennan and his contribution to the unfolding of the Cold War. After all, progressive postwar disruption of the wartime alliance of the Western Powers with the Soviet Union proved to be the breeding ground for the partition of Germany as a result of West Germany's currency reform, shaped and managed by Edward A. Tenenbaum.

Third, Charles P. Kindleberger and his activities during World War II play a large role in Section 3.2. His and Tenenbaum's common denominator was not only brilliance in economics and finance, but also their parallel careers in OSS. Kindleberger was so close a friend of Edward Tenenbaum that he continued to keep contact with his widow Jeanette Kipp Tenenbaum after Edward's early death in 1975. Likewise, Kindleberger and I were not only economic-history colleagues, but also close friends between our first acquaintance in Cambridge MA in 1975 until his death in 2003. Sometime during the 1990s he made me aware of the rich Tenenbaum Papers, which

widow Jeanette Kipp had donated to the Harry S. Truman Presidential Library in Independence MO. He urged me to make use of it in a scholarly publication on Tenenbaum's largely unknown key role in shaping and executing West Germany's currency reform of June 20, 1948. He tried to whet my appetite by giving me a copy of forty-two single-spaced pages of verbatim minutes of a whole-day meeting of Tenenbaum (and his British counterpart Bernard C. A. Cook) with German financial experts on November 20, 1947. During the previous month, the latter had started working under Ludwig Erhard's chairmanship on a currency-reform plan in the *Sonderstelle Geld und Kredit* (Special Agency for Money and Credit) at Bad Homburg.<sup>3</sup>

Kindleberger's efforts to make academia and the public aware of the crucial role his friend Tenenbaum had played in the introduction of the Deutschmark in West Germany is also evidenced in an article published in the *Jüdische Allgemeine* on the sixtieth anniversary of the currency reform in 2008. The two coauthors explicitly state that they are particularly obliged to Kindleberger for information on important sources of their Tenenbaum story.<sup>4</sup> And Kindleberger himself contributed a scholarly piece on the 1948 currency reform to a conference at Princeton University in April 1998. It was coauthored by F. Taylor Ostrander, who as part of the Office of Military Government, United States (OMGUS) for Germany in Berlin had eye-witnessed the planning and the execution of the reform.<sup>5</sup>

In the following paragraphs I will share with my readers some information of a more private nature about my friendship with Charlie Kindleberger. The reason is that I owe to him my deep interest in Tenenbaum's invaluable contribution to postwar German economic history. Our friendship started during my research year in Cambridge MA 1975–1976.

There he told me about some of his wartime roles in Europe. Among others, he had interrogated German prisoners of war (PWs). As a member of the Psychological Warfare Division of General George Patton's Third US Army, Edward Tenenbaum had done the same. They both belonged to General Omar Bradley's 12th US Army

Group. Their goals were to collect information on the German *Wehrmacht's* military capacity to defend against immediate tactical or more long-term strategic targets of the US Army and its Air Force during the advance from the beaches of Normandy into the center of Germany. Charles Kindleberger asked me in Cambridge whether I had any recollections of World War II. I told him that my father as a civilian had been wounded, not fatally, in a daylight bombing raid on Münster in Westphalia in November 1944. When hospitalized he was infected by gas gangrene. He died a week after being wounded, as there was no penicillin available in provincial hospitals in Germany at the time. This narrative, including my last visit with her at the hospital bed, where my father surprised me with chocolate, had been what my mother tried to keep alive in my memory. I told Kindleberger that even for the following months I hardly had any recollections since I was only three years and two months old when my home town Telgte, not far from Münster, was liberated by US troops on April 3, 1945.<sup>6</sup> My mother and I were evicted from our four-room apartment. GIs were billeted there for about one week. On this occasion my mother saw Black people for the first time in her life. My mother and I stayed across the street with a neighbor and her two children. This lady's husband had not yet returned from the war, but did so unscathed shortly after its end. A few weeks later, carrying a can of milk he had fetched from a farmer for his children, he was killed when a British military vehicle crashed into his bicycle.. He was on his ride home after curfew had started.

Charles Kindleberger was a compassionate man. Therefore, after what he had learned about my war experience he held back to tell me about his most important role in World War II in Europe which he would freely share with his students in classes at MIT.<sup>7</sup> I ran across information on that part of his life only during my research for this book. He was the head of the Enemy Objectives Unit (EOU), stationed in a wing of the US embassy building in London. It consisted of America's best and brightest young economists and mathematicians. Their task was – by using cost-benefit

analysis and detailed knowledge of production chains – to supply the US Strategic Air Force with information on bombing targets. The selection was based on solving equations to determine an optimum of damage to the German war machine in relation to own aircraft and pilot losses. While Kindleberger performed this job from February 1943 until May 1944, targets were mainly attacked in daylight for precision bombing of factories, railroad bridges, airplane production sites, oil supplies and refineries etc. The technically less well-equipped British bombers, in contrast, flew attacks at night to destroy cities with area bombing. Toward the last months of the war, the US Strategic Air Force, however, joined with the British Royal Air Force for area bombardment, like in the case of Münster in November 1944 and the notorious Dresden case in mid-February 1945.

By holding back on his EOU activities Kindleberger had been very considerate not to hurt my feelings. Instead, we kept up and deepened our friendship by correspondence and meetings in Cambridge MA and Princeton, in Berlin and Bad Homburg near Frankfurt am Main, and once in Paris where he invited me to give a paper in his seminar, cochaired by Fernand Braudel.

His EOU team's role in World War II had been crucial in virtually drying up Germany's oil supplies and thereby immobilizing the German Army and Air Force. He also urged me to embark on my Tenenbaum project. For these two reasons it is not a haphazard digression from my main subject that in Section 3.2 I will also deal with Charles Kindleberger's leading roles in EOU and subsequently on the battlefield in Continental Europe. There he also ran into his secret-service colleague Edward Tenenbaum again after they had first met and as economists cooperated on estimating Germany's economic and war potential at OSS headquarters in Washington, DC during the second half of 1942.

What impressions of Edward Tenenbaum's expertise in currency-reform matters and of his role not only in American military government under General Lucius Clay, but also in his relations to

the financial experts of British and French military governments did German currency experts gather? A good source for answering these two questions is a treatise that Erwin Hielscher wrote after he had left early the so-called *Conclave of Rothwesten* on May 21, 1948. The Conclave comprised a group of eleven German financial and currency experts and a few more persons as support staff. Eight of the Bizone experts and the support staff had been summoned in Bad Homburg, near Frankfurt, transported to an unknown destination in a military bus with frosted glass windows, and lodged in a US Air Force barracks building in Rothwesten near Kassel on April 20, 1948.<sup>8</sup> (For more details see Section 4.3). By leaving prematurely, Hielscher protested against the little say that the Allies had granted the German experts over the substance of currency reform. He wrote his treatise after having left and before sending it off to his publisher in a sealed envelope on June 18, 1948, two days before currency reform was started. He obliged the publisher to delay publication for about three months so that his harsh criticism of the reform plan would not contribute to weaken the public's confidence in the new Deutschmark currency.<sup>9</sup>

Hielscher's treatise is an especially good source for several reasons. The author was the chairman of the group of German experts in meetings with Tenenbaum and the financial experts of the two other Western Allies. As such he had a special relationship with Tenenbaum, including many informal discussions on a one-to-one basis. He belonged to the minority of the German group that adamantly argued for a harsh conversion rate of only 5 percent as opposed to the 10 percent conversion rate of the Allied plan that Tenenbaum started out with. And last but not least, the treatise was written with a fresh memory of positions, proceedings, and personalities represented in the Conclave of Rothwesten.

Hielscher entitles the last one of his four chapters *The currency strategy of Mr. Tenenbaum*. This in itself is a recognition of the central role that Tenenbaum played in devising the currency-reform plan before and during the Conclave. To document further Hielscher's

high esteem of Tenenbaum, I quote from the introduction to this chapter:

Since I will be taking a critical look at Tenenbaum's currency strategy in this chapter, I would like to start by saying something personal. Certainly the names of the people actually responsible are different: [Jack] Bennett the American, Sir Eric Coats the English and Leroy Beaulieux the French. It was, of course, not the intention or the task of the German experts to determine which part of the Allied designs could be attributed to this or that Ally or to this or that of the Allied experts. There can be no doubt, however, and nothing is taken away from the merits of the other experts involved, if the presumably large share of Tenenbaum is emphasized. In [Bad] Homburg [where Hielscher had been part of the Special Agency for Money and Credit, the German financial expert group appointed by the two Anglo-Saxon military powers, at first as deputy and eventually as chairman], the idea was often discussed that Tenenbaum was a Morgenthau man, that he wanted to use currency policy to try to make Germany an economically impotent and unviable entity. It is one of my great fears that the money reform of Rothwesten, because of its overall construction and because of particularly ingenious ideas, could create this impression among the German people, that this reform program could be seen as a punitive action against the German people. Once again the lack of understanding [on the German side] of the inevitability of a hard currency policy will take its revenge, once again the illusions artificially maintained and nurtured by the frivolous illusionists will take their revenge. I am in complete agreement with Dr. [Ludwig] Erhard [chairman of the Special Agency until he became the director of the Economic Administration of the Bizone on March 1, 1948] that the toughest currency reform is the best, also with regard to social justice. . . . The German people would do themselves no service if they were to regard the currency measures of the Allies, and especially the

rigorous monetary-theory view of Mr. Tenenbaum, as hostile to Germany. Even within our group of German experts I have isolated myself to a large extent through my frank and open cooperation with Mr. Tenenbaum in particular. I have assumed that American and German interests run parallel on this point. I would like to testify that Tenenbaum wants nothing other than what I too wanted: the restoration of orderly monetary conditions at all costs. My personal relationship with Tenenbaum was very good. In some conversations with him, he was able to develop his ideas more openly than in plenary sessions. . . . Right to the end we were both in agreement on the basic line of our views; it may be due to the difference in age and to psychological facts that I did not succeed in convincing him completely in a core part of my opinion.<sup>10</sup>

This quote from one of the two chairmen<sup>11</sup> of the German expert group who had prematurely left the Conclave of Rothwesten in protest, contains the answers to the two questions posed above, namely what weight did Tenenbaum carry among the German experts, as to his role and to his expertise. Of all the Allied financial experts involved, including on the next level up, namely the financial advisers of Western military governments, Hielscher leaves no doubt about Tenenbaum's central role.

The same is true of Hans Möller. Born June 12, 1915, he was the youngest German expert at the Conclave. But Tenenbaum was still six and a half years younger than him. Möller writes on his experience at Rothwesten:

During the 49 days of the Conclave, meetings with representatives of the military governments were held for about 20 days, with the main work on the Allied side being done by Tenenbaum (USA), while his colleagues Lefort (France) and Cook (UK) took a back seat. Tenenbaum, in addition to his intensive discussions with the German experts, did an immense amount of travel between Berlin (the seat of the military governments for Germany), Rothwesten and Frankfurt (the seat of the bizonal authorities on the German



and Allied sides) in order to organize the necessary coordination between the three military governments and between them and their home governments. Coordination with the French played a decisive role in this process, as they delayed the decision on their participation in the currency reform until the last minute.<sup>12</sup>

Moreover, Hielscher's clear endorsement of Tenenbaum's basic conception of a harsh currency reform – although differing from his own in some details – proves how highly Tenenbaum's expertise was recognized on the German side. Hielscher's premature departure from Rothwesten, after Tenenbaum had obtained clearance for this move from higher authorities, does not seem to have been directed against the lead person of the Allied experts. It looks like it has been primarily in protest of a currency-conversion conception softer than his own and Tenenbaum's by the majority of his German colleagues. Hans Möller alludes to this by explaining Hielscher's ostentatious premature departure "as a step which was also due to differences of opinion with his colleagues in the Conclave."<sup>13</sup>

Another Conclave member was Otto Pfleiderer. He later served as long-term president of the Land Central Bank of Baden-Württemberg. Twenty-five years after currency reform, he published some of his recollections of the Conclave discussions between the German experts and the representatives of the three Western Allies, Edward A. Tenenbaum for the US, Bernard C. Cook for the British, and Charles Lefort for the French military government. Here is what Pfleiderer wrote: "The most important spokesman on the side of the military governments was Edward Tenenbaum, a still young man who for years had been dealing practically full time with all questions connected with the reform of the German currency."<sup>14</sup>

Michael Budczies, the son of Wolfgang Budczies, another German expert at the Conclave of Rothwesten, reports on his father's impressions of Tenenbaum's constructive role:

The importance of the task, the trusting and friendly cooperation between the German experts, who had already grown together into

a team at the Special Agency, and probably also the isolation from the outside world soon created an extremely pleasant atmosphere that was very conducive to the progress of the work. // Colonel Stoker, who took great care of the physical and mental well-being of the camp inmates, and Edward A. Tenenbaum, who was only 26 years old, primarily contributed to this, as my father told me. The latter, despite his young age and the skepticism he initially encountered, succeeded in winning the respect of the German experts through his tireless efforts, his outstanding intelligence, his professional competence and his fairness, even though he was often unable to meet their expectations. On him lay the main burden of work on the Allied side. From time to time, his superior [plagued by health problems] Jack Bennett, who had succeeded Joseph Dodge as Clay's financial advisor, attended the meetings at the Conclave. The representatives of the French and British occupying powers essentially acted only as listeners and observers for their governments. // [... Tenenbaum initially had] great reservations about the Germans .... As his widow told me in 1998 at the commemoration of the 50th anniversary of the currency reform in Rothwesten, in 1945, as a lieutenant, he was one of the first American soldiers to enter the Buchenwald concentration camp and liberate the inmates who were still alive. What he had seen there had shaken him terribly. In 1948, he was still under this impression. On the additional barbed wire around 'Haus Posen' in the Rothwesten barracks there was a warning in German and English that anyone climbing the fence would be shot on sight. The sign had been put up there – as his widow told me – on Tenenbaum's orders. Whether this order is still due to the memory of Buchenwald, I do not know. It would be understandable. It is all the more to be acknowledged that Tenenbaum did not let these feelings show in his very objective work with the Germans.<sup>15</sup>