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# The Sour Fruits of Victory:

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## Sterling and Security in

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## Anglo-German Relations

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## during the 1950s and 1960s

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### **The Anglo-German troop cost debate**

Harold Macmillan, the British Prime Minister between 1957 and 1963, had a penchant for annotating the memoranda he received from his ministers with moody comments – much to the delight of contemporary historians in search of some entertaining quotes for their often unavoidably ponderous accounts of British history during a period of alleged decline. The Prime Minister, who had reached the top after the Suez crisis, the manifest expression of this decline, had certain pet topics which provoked his anger particularly frequently. Among those West Germany and its leader, Konrad Adenauer, featured prominently, and the occasion was often a problem which poisoned Anglo-German relations all through the 1950s and 1960s: the cost of Britain's military commitment in Germany. As a part of the international settlement of 1954 regarding West Germany's sovereignty and rearmament, the United Kingdom very reluctantly had agreed to station troops on the European continent which should deter the Soviet Union and at the same time control the West Germans.<sup>1</sup> In 1955, this commitment consisted of more than 100,000 military personnel in the British Army of the Rhine (BAOR) and the 2nd Tactical Airforce (TAF). The 1954 settlement had been regarded as a political triumph for the then Prime Minister Anthony Eden, whose diplomacy had been given most of the credit for bringing about a solution to the protracted problem of German rearmament. However, this triumph had come with a high price tag on it: maintaining armies abroad lost the British Treasury valuable foreign exchange which ended up in the accounts of the host country. West Germany's resistance to reimbursing these losses seemed not only to Macmillan an act of open selfishness, allowing the Germans to get away with a low level of defence costs and to employ the unused resources in their export industries. On a memorandum which

<sup>1</sup> On the events leading up to Britain's commitment, see Saki Dockrill, *Britain's Policy for West German Rearmament 1950–55* (Cambridge: Cambridge University Press, 1991); Hans-Heinrich Jansen, *Großbritannien, das Scheitern der EVG, und der NATO-Beitritt der BRD* (Bochum: Brockmeyer, 1992); Olaf Mager, *Die Stationierung der britischen Rheinarmee* (Baden-Baden: Nomos, 1990).

contained an account of a meeting of the British and German foreign ministers, the Prime Minister noted: 'It's a very depressing story. The Germans have no feeling of guilt and shame . . . there is nothing about the financial agreement [on troop costs] on which they are in default . . . Every time they mention Eastern Germany, we ought to remind them of the intolerable financial situation.'<sup>2</sup>

Already, as Chancellor of the Exchequer, Macmillan had been extremely acid on this subject. In December 1956, he had warned the US Secretary of State, John Foster Dulles, and his advisors that 'the British people, who after all won the war, cannot accept that the Germans are treating the UK like dirt while they have things their own way. They will not agree to keeping British soldiers in Germany if the Germans do not play the game'.<sup>3</sup> And commenting once more on negotiations with the Germans about the cost of these troops, he wrote to Eden, at that time still Prime Minister, that those had 'left a very bad taste both as to matter and manner . . . ordinary people in the UK feel that 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'.<sup>4</sup> Macmillan was not alone in this feeling. On the letter, Eden indicated that he 'entirely agreed' with the statement. The British press was no less outspoken than its government. The *Daily Mail* commented on the troop cost negotiations in May 1956: '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.'<sup>5</sup> And even the more diplomatic *Times* lamented 'the unfortunate impression that Britain and America should be left to pay for the privilege of defending Germany'.<sup>6</sup> Similar statements accompanied the troop cost problem all through its long history into the 1970s.

Why did a financial problem, which actually, as we shall see later, was relatively minor in terms of its real impact, stir up so much emotion over such an extended period? The reason is that the Anglo-German troop cost conflict was not a simple argument about an isolated diplomatic or economic matter with a well-defined narrow history; rather it touched on a whole range of neuralgic points in Britain's external relations. In the voluminous documentation which abounds on this topic in British, German and US archives, fundamental questions of Britain's security policy, its monetary policy and, above all, its relationship with the re-emerging postwar Europe are addressed. The troop cost problem does focus these issues, combining elements of all of them. What was the impact of the troop cost problem on Britain's security, monetary and European policy in the 1950s and 1960s, and how were

<sup>2</sup> Public Record Office, London (hereafter PRO), PREM 11/4259, Macmillan to Lord Home, 21 Aug. 1963.

<sup>3</sup> Foreign Relations of the United States (hereafter FRUS) 1955–57, IV, Memorandum of a Conversation, 11 Dec. 1956.

<sup>4</sup> PRO, PREM 11/1343, Macmillan to Eden, 13 July 1956.

<sup>5</sup> *Daily Mail*, 1 May 1956.

<sup>6</sup> *The Times*, 8 Feb. 1956. See also, for example, the article by Sir Ivone Kirkpatrick, 'The NATO Handicap Race', *Sunday Times*, 1 Dec. 1957.

those issues linked? Rather than recounting the long and convoluted story of the British–German negotiations on the troop cost issue during the 1950s and 1960s, which can be read elsewhere in sufficient detail,<sup>7</sup> the stress in this article will be on the basic structures underlying the conflict.

The most fundamental of those structures was the intricate relationship between security and economics during the Cold War. The security policies and economic history of most Western countries are usually analysed in strict separation. How the fundamental characteristics of the Cold War era – almost uninterrupted economic growth leading to unprecedented prosperity in Western countries and the presence of a constant threat to security originating from the East–West conflict – actually intertwined, how these partly contradictory, partly complementary factors were reconciled in international and domestic policies, is a huge question which historical research has hardly begun to tackle.<sup>8</sup> However, the interaction of economics and security explains a great part of the dynamics of international politics in the postwar era in Europe. Many elements of the complicated relationship between Cold War economics and Cold War security are reflected in the Anglo–German troop cost conflict.

What exactly was this conflict about? It was not primarily an argument about the budgetary cost of British troops in Germany, such as their pay, equipment, and so on. The direct cost of troops assigned to the defence of NATO territory had, by NATO rules, to be borne by each country for its own troops wherever those were stationed. It made hardly any difference in budgetary terms whether they were stationed in the Midlands or in Lower Saxony. Indeed, until the early 1960s it was probably cheaper for the stationing countries (the United States, the United Kingdom, France and some smaller NATO members) to maintain their troops in Germany rather than in the homeland, due to various privileges granted to the troops and the lower cost of living in Germany. The actual troop cost problem emerged because a considerable part of the budgetary cost accrued in German marks, such as wages for German civil employees, payments for services by German agencies or the troops' need for deutschmarks. In the British case, this meant that the government had to purchase these deutschmarks on the free currency market and those purchases were reflected (negatively) in the British balance of payments. Sterling went across the exchanges and ended up in the hands of either private investors or foreign authorities, both of which were only ready to hold the pound if they had enough confidence in its value. If this was not the case, the British currency was likely to be presented to the British Treasury for exchange against the

<sup>7</sup> For an account based on PRO material, covering, however, despite its title only the period up to 1960, see: Wolfram Kaiser, 'Money, Money, Money: The Economics and Politics of Stationing Costs, 1955–65', in Gustav Schmidt, ed., *Zwischen Bündnissicherung und privilegierter Partnerschaft* (Bochum: Brockmeyer, 1995), 1–31. Broader, and based mainly on German documents, is Harald Rosenbach, 'Die Schattenseiten der 'Stillen Allianz': Der deutsch-britische Devisenausgleich, 1958–1967', *Vierteljahresschrift für Sozial- und Wirtschaftsgeschichte*, Vol. 85, no. 2 (1998), 196–231.

<sup>8</sup> Diane B. Kunz, *Butter and Guns. America's Cold War Economic Diplomacy* (New York: Free Press, 1997) is such an attempt. However, on the analytic level the book rarely goes beyond well-known interpretations.

equivalent of its foreign exchange reserves (which were notoriously low). In the present monetary system of flexible exchange rates such currency movements as represented by the troop cost pose no particular problem. If they are large enough, they result automatically in rising (or falling) values for a currency depending on whether the issuing country spends less (or more) foreign exchange than it earns. However, in the system of fixed exchange rates, which emerged after the Second World War and lasted until 1973, a country which spent persistently more than it earned was sooner or later forced to adjust the exchange rate of its currency downwards (with the notable exception of the United States). This adjustment process usually involved considerable political and economic costs. Delayed adjustment encouraged the massive speculative flows which plagued the international monetary system all through the 1960s. Many countries had difficulties holding their parity at one time or the other during these years, but the situation was most onerous for a reserve currency country such as Britain. In case of a devaluation not only its reserves but also those of the countries holding their reserves in sterling would be slashed.<sup>9</sup> Thus the elimination of negative factors in the British balance of payments became a matter of highest priority, and the foreign exchange expenditure of their troops in Germany seemed to British politicians and public one of the first points to start with. BAOR, which had been created on political and military rationales, became directly linked to British monetary policy.

Sterling was the Achilles heel of Britain's empire after 1945. It was in the international monetary field that the British government undertook one of its most strenuous and longest lasting efforts: to maintain sterling as an international reserve currency, a role which it had had since the nineteenth century, in order to retain a central attribute of world power. It still held this position in the 1950s, though it was increasingly under siege. It was in this field that Britain suffered some of the most painful defeats, such as the economic disaster following the Suez Crisis, the second French veto of British membership of the European Community in 1967, which de Gaulle justified publicly by pointing to the weakness of the British currency,<sup>10</sup> or the devaluation of the pound in November 1967. The 1950s and 1960s saw a ceaseless battle by London to stabilise its currency.<sup>11</sup> The reasons why British governments

<sup>9</sup> Catherine Schenk, *Britain and the Sterling Area* (London: Routledge & Kegan Paul, 1994).

<sup>10</sup> Charles De Gaulle, *Discours et Messages* (Paris: Plon, 1970), V, 171–2. From the first soundings by the British government about the chances for a new bid for EEC membership, the French left no doubt that a major condition would be a devaluation of sterling and 'a large dose of deflation'. See James Callaghan, *Time and Chance* (London: Collins 1987), 196. Even the pro-British EEC Commission listed in its report of 29 Sep. 1967 on the problems of Britain's application on top the reserve currency role of sterling. See *Europa-Archiv* 1967, D 499.

<sup>11</sup> The debate on the real causes of Britain's monetary problems is still in full swing. Regardless of which factor was decisive, however, it seems very obvious that Britain's economic base was much too small to support a reserve currency parallel to the dominant dollar. The precarious state of Britain's reserves alone was enough to draw the attention of speculators again and again to the pound. It certainly was not the cost of the troop commitment in Germany, estimated at about £60 million in the late 1950s and early 1960s (PRO, FO 371, Stationing Cost of British forces in Germany: Report by Officials, autumn 1963), which was responsible for the incessant currency crises. For a concise discussion of the British balance of payments problems see: B. W. E. Alford, *British Economic Performance, 1945–75*

undertook this ultimately futile battle are manifold. It will be argued in this article that the British position on sterling was not only motivated by economic and political reasoning but also by a strong ideological commitment. One consequence was that its policy on sterling shaped the British outlook decisively on a number of issues, particularly on British policy towards European integration, and to the emergent economic power on the continent, the Federal Republic of Germany. This link and its consequences are clearly visible in the troop cost conflict.

The military presence in Germany had been a cause of concern to British Chancellors of the Exchequer since British troops had crossed the Rhine during the Second World War. The catastrophic economic situation in the British zone of occupation precluded any possibility of sufficient German contributions, and much of the cost fell on the British taxpayer. This was particularly painful as the United Kingdom had emerged from the war as a triumphant winner, but also as the most indebted country in the world.<sup>12</sup> Most of those debts it owed to countries of the sterling area, such as Egypt and India. However, the biggest creditor soon became, of course, the United States. US loans, which Britain desperately needed, came with heavy strings attached. Those strings referred mainly to the removing of the discriminatory trade systems by which London protected its domestic economy. The most important request of the US government was that Britain make sterling freely convertible into dollars. Hesitatingly, the British conceded this in 1947.<sup>13</sup> The effects of this move easily exceeded the worst expectations of the pessimists in the British government. An avalanche of sterling conversions to dollars set in, and within five weeks the free convertibility of sterling had to be renounced. The cellars where the bank of England hoarded its foreign exchange reserves had not been exactly overflowing before these events; afterwards they were definitely too spacious for what remained. In 1949, the pound sterling was devalued from \$4.03 to \$2.80.<sup>14</sup> This ameliorated the precarious situation for Britain's external balances only temporarily.

At that time, at least, the British zone of occupation had ceased to be a burden. The economic situation in West Germany had changed for the better. Since 1945 Germany paid the so-called occupation costs on a scale which covered almost all of the expenses for BAOR.<sup>15</sup> In the early 1950s, however, the continued maintenance of British troops in the occupied country threatened to become again a major cost factor. With the escalating Cold War in the background, the troops gradually

(London: Macmillan, 1988). More detailed accounts are provided, for example, by John Fforde, *The Bank of England and Public Policy 1941–1958* (Cambridge: Cambridge University Press, 1992) and Alec Cairncross, *Managing the British Economy in the 1960s: A Treasury Perspective* (London: Macmillan, 1996).

<sup>12</sup> Edmund Dell, *The Chancellors. A History of the Chancellors of the Exchequer, 1945–90* (London: HarperCollins, 1996), 20.

<sup>13</sup> The classic on this topic is Richard N. Gardner, *Sterling–Dollar Diplomacy. The Origins and Prospects of our International Economic Order* (New York: McGraw Hill, 1969).

<sup>14</sup> Alec Cairncross and Barry Eichengreen, *Sterling in Decline: The devaluations of 1931, 1949, and 1967* (Oxford: Basil Blackwell, 1983).

<sup>15</sup> For the actual amount and its division among the occupying powers, see Helmut Rocke, 'Leistungen der Bundesrepublik für die ausländischen Streitkräfte', *Bulletin des Presse- und Informationsamts der Bundesregierung* 1961, 221–4.

changed their status from occupiers to protectors. It was quite obvious that the pleasant situation of having all the cost covered would not last, particularly when in 1949–50 the process of German rearmament, its integration in the Western Alliance, and the restitution of its sovereignty began. If West Germany was to become a sovereign country with its own forces, first, it would need money for its own troops, and, second, with the revocation of the occupation statute the legal basis for occupation payments would be gone. One of the core considerations for Britain during the following years was to avoid its troops in West Germany becoming a burden on the balance of payments, especially when it turned out that the United Kingdom could not escape the necessity of remaining militarily committed to the defence of the continent (and to the containment of Germany) in order to bring the negotiations finally to a conclusion.<sup>16</sup> In a way, this result was ironical: one of the central considerations behind West German rearmament had been to relieve the United States and Britain from some of its military burden with the help of German conventional forces.<sup>17</sup> Both countries nurtured quiet hopes that they would be able to redeploy their soldiers from Europe when the West German army was ready. Now, for political and military reasons, the British and US governments felt forced to the point of pledging formally the continuity of their military presence in Europe. The British pledge took the form of an official declaration which became part of the West European Union (WEU) Treaty of 1954. Britain's ambiguity about its troop commitment was reflected plainly in this declaration:

Britain . . . will continue to maintain on the mainland of Europe, including Germany, . . . four divisions and the Second Tactical Air Force . . . She undertakes not to withdraw these forces against the majority of the High Contracting Parties . . . This undertaking shall not, however, bind her in the event of an acute overseas emergency. If the maintenance of the UK forces on the mainland of Europe throws at any time too great a strain on the external finances of the United Kingdom, she will . . . invite the North Atlantic Council to review the financial conditions on which the UK forces are maintained.<sup>18</sup>

From the very wording of this contractual obligation, it is evident that the United Kingdom already perceived the possibility of a conflict between the security commitment in Europe and fundamental economic objectives, particularly those related to sterling policy. This contradiction found its foremost manifestation in the troop cost question, in which two central fields of British foreign policy entered (or seemed to enter) in conflict, sterling policy and the military commitment in Europe.

### **Support costs and offset payments**

The occupation period in West Germany ended formally on 5 May 1955. Among the most contested issues in the final phase of the negotiations leading up to West

<sup>16</sup> See Mager, *Stationierung*, 112–7.

<sup>17</sup> Matthias Peter, 'Britain, the Cold War, and the Economics of German Rearmament, 1949–51', in Anne Deighton, ed., *Britain and the First Cold War* (New York: St. Martin's Press, 1990), 273–90.

<sup>18</sup> Protocol no. II on Forces of WEU, Art VI, 23 Oct. 1954, in HMSO, Cmnd. 9498, Treaty Series, 1955.

Germany's NATO membership was the wish of the former occupying powers for an extension of occupation payments for one year on a sliding scale, which the West Germans granted on condition that they would never again be asked to pay for foreign troops on their soil – a misguided assumption.<sup>19</sup> Britain, in particular, insisted that after May 1956 the Federal Republic should continue to bear the foreign exchange cost of BAOR. The British argument was based on two factors. First: because of the delayed build-up of its own forces West Germany for some years to come would have no defence expenditure comparable with that of other NATO countries.<sup>20</sup> Second, the precarious state of Britain's balance of payments did not allow Britain to assume the losses implied in the defence commitment in Europe after the occupation had come to an end. A serious balance-of-payments crisis which Britain weathered in summer 1955 hardened the determination of the government to turn off the leaking tap. In December 1955, at the North Atlantic Council meeting, an act was staged for the first time which was to repeat itself innumerable times until the 1970s: British and West German ministers clashed on the British demand that the Federal Republic should assume the troops' foreign exchange cost of up to £70 million. The United States and France, which participated in the meeting, brought forward their own requests and supported the British position. The outright refusal by West Germany's Finance Minister Fritz Schäffer even to consider the proposals immediately led to a heated argument which all sides soon continued in public.<sup>21</sup>

On 2 March 1956, Chancellor Adenauer sent his Finance Minister a note which was as brusque as it was brief: 'Dear Mr. Schäffer! I ask you to refrain from now on from any further public statement or remark on the troop cost issue. Your remarks serve but to aggravate the situation to our disadvantage! Yours sincerely, Adenauer.'<sup>22</sup> The reprimand reflected Adenauer's increasing nervousness about the troop cost debate which since the December meeting continued to disturb Bonn's relations with its major allies. The West German government had defended its position with the argument that the allied demands were openly discriminatory, since no other country with NATO forces on its soil was requested to make such payments. According to this reasoning, troop cost payments were the symbol of West German second-class status in the alliance. The climax of the debate had been a common presentation of the US, British, and French ambassadors at the West

<sup>19</sup> Werner Abelshäuser, 'Wirtschaft und Rüstung in den 50er Jahren', in *Militär-geschichtliches Forschungsamt*, ed., *Anfänge Westdeutscher Sicherheitspolitik IV* (München: Oldenbourg, 1997), 102–4.

<sup>20</sup> A series of practical problems, but also apprehensions in the German government that rearmament would disrupt the flourishing economy, caused an unexpectedly long delay before German troops were ready to reinforce Western defence. See Werner Abelshäuser, 'The 1956 West German Rearmament Crisis: Its Causes and Consequences', in Francis H. Heller and John R. Gillingham, eds., *NATO: The Founding of the Alliance and the Integration of Europe* (New York: St. Martin's Press, 1992), 311–34.

<sup>21</sup> For accounts which illustrate the uncomfortable atmosphere with varying intensity: FRUS 1955–57, IV, Memorandum for the Record, 44–9; Bundesarchiv, Koblenz (hereafter BA), B126/51520, Minute on Conversation with Allied Ministers, 16 Dec. 1955; PRO, CAB 134/1048, Mutual Aid Committee (Germany) 1955; Record of Ministers Meeting in Paris, 16 Dec. 1955.

<sup>22</sup> BA, B 136/3131, Adenauer to Schäffer, 2 Mar. 1956 (author's translation).

German Foreign Office which was followed by letters from Eden, the French Prime Minister Guy Mollet, and US Secretary of State Dulles to Adenauer, in which they demanded a serious West German offer to solve the troop cost problem.<sup>23</sup> In Britain, the question had increasingly caught the attention of the government, parliament and public. The British ambassador in Bonn introduced his account of the negotiations with the words that the affair 'bid fair to do more damage to Anglo-West German relations than any single issue for a long time'.<sup>24</sup> The West German Chancellor and his Foreign Minister, Heinrich von Brentano, saw the dangers of persisting with their uncompromising stance and relieved the protesting Schäffer of his responsibility for the issue. A redeployment of Britain's troops would have weakened gravely NATO's lines of defence in central Europe and, what was worse, it would have aggravated the danger of a withdrawal of US troops. This was no remote possibility: the substitution of their costly conventional troops by cheaper tactical nuclear weapons was intensely debated in the London and Washington, a debate which held for the West Germans the unpleasant prospect of an atomic war on their soil.<sup>25</sup> On 6 June 1956, the West German government decided after acrimonious debates that in the interest of harmonious Anglo-West German relations and with a view to the delay in West German rearmament, the Federal Republic would concede one additional year of so-called support costs.<sup>26</sup> The Anglo-West German agreement provided for payments to the tune of £34 million (which was £16 million short of the previous year's payments, and more than £30 million short of the estimated cost of the troops). It was strongly criticised in both parliaments, and the *Economist* described it as a 'sad effort'.<sup>27</sup>

Nevertheless, the exercise was repeated the following year. West German rearmament was still in the take-off phase and the situation for the pound on the currency markets was more critical than ever, particularly after the political and financial disaster of the Suez adventure in late 1956.<sup>28</sup> Because of these reasons and an acute awareness of the negative repercussions of the year before, the West Germans initially were more forthcoming regarding British requests. A new support cost agreement was achieved before the real extent of British plans to reduce their military presence in Europe, in the framework of the famous 1957 Defence White

<sup>23</sup> PRO CAB 134/129, Hoyer-Miller to Lloyd: An Account of the Negotiations leading up to the agreements . . . on the Support of Forces, 3 Aug. 1956; BA, B126/34100, Finance Ministry Memorandum on Representation made by Allied Ambassadors, 2 Mar. 1956; BA, B136/3131, Mollet to Adenauer, 26 Apr. 1956; Dulles to Adenauer, 26 Apr. 1956; Minutes of German Cabinet Meeting, 25 Apr. 1956.

<sup>24</sup> PRO, CAB 134/129, An Account . . . , 3 Aug. 1956.

<sup>25</sup> Marc Trachtenberg, *History and Strategy* (Princeton: Princeton University Press, 1991), ch. 4, 'The Nuclearization of NATO'.

<sup>26</sup> BA, B126/34100, Excerpt from the Minutes of the Cabinet Meeting, 6 June 1956.

<sup>27</sup> *Economist*, 7 July 1956, 14.

<sup>28</sup> Alan P. Dobson, *The Politics of the Anglo-American Special Relationship* (New York: St. Martin's Press, 1988), 166–73; Lewis Johnman, 'Defending the Pound: the economics of the Suez Crisis, 1956', in Anthony Gorst, Lewis Johnman and W. Scott Lucas, eds., *Postwar Britain, 1945–64* (New York: Pinter, 1989), 166–81; Diane B. Kunz, *The Economic Diplomacy of the Suez Crisis* (New Haven: Yale University Press, 1991).



Paper, had been realised by the West German government. In 1957/58, the British troops were reduced to 63,500 men, a move partly due to strategic reasons, but mainly to the currency situation.<sup>29</sup> The next British support cost request at the end of 1957 resulted in a long and furious battle involving NATO and also WEU bodies as well. The Federal Republic, which had seen its payments as a means of avoiding troop reductions, saw no point in paying any more. London's relations with the Continent reached a postwar low because at the same time it pursued its argument with France about the organisation of Europe and the British proposal of a European free trade area. After long negotiations and an intervention by the United States, a new support cost agreement was achieved in mid-1958. Britain would receive much less cash (£12 million a year) than in the years before and there would be additionally some monetary concessions.<sup>30</sup> At least the agreement covered three years, and resulted in a corresponding truce on the troop cost issue for those years.

However, in 1961 the conflict flared up anew. All throughout the 1960s, one sterling crisis followed another. Furthermore, the United States, under pressure from its own deteriorating balance-of-payments situation, had initiated troop cost talks with West Germany which resulted in the so-called offset agreements.<sup>31</sup> The British government hurried to jump on the running train. Macmillan wrote to his Chancellor of the Exchequer: 'If we let the Americans get away with a deal in which our much more real and pressing needs are overlooked, it will be a fatal blow.'<sup>32</sup> Like the Americans, the British switched their argument strictly to address the monetary profit of West Germany, which boasted growing currency reserves year by year. Direct payments had become a political impossibility, above all, because West Germany's rearmament was now largely completed. The series of Anglo-West German offset agreements began. Offset signified that West Germany was to invest in English goods or services up to the same amount as the troops spent in West Germany, thus transferring back the foreign exchange. Various ingenious and disingenuous methods were used to effect such bargains. A major factor was the purchase of British arms by the West German army. However, the unwillingness of the United Kingdom to co-operate more closely with the Federal Republic in the development of sophisticated modern weapons placed it at a serious disadvantage with its main competitors, France and the United States, which were much more advanced in this respect.<sup>33</sup>

Even more complicated than offset by arms sales were investments in British

<sup>29</sup> Martin Navias, *Nuclear Weapons and British Strategic Planning, 1955–58* (Oxford: Clarendon, 1991).

<sup>30</sup> Those included the maintenance of an interest-free German account at the Bank of England and the premature repayment of postwar debts. For the agreement: HMSO, Cmnd. 588 (1958).

<sup>31</sup> The FRG agreed to offset the foreign exchange cost of US forces in West Germany by buying US weapons to a corresponding amount. See Hubert Zimmermann, '... they've got to put something in the family pot! The Burden Sharing Problem in German-American Relations, 1960–67', *German History*, Vol. 14, no. 3 (1996), 325–46.

<sup>32</sup> PRO, PREM 11/3773, Macmillan to Lloyd, 14 Nov. 1960.

<sup>33</sup> In 1964, West German arms purchases in Britain had reached, despite the broad range of modern weapons the British industry had on offer, a level of only DM 1.4 billion, DM 200 million less than West German arms purchases in the Netherlands. See Political Archive of Auswärtiges Amt/German

goods by German government agencies. Those often had their procurement tied to West German producers and they found it difficult to find suitable British products, to the desperation of West German Finance Ministry officials searching for ways to make the offset system work.<sup>34</sup> In 1965, an exasperated official recommended that the German ministries should fill their car parks with Rolls Royce limousines rather than pay Britain without receiving any equivalent in goods.<sup>35</sup> Later on, the West German government paid massive subventions to their domestic firms to induce them to buy British. Another offset method, which led to a series of conflicts and misunderstandings, was the assumption of British foreign aid obligations. West Germany gave the foreign aid money, and the receiving third world country was requested to invest this money in British goods.<sup>36</sup> For many reasons such a system could hardly be expected to work. Who would gain the political credit? who was to choose the projects? and so on. More useful for Britain was the general support by West German financial authorities for sterling in the currency market. Apart from direct intervention, this ranged from early debt repayments, through investment in British Treasury bonds to blocked accounts in the Bank of England.<sup>37</sup> One consequence, however, was that in the course of the 1960s, the United Kingdom owed increasing sums to the West German government and the Bundesbank.<sup>38</sup>

The change in Britain from a Conservative to a Labour government in 1964 did nothing to remove the troublesome issue from the Anglo-West German agenda. There was no year in the decade which did not see heated arguments between West German and British negotiators about troop costs. The conflict culminated in 1966–67. The Wilson government, battered by an almost ceaseless series of runs on the pound, demanded that the West Germans offset in the future the whole foreign exchange cost of the Rhine Army, as opposed to the partial offset effected in the years before. However, the West German government, which struggled with a budgetary crisis, refused to comply. Wilson's Chancellor of the Exchequer, James Callaghan, publicly stated the determination of British government to redeploy most of its troops if no solution were found.<sup>39</sup> At the same time, the pressure in the US Congress to 'bring the boys home' and West Germany's inability to honour the West German–US agreement threatened to bring about a chain reaction which had the potential to dissolve the whole framework of Western defence in Europe. This danger became so real in late 1966 that the US government initiated a trilateral

Foreign Office (hereafter PA-AA), B 150, Aktenkopien 1964, Memorandum by Ministerialdirektor Ruete: German Armaments Policy, 15 Sept. 1964.

<sup>34</sup> PA-AA, Referat 410, vol. 244, Memorandum by State Secretary Lahr, 22 Aug. 1962.

<sup>35</sup> Bundesbank Archives, Frankfurt, A 270/13168, Vermerk A21: Joint Anglo-West German Commission, 25 Oct. 1965.

<sup>36</sup> An example is the Anglo-German Mantaro-project for a dam in Peru; see: AAPD 1965, Doc. 448, Memorandum by Ministerialdirektor Harkort, 8 Dec. 1965, 1854–7.

<sup>37</sup> Rosenbach, 'Schattenseiten', 218.

<sup>38</sup> In 1968, British debts to the Bundesbank amounted to almost \$700 million. See AAPD 1968, I, Memorandum by Ministerialdirektor Harkort, 29 Jan. 1968, 108.

<sup>39</sup> AAPD 1966, State Secretary Carstens to Ambassador Blankenhorn, London, 25 July 1966, 995–7.

round of negotiations to solve the troop cost problem in the West German–US and the Anglo–West German context. In January–February 1967 the negotiations were on the verge of breakdown, mainly because the West German and British positions proved once more irreconcilable.<sup>40</sup> Finally, mutual interest in the preservation of the European security structure and a series of concessions by all sides<sup>41</sup> prevented a disaster. This was the culmination, but by no means the end, of the Anglo–West German offset conflict. Negotiations continued in a regular rhythm until the mid-1970s, though with a reduced level of tension. In 1969, Bonn agreed to payments of DM 1,520 million, about 80 per cent of the foreign exchange cost for 1969–71. Again, the sum was composed of civil and military purchases, and accompanied by a credit from the West German government on very favourable terms, repayable within ten years.<sup>42</sup> Deutschmark revaluations and devaluations of the pound considerably reduced the sum Britain eventually had to repay. Although the financial haggling in the 1970s remained intense, British membership of the European Communities (EC) put a new complexion on the political importance of BAOR. In 1971 a five-year agreement was achieved which turned out to be the last traditional offset agreement.<sup>43</sup>

A perusal of the voluminous documentation pertaining to the history of Anglo–West German troop cost negotiations leaves the reader somewhat astonished as to why the British government chose to live with such a high level of conflict over such a long period (achieving persistently unsatisfactory results), without making a determined effort to break the deadlock. What is even more striking is that the troop cost did not in any way warrant this amount of attention when seen in economic terms. A closer analysis of the monetary impact of the foreign exchange cost of the troops shows that it was very far from being a decisive factor in Britain's monetary problems, even in the absence of West German payments.<sup>44</sup> The main problem of the British balance of payments – the low level of reserves as compared

<sup>40</sup> On the trilateral negotiations see: AAPD 1967, Docs. 23, 30, 52, 74, 79, 84, 98; LBJL, National Security Files, NSC Histories: Trilaterals, Box 50, The Trilateral Negotiations and NATO. See also David Wightman, 'Money and Security. Financing American Troops in Germany and the Trilateral Negotiations of 1966/67', *Rivista di Storia Economica*, no. 1 (1988), 26–77.

<sup>41</sup> The German government considered whether to resign itself to the end of British troop stationing in Europe, which the British had publicly announced in case there was no full offset to their foreign exchange cost. Only after the Americans made it clear that in this case even their presence on the continent was jeopardised, did both parties settle for an uneasy compromise which included West German purchases of military (£18 million) and civil (£22.5 million) equipment as well as a further Bundesbank investment in British treasury bonds (£21 million). The Americans contented themselves with monetary measures by the Federal Republic, and placed military orders in Britain to help London towards a face-saving result. For the exact provisions of the agreements see FRUS 1964–68, XIII, 562–9.

<sup>42</sup> *Keesing's Contemporary Archives* 1969, 23753–4.

<sup>43</sup> HMSO, Cmnd. 4690 (1971), Exchange of Notes . . . for Offsetting the Foreign Exchange Expenditure of British Forces in Germany.

<sup>44</sup> Only a small part of the literature credits military expenditure abroad with a decisive role in the British currency problems, contrary to the claims of British politicians and press during the 1950s and 1960s (for example, Malcolm Chalmers, *Paying for Defence. Military Spending and British Decline* (London: Pluto Press, 1985).

with the enormous liabilities – was not due to stationing troops abroad. The United Kingdom itself derived currency gains from the presence of US and Canadian troops which equalled the losses in West Germany (and the possibility that, in the case of the departure of British troops from West Germany, those were to be substituted by US troops from Britain, was high.)<sup>45</sup> The central factor in the monetary realm – confidence – did not depend on the extent of Britain's military commitment. Even the troop cost negotiations themselves influenced negatively confidence in sterling, because they underlined quite dramatically how precarious the situation of sterling actually was. So why were all the British governments during this period so adamant in their insistence on West German payments, even when examined closely the economic and monetary gain could be seen to be negligible, not to talk of the political cost? The answers to this question can be found by taking a closer look at the roots of Britain's sterling policy.

### **Realpolitik or 'ideology'? Causes and consequences of British sterling policy**

The defence of sterling's parity with the dollar, the safeguarding of its role as a reserve currency and the insistence on a world role for the British currency, over the 1950s gradually became less and less questioned as British policy dogma.<sup>46</sup> This is clearly reflected in documents and in public statements. In June 1956, the Foreign Office, Treasury and the Ministry of Defence prepared a joint report, 'The Future of the United Kingdom in World Affairs', for the Cabinet. The report stated:

There are many areas or aspects of policy in which a failure could make it more difficult for us to attain these aims. But there is one, success in which is a matter of life or death to us as country. This is the maintenance of the international value of sterling . . . Success in this is the greatest single contribution we can make to the maintenance of our position in world affairs and to the success of the policies which the free world is seeking to pursue.<sup>47</sup>

In 1965, the Chief Secretary to the Treasury, John Diamond, told his German interlocutors:

In order that Britain should never again need to seek emergency assistance from its Allies, the British government needed to reorganise its affairs, and, in particular, its expenditure across the exchanges. In many respects British policies were directed and redirected by the balance of payments problem; it lay behind every Cabinet decision concerning economic affairs and defence, and the Government would never feel free to carry out its policies . . . until it had solved its foreign exchange difficulties.<sup>48</sup>

<sup>45</sup> For the figures: HMSO, Cmnd. 861, Balance of Payments 1956–59, October 1959, 18.

<sup>46</sup> Alan S. Milward, 'The Origins of the Fixed-Rate Dollar System', in Jaime Reis, ed., *International Monetary Systems in Historical Perspective* (London: Macmillan, 1995), 135–51.

<sup>47</sup> 'The Future of the United Kingdom in World Affairs', CAB 134/1315, PR(56)3, 1 June 1956; in David Goldsworthy, ed., *The Conservative Government and the End of Empire, 1951–57*, pt. 1 (London: HMSO, 1994), 62–3.

<sup>48</sup> PRO, FO 371/183101, Record of Dahlgrün–Diamond Meeting, 28 June 1965.

Statements by British politicians struck a similar note. James Callaghan, Chancellor of the Exchequer in 1964–7, wrote: ‘During the 1960s the pound sterling sign had been turned into a symbol of national pride, only somewhat lower than pride in the national flag, and no matter how compelling the arguments of the economists, press and public regarded devaluation as a major blow to Britain’s prestige and a serious defeat for the Government.’<sup>49</sup> Those examples can be easily multiplied. Maintaining the strength and the world role of its currency were seen as a core objective of British foreign policy by British politicians and the public alike.

This policy, or rather its persistence over so many years, poses a great challenge to historians of postwar Britain. Most of the explanations which have been put forward to account for Britain’s dogged insistence on the fixed sterling parity until 1967 are not entirely convincing. This applies particularly to the reason cited most frequently in the literature: British politicians wanted to preserve the reserve role of sterling along with Britain’s position and influence in the world, constructing in the process a strong link between those two objectives.<sup>50</sup> This argument repeats the usual explanation in government documents and biographies.<sup>51</sup> But: was not the defence of sterling a very costly enterprise in both political and financial terms and thus highly counterproductive in the endeavour to safeguard Britain’s world role? This policy resulted, for example, in incessant pressure to reduce British military commitments abroad, such as that evidenced by the debate about the 1957 White Paper, the trilateral negotiations in 1966/67, and the retreat from east of Suez.<sup>52</sup> It resulted in the slashing of Britain’s foreign aid obligations. It made Britain dependent on the good behaviour of the sterling area countries, many of which could not be counted upon having an enduringly benevolent attitude towards London. It caused an increasing indebtedness to and dependence on the United States. A dramatic example of subsequent dependence is that of the Suez crisis, and the demands during the mid-1960s by the Johnson administration for British political support on a whole range of policies in exchange for US support for the pound.<sup>53</sup> Countries with a strong currency, such as France or West Germany, were easily able to exert pressure on Britain by manipulating, or actually rather refusing to manipulate, currency markets. De Gaulle used the argument of London’s unwillingness to abandon the reserve currency role of sterling to block the second British application for EC membership.<sup>54</sup> European Community preoccupations that its members would be forced to mount costly rescue operations for the pound once the United Kingdom had joined (and if they refused then London would become once more completely dependent on US help) led the *Economist* to conclude: ‘At present,

<sup>49</sup> Callaghan, *Time and Chance*, 200.

<sup>50</sup> Susan Strange, *Sterling and British Policy* (Oxford: Oxford University Press, 1971), 64; Andrew Boxer, *The Conservative Governments* (New York: Longman, 1996), 96.

<sup>51</sup> For example: Richard Lamb, *The Eden Government* (London: Sidgwick & Jackson, 1987), 287; see also Alford, *Economic Performance*, 74.

<sup>52</sup> Philip Ziegler, *Wilson, The Authorised Life* (London: Weidenfeld & Nicolson), 329–31.

<sup>53</sup> Diane B. Kunz, ‘Cold War Dollar Diplomacy: The Other Side of Containment’, in Diane B. Kunz, ed., *The Diplomacy of the Crucial Decade* (New York: Columbia University Press, 1994), 80–114.

<sup>54</sup> Charles de Gaulle, *Discours et Messages* (Paris: Plon, 1970), V, 242–5.

sterling threatens to be the one issue that could still conceivably keep us out of the community even when the old man in Paris dies.<sup>55</sup> International credits, desperately needed by the United Kingdom to weather the perennial balance-of-payments crises, were often coupled with outright demands that the British government was change its domestic economic policy, such as the \$3,000 million credit of 1964.<sup>56</sup> The most crucial negative effects of the defence of sterling might indeed have been the impact of this policy on the domestic economy. Time and again, the government subjected its domestic economic policy to the perceived imperatives of the external balance, and though it is impossible to quantify exactly how detrimental to economic growth those famous stop-and-go cycles were, it seems beyond doubt that they played an important part in Britain's economic problems during this period.<sup>57</sup>

Why did Britain not abandon its sterling policy, since all those negative side-effects were already well known at the time? Within a traditional, realist perspective of international relations this is quite a puzzle. How can we explain why a country pursued a policy detrimental to so many of its interests for such a long time? One suggestion, the often implicitly or explicitly ventured thesis that British politicians during this period were of particularly limited political judgement, does not convince, although it is frequently invoked in some of the literature on Britain and European integration. Macmillan and company were no less intelligent or more short-sighted than other politicians of their and our days. Was it then the pressure of the Americans, who saw the pound as the first line of defence for the dollar, which kept Britain committed to the sterling parity of \$2.80?<sup>58</sup> However, even though US archives contain a lot of evidence that the United States during the 1960s urged the British to stand firm,<sup>59</sup> there is no reason to believe that a British government, when it saw its sterling policy as a danger to its foreign and domestic policies, would not have taken the steps towards devaluation, even against the protestations of Washington. After all, it did so in 1967. The same holds true for the influence of the financial circles in the City. Certainly, the City derived a handsome profit from the reserve currency role of sterling,<sup>60</sup> but it was clearly the government which decided monetary policy in Britain. Another reason cited frequently is British loyalty to Commonwealth countries, which would have suffered from the resulting monetary turmoil. However, during its applications for EC membership, London was

<sup>55</sup> *Economist*, 16. Sept. 1967, 1008.

<sup>56</sup> AAPD 1964, II, Foreign Minister Schröder to Chancellor Erhard, 26 Nov. 1964, 1404–5.

<sup>57</sup> Alford, *Economic Performance*.

<sup>58</sup> This was a common French argument at the time.

<sup>59</sup> Lyndon B. Johnson Library, Austin (hereafter LBJL), National Security Files, Memoranda to the President: McGeorge Bundy, Box 4, Bundy to President: Sterling Devaluation, 28 July 1965; Fowler Papers, Box 4, Gardner-Ackley to President, 9 Aug. 1965.

<sup>60</sup> In the 1950s annual foreign earnings deriving from London's role as financial centre (providing services such as insurance, merchanting, brokerage and banking) were estimated at £125–150 million. See William M. Clarke, *The City's Invisible Earnings* (London: The Institute of Economic Affairs, 1958), 93. In the 1960s they rose to about £200 million. See Uta Schellhaß, 'Internationale Währungsprobleme', in Karl Carstens et. al., eds., *Die Internationale Politik 1966/67* (München: Oldenbourg, 1973), 440.

prepared to disrupt the trade patterns of those countries profoundly, showing rather little consideration for their interests. It is clear that a realist or economic explanation of British policy does not lead to a complete understanding.

A factor which goes much further in explaining the persistence of Britain's sterling policy is 'prestige'. Once a prime minister had declared his commitment to the defence of the pound he would do everything to avoid a defeat on this issue, as Macmillan's and Wilson's memoirs show quite clearly.<sup>61</sup> But why did prime ministers and chancellors of the exchequer tie their political prestige to the sterling exchange rate throughout the postwar period? The crucial element here is what I would like to call 'sterling ideology'. Ideology is used here not in its conventional value-loaded sense, but in the way described by Clifford Geertz in his seminal 1964 article: it is 'the attempt of ideologies to render otherwise incomprehensible social situations meaningful, to so construe them as to make it possible to act purposefully within them'.<sup>62</sup> Sterling was a traditional symbol of British power, a crucial point of reference, which had to be maintained even if this policy was beset by increasing political and economic costs. Such a fixed point was necessary because Britain's foreign policy during those postwar years was confronted with a multitude of difficult and ambiguous issues, such as the transformations in the 'special relationship', the ongoing unresolved process of decolonisation and the declining importance of the Commonwealth, and above all, the question of how to react to the rise of Europe. In this sea of uncertainties sterling as a world currency provided a 'map' as a background against which all those unresolved questions could be evaluated and judged. Sterling became an 'ideology' which helped British politicians to take positions on questions which were highly contradictory and did not lend themselves to any clear-cut answer. Or, to put it in the words of Samuel Brittan: 'The position of sterling as an international currency, with all the risks to which it exposed Britain, was regarded as desirable in itself, like a prisoner kissing the rod with which he is being beaten.'<sup>63</sup>

Other policy areas were consistently subordinated to the perceived imperatives of sterling. The troop cost conflict shows clearly that the chance of a more cooperative attitude towards Europe, and particularly towards the pivotal European economy – West Germany – suffered severely from this factor. On many occasions voices were raised in the UK government which warned against sacrificing harmonious relations with West Germany on the altar of sterling. In 1962, for example, the Foreign Secretary Lord Home warned against too much emphasis on the troop cost question because it would have a negative impact on negotiations on EEC membership and it might create doubts in the United States as to British reliability, particularly in view

<sup>61</sup> Harold Macmillan, *At the End of the Day, 1961–63* (London: Macmillan, 1973); Harold Wilson, *The Labour Government 1964–70* (London: Weidenfeld & Nicolson, 1971).

<sup>62</sup> Clifford Geertz, 'Ideology as a Cultural System', in David E. Apter, ed., *Ideology and Discontent* (New York: Free Press, 1964), 47–76.

<sup>63</sup> Samuel Brittan, *Steering the Economy. The Role of the Treasury* (London: Secker & Warburg, 1969), 138.

of the ongoing Berlin crisis.<sup>64</sup> However, those cautioning voices consistently lost out.

### **European Ambiguities**

The political reasons which in 1954 had induced the Eden government to pledge the stationing of British troops in Europe 'as long as they were required' did not disappear in the following years. They were based on four fundamental elements which remained more or less constant until 1989: (i) containment of the Soviet Union; (ii) control over the re-emerging West Germany; (iii) insuring the continuity of US involvement in the European security structure; (iv) influence on West European politics. These interrelated motivations proved to be extremely stable elements. Although after 1955 the British government, most of the press and the public persistently displayed a very critical attitude towards the commitment of British troops in Europe, they were deployed in roughly the same strength from the late 1950s until the early 1990s. The 1957/8 reductions were the only important cut. Sterling's reserve role, however, a goal held high by British governments and public, collapsed slowly under the pressure of the developments in the international monetary system; the pound was devalued in 1967, although the government resisted that with all its might. This shows that while the powerful political rationales of Britain's military commitment in Europe had become structural elements of the postwar system in Europe, despite the incessant criticism directed towards it, Britain's sterling policy went counter to basic structural changes in the international system.

In the light of the great political importance of its military commitment in Europe it is remarkable that Britain never really managed to extract any political capital from it. British politicians concentrated on the search for compensation for the foreign exchange loss, which was completely inadequate for achieving its objective – the stabilisation of sterling. Attempts to achieve political gains by citing the military commitment usually failed. The most conspicuous of those was in the field of European integration, which in the late 1950s took a course very much contrary to British expectations and wishes. One example of such an attempt is a memorandum to the German government in March 1958 on the subject of support costs. The relevant paragraph reads: 'The UK has never suggested a formal link between their tentative plan [towards solving the troop cost problem] and the future economic organisation of Europe. However they felt it necessary to point out that Europe could not expect the whole-hearted participation of the United Kingdom in some fields if that became impossible in others which were of at least equal importance to the UK.'<sup>65</sup> In other words: if the Germans were not going to be supportive in the field of European politics, the United Kingdom might have to

<sup>64</sup> PRO, PREM 11/4217, Home to Macmillan, 14 Feb. 1962.

<sup>65</sup> BA, B126/34103, Aide Mémoire to Germany, March 1958.



reconsider its commitments. Even more outspoken was Macmillan, in a meeting with the German chancellor Adenauer:

Frankly, had the British government of that day thought of the Six Powers of the European Economic Community forming an economic grouping from which Britain would be excluded, they would not have accepted such a commitment. Nor could it be expected that any British parliament would continue those obligations under such changed conditions. In this matter economics and politics run together. He hoped that Dr Adenauer would realise that for an island people like the British, maintaining troops abroad for a long period was unprecedented and would be very difficult to continue if there were two economic groups in Europe engaged in a sort of economic war. The proposals for a common tariff for the Six meant a permanent discrimination against the UK. It would be almost impossible to honour the West European Union commitments while simultaneously conducting a tariff war. Therefore it was essential either to bring down discrimination to negligible proportions or to negotiate some other arrangements.<sup>66</sup>

This threat was no single instance: it was repeated on many occasions, not only by Macmillan, but also by Harold Wilson.<sup>67</sup> There is nothing wrong with this kind of linkage; they characterise almost every diplomatic exchange. The problem with the British linkage of the troop commitment in Europe to the integration of Europe was that it was counterproductive, achieving exactly the contrary of what it was supposed to achieve. In 1966, for example, the Germans reciprocated and threatened that they would not support Britain's EC application if it continued to press its position on troop costs.<sup>68</sup>

The main reason for the failure was that the troop–sterling link showed the fundamental ambiguity of Britain's policy towards West Germany. On the one hand, British politicians demonstrated their positive attitude towards Europe and their commitment to the security of West Germany by citing the British troop presence, and, indeed, they were right to do so. On the other hand, however, in the public and in diplomatic dealings concerning the troop cost question, those troops were consistently portrayed as an economic burden which Britain would be able to bear only if the financial loss was offset. 'He [Macmillan] feared for the future of NATO if the UK's resources were much restricted and the British people had to consider whether they should pay so much money to keep an army in Germany.'<sup>69</sup> Such statements minimised the worth of the British troop engagement to a question of financial expediency and devalued their political weight in diplomatic arguments. This became very clear during the trilateral negotiations in 1966/67 when the German chancellor Kurt Kiesinger voiced his deep scepticism regarding the usefulness of BAOR: 'The Chancellor declared that principally it would be

<sup>66</sup> PRO, FO 371/145780, Record of Conversation Adenauer–Macmillan, 19 Nov. 1959.

<sup>67</sup> See for example: BA, Blankenhorn Papers, Record of an Adenauer–Macmillan meeting, 18 Apr. 1958; PRO, PREM 11/2707, Conversation Finance Minister Etzel–Chancellor Lloyd, 17 June 1959. See also Gustav Schmidt, 'Die politischen und sicherheitspolitischen Dimensionen der britischen Europa-Politik', in Gustav Schmidt, ed., *Grossbritannien und Europa* (Bochum: Brockmeyer, 1989), 175–7.

<sup>68</sup> AAPD 1966, II, Staatssekretär Carstens to Ambassador Blankenhorn, 25 July 1966, 997.

<sup>69</sup> PRO, FO 371/154607, Macmillan–Adenauer conversation, 10 Aug. 1960.

‘criminal’ to find no solution to the foreign exchange problem – if we arrive at the conclusion that the British troops are necessary for our security. However, first, he would have to persuade himself about that.<sup>70</sup>

These doubts, which increased over the years, were the main reason why the Federal Republic was never really willing to help the British financially, although they had enough means at their disposal, as the history of the German–US troop cost negotiations shows.<sup>71</sup> It was rather to prevent a chain reaction leading to a reduction in US troops than because of any will to help the United Kingdom that West Germany in the end usually contributed to the cost of British troops on its soil.<sup>72</sup>

Britain’s extremely critical attitude towards the presence of British soldiers in West Germany and its incessant engagement in fruitless cost debates devalued the troop commitment politically. Based on an unambiguous policy towards the Federal Republic, the troops might have become a crucial link between the two countries, and quiet, constructive solutions to the troop cost problem in the framework of co-operation on larger issues might have been possible, as a 1956 memorandum by the Auswärtiges Amt on the troop cost negotiations noted:

If the troop cost question is solved we could count on a real intensification of economic and political relations between the two countries. The desire for close relations was brought forward by the British side very clearly in many conversations. We are ready to do our part towards a further improvement of the mutual understanding, and we see Great Britain, next to the United States, as our most valuable ally.<sup>73</sup>

Based on this attitude, the Rhine Army might, instead of figuring among the ‘sour fruits of victory’, have formed the pillar of Britain’s European role. However, the perceived imperatives of monetary policy and the impact this position had on British policy towards its troops in Europe made it extremely hard for British politicians to compromise on the troop cost question for the sake of political gain and hampered this possibility.

The little use Britain derived from its troop commitment as a means of political pressure is even more striking considering that Britain had few other levers in hand in diplomatic dealings with Germany. First, the British government and public were not ready to support unequivocally the hard stance of the Federal Republic in the reunification issue. Second, in the nuclear field, co-operation with the United States was paramount, and Britain never held out the carrot of co-operation in the nuclear sphere to the Federal Republic, as France did from the mid-1950s onward.<sup>74</sup> Even in the field of conventional weapons co-operation, Britain was unwilling to co-

<sup>70</sup> AAPD 1967, I, Memorandum by State Secretary Lahr, p. 368 [author’s translation].

<sup>71</sup> Hubert Zimmermann, ‘Franz-Josef Strauß und die deutsch-amerikanischen Währungsbeziehungen’, *Vierteljahreshefte für Zeitgeschichte*, Vol. 1 (1999), 57–86.

<sup>72</sup> PA-AA, B 150/1967, Minutes of Cabinet Meeting, 30 Mar. 1967.

<sup>73</sup> PA-AA, Referat 304/31, Summary of Foreign Minister von Brentano Visit to England, 5 June 1956.

<sup>74</sup> Georges-Henri Soutou, *L’Alliance Incertaine. Les Rapports Politico-Stratégiques Franco-Allemands, 1954–1996* (Paris: Fayard, 1996).

operate with West Germany, whereas France and the United States used this lever with great success. German officials repeatedly complained that Britain never really was interested in comprehensive co-operation with the Federal Republic in the development and production of armaments.<sup>75</sup> As a result, West German weapon purchases from the UK were much lower than those from comparable countries. This was the main reason for the failure of offset by weapons purchases in the British–West German context. Co-operation in the field of arms development, however, was a decisive factor in the success of the US troop cost requests. The same argument holds for France. Whereas Britain reacted with a feeling of rivalry and competition to the meteoric economic rise of the Federal Republic, France opted pragmatically for the version ‘If you can’t beat ’em, join ’em!’. Significantly, France after 1957 never requested troop cost payments for its troops in Germany, although they had more men in Germany than did Britain. As a result, Britain’s support was not crucial for the Federal Republic, which was able to found its European policy on a strong commitment to European unity and Franco–West German friendship. For security matters, the United States, of course, was the paramount partner.

To sum up briefly: the troop cost conflict was a striking instance of the close interrelation of security and economic policy in British–West German relations, mainly because Britain linked its security engagement in Europe closely to monetary objectives. Thus, the conflict became a major indicator for fundamental problems of British foreign policy. British security policy in Europe was less determined by traditional ‘realist’ goals, such as the deterrence of the Soviet Union or the search for influence on the European continent, but rather by a dynamic mix of political and economic motivations marked by rivalries in the Alliance, domestic debates and, last but not least, monetary ‘ideology’. London subordinated the political basis of its troop commitment to a perceived economic imperative, the stability of sterling, and thus deprived its pledge of political usefulness, particularly as seen through German lenses.

<sup>75</sup> BA, B 136/6894, Memorandum of Federal Defence Ministry: Co-operation with UK in the military field, 18 May 1966.