From Black Market to Barter Mart in Postwar Germany

By Loren Gatch

IN ADDITION TO THE DAMAGE IT INFLICTS UPON LIFE AND property, war also disrupts the currency relations that make normal economic exchange possible. In Germany after World War II, the sheer magnitude of the Allies' destructive campaign and the dislocations of a four-power occupation gave rise to a distinctive financial adaptation—the "Cigarette Economy"—which, prior to the currency reform of June 1948, competed with the discredited Reichsmark as the means by which destitute Germans satisfied their economic needs. As well-supplied American occupiers (and later their wives) arrived, a black market trade in cigarettes flourished, with brands like Chesterfields and Lucky Strikes serving as something like the gold standard of economic valuation. With the enthusiastic cooperation of American soldiers, who repatriated many millions of dollars in black-market earnings, Germans desperate for the necessities of life bid up the exchange value of cigarettes to absurd heights.

In an attempt to rein in the excesses of the cigarette-fueled black market, the American military authorities (or Office of Military Government, United States—OMGUS) resorted to officially-sanctioned barter centers, known generally as "Barter Marts." These were stores where the former enemies could come together for commerce. Germans could present their luxury items for appraisal; Americans brought in staples, particularly cigarettes; and both sides received in exchange barter scrip valid for purchases from the stores' inventories.

Approved by the commanding general in Berlin, General Lucius B. Clay at the behest of his wife, OMGUS opened the first store there in June 1946. That October, General Joseph T. McNarney, the head of U.S. forces in Frankfurt, permitted the opening of a second store in that city. Far from providing an alternative to the black market, these "Barter Mart" experiments probably heightened the GIs' acquisitive instincts and reinforced the status of cigarettes in the barter economy. Both stores were wound up by mid-1948, as the introduction of the Deutschmark re-established more normal monetary conditions in postwar Germany.

Origins of the "Cigarette Economy"

Germany's recovery in the immediate aftermath of the war was hampered by three problems: the sheer scale of the destruction; Allied uncertainty as to whether reconstruction of the former Nazi Germany was even a good thing; and the division of the defeated country into four occupied zones. The fact that the Allies initially kept in place the Nazi-era machinery of price controls practi-

The Frankfurt Barter Center. Germans lined up outside with their heirlooms to trade for necessities.

cally guaranteed the emergence of a pervasive black market, where particularly desirable consumer goods sold at up to 100 times the legal price. Barter was a daily fact of life for average Germans, particularly between residents of the devastated cities and the relatively untouched rural areas that still produced a food surplus. Cut off from their eastern breadbasket by increasingly hostile Russians, Germans in the British, French, and American occupation zones lived on meager official rations supplemented by whatever could be bartered from local farmers, who quickly surrounded themselves with the luxuries of desperate urbanites.

While fraternizing with civilians was officially forbidden, American soldiers soon entered the barter business in a big way, encouraged in part by monetary conditions in the immediate postwar period. The four victorious powers had agreed to a common monetary arrangement that involved new issues of occupation marks at parity to the existing Reichsmarks in circulation. American soldiers received their pay in occupation marks, which they were allowed to swap without limit into U.S. funds at the rate of 10 marks to the dollar. Incredibly, the Russians were given the plates to print their own occupation marks, which vastly swelled the money supply and encouraged rampant inflation on the black market. Unusable at home, Russian soldiers spent their marks in occupied Germany with abandon. For their part, American soldiers profited enormously by selling PX supplies into the black market for occupation marks. Then they could convert them into dollars at the fixed 10:1 rate, and send them home as postal money orders. Always in demand, cigarettes became a particularly lucrative object of black-market profiteering. With OMGUS focused upon the importing of food for civilians, the chief source of cigarettes was the allied soldiers themselves. British and American brands were most prized. A carton of Lucky Strikes purchased for $1 at the Post Exchange (PX) would sell for upwards of 1000 marks, giving enterprising American soldiers a quick hundredfold return. It was these transactions that fed the dynamic of the unfolding “Cigarette Economy.”

A German appraiser on the second floor of the Frankfurt barter mart under the supervision of a U.S. officer.

Very quickly the Americans and their allies realized that their common currency with the Russians only contributed to black-market inflation and a fleecing of their coffers. In July 1945 the Americans and British refused to redeem occupation marks printed in the Russian zone. In September 1946, the Americans introduced a military scrip, usable only at authorized establishments, that sought to sever the financial connection between the occupiers and German civilians. This restriction only reinforced the salience of cigarettes in the barter economy. Packs and cartons of them became the standard of value for rating a multitude of other transactions.

Cigarettes were, of course, desirable simply as a smoking pleasure in their own right. Yet their standardized features and divisibility have always made them a convenient means of exchange in informal economies when regular money is wanting. In occupied Germany, barter would not go away no matter what the military authorities did, because each side had something that the other wanted. Indeed, the cigarette standard functioned ultimately because the Germans themselves found it useful. In February 1947, for example, German police in Hamburg posted a 1,000 cigarette reward for information in a murder case! However, the premise of the cigarette standard remained the vast economic gulf between the occupying powers and the defeated population. Germans were near starvation, and their conquerors lived in comparative material comfort. For their part, American GIs looked at the inedible luxuries that the Germans had to offer—antiques, cameras, jewelry, silver, fine china—and grasped the immense acquisitive opportunities that victory had afforded them.

With a single cigarette going in Berlin for seven marks, GI Joe became "Ingenious Joe", converting PX cigarettes into Reichsmarks to a degree that vastly expanded his black market purchasing power. Demand for cigarettes at the PXs from soldiers transacting on the black market was so high that the PXs soon rationed them. No matter: enterprising soldiers engaged bulk delivery of cigarettes from the home front, shipped at no cost through the Army Post Offices (APOs). American firms even advertised in the *Paris Herald-Tribune*, which circulated widely amongst the Americans, offering cheap and quick shipments of smokes. Overwhelmed with processing thousands of packages of cigarettes, APOs clamped down on the trade. In response, nimble GIs merely shifted to bartering a variety of staple goods widely available at the PXs but in dire need by the Germans, until these goods too became subject to rationing. While the APOs would no longer permit cigarette shipments, they could do nothing to stop the sending of ordinary food products, which flooded the APOs in place of the earlier surge of cigarette-laden packages. The flow of packages went the other way, too, as Americans' purchases of bartered German luxuries streamed back over the Atlantic, and all at taxpayer cost.

By mid-1946 it was clear that the black market, and the enthusiastic American participation in it, was both endemic and an increasing propaganda liability for the American occupiers. Black market activities reflected the low morale and indiscipline of an occupying force that did not wish to be there. The scale of their activities made American soldiers look like greedy exploiters of suffering German civilians. While Germans everywhere competed in the humiliating practice of Stummeling, or the feverish collection of cigarette butts thrown to the pavement or left in ashtrays, GIs were buying the favors of Fräuleins with packs of American cigarettes. This contrast was toxic for civil-military relations, especially when American visitors and their wives at even the Cabinet and Congressional levels spent their PX-supplied cigarettes in the national flea market that was Germany.

U.S. Army Signal Corps photo of the line of people outside the Frankfurt Barter Center.

The average enterprising GI not only lived well on practically no outlay, but sent enormous sums back home. In one single month in 1945, GIs in Berlin alone remitted $3,163,519, over $100,000 more than their pay—and that even after spending some $300,000 at the PXs! By November 1945, GIs were prevented from sending home more than 100% of their pay. That limit, along with the introduction of military scrip, was supposed to stanch the flow of profits, but American military authorities throughout the European theater always seemed to be one step behind the black market. By one later estimate, GIs in Germany repatriated a half billion dollars of what were euphemistically called "poker earnings".

The black market both corrupted the American soldier and aggravated German resentments of their occupiers. If the black market could not be vanquished, then it might at least be regulated. In an attempt to bring transactions into the open and minimize the grosser exploitation of German civilians, General Clay permitted the establishment of a barter center in Berlin, while General McNarney did the same in Frankfurt. At the "Barter Mart", Americans brought in their wares--chiefly cigarettes, but also other staples—while the Germans brought in their fineries. Both sides were issued a form of store scrip—"Barter Units" in Berlin, and "Barter Unit Certificates" (BUTEs) in Frankfurt—which each side could use to purchase the offers of the other. While the Barter Mart did not eliminate the black market, it could at least allow Americans and Germans to transact in a more regular and transparent way.

At the outset, in Berlin, "Barter Units" were rated in Reichsmarks, but it quickly became the practice to regard the scrip as representing some fraction of a carton of cigarettes. After rating a carton of cigarettes at 20 units, the American authorities raised it to 45 and then 95 units. These values only encouraged GIs to flood the Barter Mart with cigarettes imported from home, and by September 1946 OMGUS re-rated them again to 55 units. Since OMGUS allowed only cigarettes bearing tax stamps (i.e., that had been legally shipped from home), to trade at the Barter Mart, PX-sourced cigarettes continued to flood into the wider black market, where the rate was more favorable to the Americans.

This haphazard attempt at monetary policy under a cigarette standard brought Barter Mart values roughly in line with the black market, and business flourished. The basic advantage of the Barter Mart was that, within the black market economy, at least these transactions were legal. Neither the Americans nor the Germans risked having their inventories confiscated by the authorities. At the Frankfurt Barter Mart a pound of butter was priced at 16 BUTEs; a pound of coffee, at 18. A Leica camera, coveted by the Amis, went for the equivalent of 23 cartons. As the magazine *Der Spiegel* acidly pointed out, Americans were particularly "Leica-crazy", and for good reason. *Der Spiegel* conjectured, "for 5000 cigarettes (about 22 dollars and 50 cents) they can acquire their beloved Leica. And for 600 dollars they can sell the camera in the States. Six hundred dollars will purchase 134,000 cigarettes and, in turn, 26 4/5 Leicas." The mathematics of the black market made it irresistible to American soldiers.

From the outset, OMGUS had doubts about the wisdom of accommodating the black market, since the Barter Marts only reinforced cigarettes as the standard of value. A symptom of this was that the areas around the Barter Marts themselves became centers of black market activities, reflecting their proximity to vast supplies of cigarettes. Indeed, the Soviets, smarting perhaps at the sudden invalidation of their occupation marks the previous year, accused the Americans of running

The former Frankfurt Barter Center as it appears today.

the Berlin facility as a way of extracting unauthorized reparations from the Germans! With the Berlin APO processing 1,000 cartons a day, OMGUS announced that cigarettes would no longer be accepted after January 1, 1947, at the Berlin Barter Mart, although Clay (a chain smoker himself) resisted the idea of banning outright the private importation of cigarettes. Nonetheless, Clay considered the Barter Mart experiment to have been a mistake. Indeed, an army committee examining the cigarette phenomenon concluded that it "set up a currency competitive to the legal currency which discredits the German currency, with resulting maladjustment of rationed goods and legal processes." Putting it more bluntly, one American military official characterized the handling of monetary issues generally as "incredible American Army dereliction and ineptness, if not something worse." With GIs importing cigarettes from home to the tune of $100,000 a month, the Barter Marts in Berlin and Frankfurt essentially functioned as conduits for the entry of cigarettes into Germany's black market economy. The Frankfurt Barter Mart's BUTE scrip was particularly coveted by locals because of the perception that it was 'backed' by some 20,000 cartons of cigarettes. The fact that the Frankfurt scrip was even counterfeited was only a testament to its stature.

How the Barter Marts Worked

If they did not end the black market, the Berlin and Frankfurt Barter Marts did bring some transactions out into the open and placed some limits on the exploitation of the civilian population. At the very least, the setup of the Barter Marts brought both legality, and perhaps a little dignity, to the black market experience. Of the two, the Frankfurt store became the more important one because of its location in the western sector. Housed in a vacant store space at Kaiserstraße 48-50 (at the corner of Weserstraße) a few blocks from the train station, the Frankfurt Barter Mart operated on two floors. German civilians, who formed long lines outside beginning early in the morning, brought their heirlooms and antiques up to the second floor. There, a team of German appraisers, supervised by American officers, assigned points to each item. These points converted into paper BUTEs that the Germans could use to purchase vital commodities, deposited by the Americans, on the first floor. Most BUTE transactions took place for cigarettes, which the Germans then used for transactions on the external black market. However, as OMGUS restrictions on the import of cigarettes took effect, Americans began bringing other commodities like coffee or lard, to stock the Barter Mart's inventory.

BUTE prices at the Frankfurt Barter Mart could not be substantially out of line with the black market generally, since too great of a divergence would drive barter transactions off the premises. In any event, daily turnover was as high as 85%, and the store quickly became the major shopping center in the American and British zones. Special trains were even engaged during the holiday season to bring eager Germans to Frankfurt for shopping at the Barter Mart. The valuation of the items was left to German appraisers, who assigned a value in BUTEs to whatever item their countrymen brought in. Naturally, the suspicion arose that German appraisers favored their own against the Americans. Yet, in this fantastic world where a single carton of cigarettes bartered for many times the weekly wage of a German worker, it would have been hard to object to any particular valuation. Beyond providing some regularity to black market pricing, both Barter Marts served the important purpose of physically separating the Americans and the Germans. Nonetheless, the American authorities were sensitive to the perception that the Barter Marts amounted to official recognition of exploitation by a conquering power, and looked forward to their closure.

OMGUS did later ban the private importation of cigarettes in May 1947 as part of a crackdown on the black market, but by this time the "Cigarette Economy" was so entrenched that the ban only drove up the value of cigarettes, provoking German complaints that the Americans had implemented the ban as a way of further punishing the conquered population! In any event, the ban proved ineffective in extinguishing the black market. Ultimately, the black market and its cigarette standard disappeared only when free markets and a credible monetary system were reestablished.

In early January 1948, Clay announced the Berlin and Frankfurt barter centers would accept no more goods after April 1, and would close on the first of May. Outstanding scrip would become valueless at that time. The inventories in both locations were liquidated in a vast close-out sale that brought out to the Frankfurt location alone 2,500 customers, mostly army wives, who cleaned out most of the remaining inventory in exchange for military scrip rated at 5 cents a BUTE. Proceeds from these sales, and from a final lottery to dispose of remainders, amounted to some $38,000 and was turned over to the German Youth Activities group. Ironically, the building at Kaiserstraße 48-50 was next put to use as an Army PX.

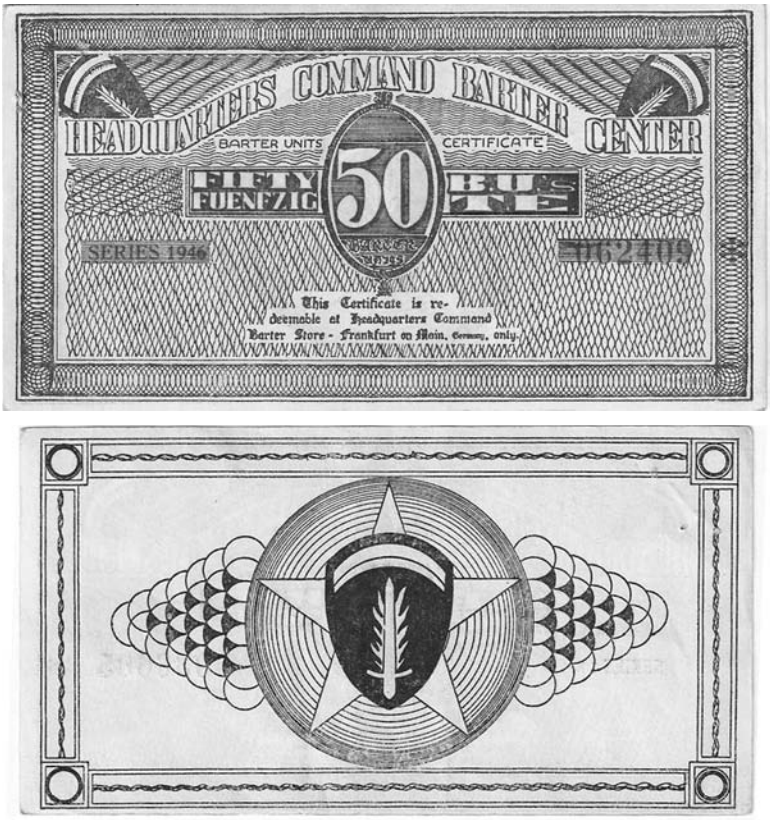
Once the Soviets withdrew from the Allied Control Council in March 1948, a long-overdue monetary reform in the Western part of Germany became feasible. As it became generally known that the Reichsmark would finally be abolished, the black market rate on a carton of Luckys shot up to a high of 23,000 Reichsmarks which, if they could have been converted into dollars at the old official rate, would have earned its lucky seller $2,300. On June 20, 1948, the Reichsmark disappeared, replaced by the new Deutschmark at a conversion ratio of roughly ten to one. This monetary reform, along with Ludwig Erhard's shock program of wage and price decontrol finally put the Germans on the path to recovery, and eventually stubbed out the last embers of the "Cigarette Economy".

Types of Barter Scrip

One series is known for the OMGUS Barter Center in Berlin, in the denominations of 1-, 5-, 10-, 25-, 50-, and 100-"Barter Units" (though Schwan and Boling report only the 1- and 5- denominations extant (SB nos. 601-606).

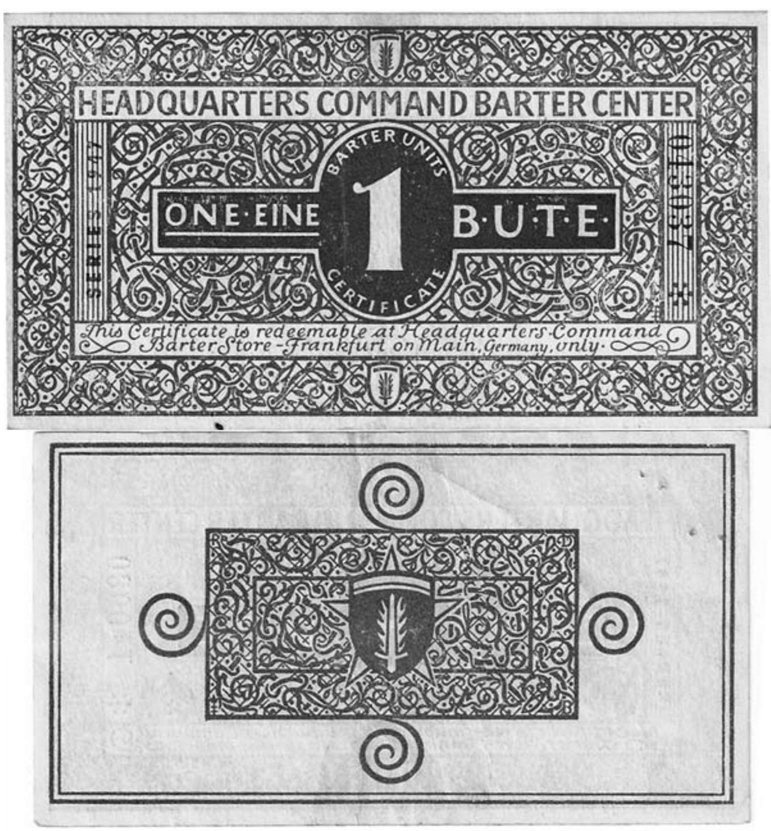
1 Barter Unit (SB 601)

Four main varieties of "Barter Unit Certificates" (BUTEs) were printed for the Headquarters Command Barter Center in Frankfurt. The first variety consisted of the series of 1946 and 1947 and differed only by the date, and the color of the 50-BUTE note (SB nos. 611-622). These also appeared in denominations of 1, 5-, 10-, 25-, 50- and 100-BUTEs.



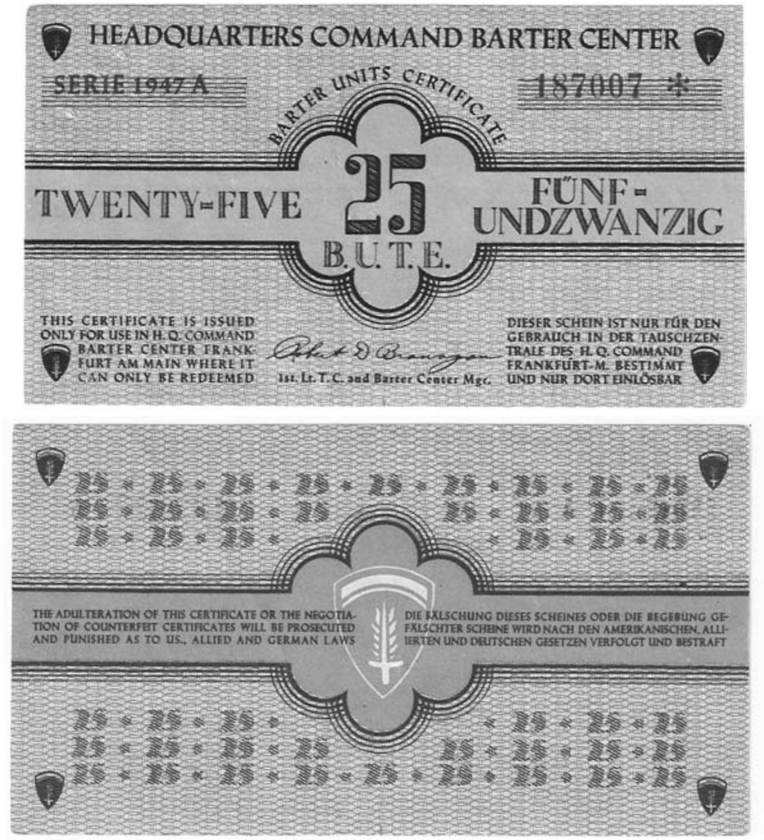
50 BUTEs (SB 615)

A second variety, issued between July and September 1947, became necessary when the earlier variety was counterfeited (SB nos. 623-628).



1 BUTE (SB 623)

After September 1947, a third variety was put into use until the Barter Center's closure in May 1948 (SB nos. 629-634). This variety reflected more sophisticated production values. The paper was watermarked, and the denomination appeared on the back as well as the front (with color varying as to denomination, as with the first two varieties).



25 BUTEs (SB 632)

A final variety, listed by Schwan and Boling, was to be used in the event of further counterfeiting (SB nos. 635-639). This variety remained unissued, and lacked a 50-BUTE denomination.

References

Bratter, Herbert M. "An Economy Based on Cigarettes." *Nation's Business*, 35 (June 1947).

Clark, Delbert. "U.S. Barter Center in Berlin Failing," *New York Times*, December 15, 1946, p. 25.

Daniell, Raymond. "Easy Profits Play Role in GI Laxity," *New York Times*, April 28, 1946, p. 18.

Foust, Hall. "Yanks' Barter Center in Reich Draws Red Fire," *Chicago Tribune*, September 20, 1946, p. 12.

Hartrich, Edwin. *The Fourth and Richest Reich*. New York: Macmillan Publishing Co., 1980.

Larkin, Kraig Thomas. "'A Taste of the Great, Wide World:' The Cigarette, Public Health, and Consumer Culture From the Third Reich to the Federal Republic." Ph.D. Dissertation, Stony Brook University, August 2010.

"Leica ist Trumpf," *Der Spiegel*, January 11, 1947, p. 11.

McLaughlin, Kathleen. "Shop for Barter Opened in Berlin," *New York Times*, August 16, 1946, p. 5.

Mendershausen, Horst. "Money and the Distribution of Goods in Postwar Germany," *American Economic Review*, 39 (June 1949), pp. 646-672.

Schwan, C. Frederick and Joseph E. Boling. *World War II Remembered: History in Your Hands, a Numismatic Study*. Port Clinton: OH, 1995.

Senn, Peter R. "Cigarettes as Currency," *The Journal of Finance*, 6 (September 1951), pp. 329-332.

Stars and Stripes (European Edition), January 13; April 23; May 4; May 7; May 9; June 15, 1948. ❖