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Main outline of speech showing Treasury action since:

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Liquor Bottles: Discontinuance of breaking discussed in

Reed memorandum - 3/19/45.

1) News feature to be told of Rees memorandum -

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2) Reed memorandum - 3/20/45. See Book 880,

3) Lowney memorandum - 3/20/45.

Kingston, Frank

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Lubin, Jacob

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Mexico

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Newcomer, Habel

See Post-War Planning: Bretton Woods Conference

Pepper, George (Executive Secretary, Hollywood Democratic Committee)

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Pepper, Claude (Secretary)

Reparations

Dubois - possibility of accompanying Lubin to Moscow:

See Book 820

Conference: present: HAB, Lubin, R.W. Bell, DuBois,

and Coe - 3/17/45.

1) 1-page memorandum on Treasury policy requested by Lubin.

2) Confusion on financial Directive explained to Lubin by HAB.

3) Memorandum for the Secretary of State explaining changes read aloud by Coe. (Actual memorandum - page 60. 260)

4) Russian plan (standard of living typical of Central Europe): beyond that, everything for reparations explained by Lubin.

5) Cheyto as British representative in Lubin's hope.

6) Vittini reports Cherwell will accompany Lubin: See Book 820. page 71

Post-War Planning

Bretton Woods Conference

Conference: present: HAB, White, Fauske, Russell,

and Lowney - 3/17/45.

1) Glass-HAB conversation concerning proposed statement discussed.

2) Glass-HAB conversation.

3) Suggested statement.

4) Radio announcers (listed) to be invited to Treasury for explanatory talk - 3/17/45.

5) McCarthys (President, Federal Reserve Bank of


Los Angeles rally recommended in White memorandum -

3/17/45.

Newcomer, Habel: List of speeches supporting -

3/17/45.

Walcohn-HAB conversation on progress - 3/17/45.

Senator George-HAB conversations reported to Treasury group.

Burgess' 'lobbying' in Holland and other countries to have Bank and Fund in one told to HAB by R.R. Brown -

3/19/45.

Frank Kingdom's broadcast on 'Behind-the-scenes Struggle for Power in Washington' sent to HAB by Nathan Strauss -

3/19/45.

British problems and British policies - memorandum prepared in Treasury on Bretton Woods affect on.

For Emmanou to send to George Pepper (Executive Secretary, Hollywood, California Democratic Committee) -

3/19/45.

Germany

For discussions on changes in Directive see Book 827.

Reparations

Dubois - possibility of accompanying Lubin to Moscow:

See Book 820

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1) 1-page memorandum on Treasury policy requested by Lubin.

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6) Vittini reports Cherwell will accompany Lubin: See Book 820. page 71
Post-War Planning (Continued)

Germany (Continued)

Reparations (Continued)


a) Goe and Dubois drafts of suggested instructions from FK to Ussh. discussed
   1) Goe draft: 226
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a) Above-mentioned memorandum for Secretary of State reconsidered (See pages 68, 262)
   b) McClary-HNtr conversation: 256


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a) Goe memorandum - 3/20/46: See Book 832, page 72
   (See also Book 833, page 84 - 3/20/46)

Mexico City Conference

Results outlined in Ussh memorandum - 3/17/45.


Surplus Property, Disposal of

Fed of Fed asked to confer with General Greenough who is worried about situation - 3/19/45.

Interim report by Senate Special Committee to study problems of American Small Business - 3/19/45.

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Further reports:
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March 17, 1945
9:55 a.m.

NM Jr.: Hello.
Operator: McCoy.
NM Jr.: Hello.
John: Hello.
NM Jr.: Jack, I was put in a good humor this morning because a very nice little lady held me up in the middle of the street.
M: What did she -- what did she sell you?
NM Jr.: What did she sell me?
M: Yes.
NM Jr.: My grandchild.
M: (Laughs) She did?
NM Jr.: (Laughs)
M: Where was this?
NM Jr.: Walking down this morning.
M: Really?
NM Jr.: She was in the car and wanted to know all about the grandchild.
M: She did, huh?
NM Jr.: Yeah.
M: Well, good.
NM Jr.: She's a nice woman.
M: Well, I -- I think that's right.
NM Jr.: (Laughs)
M: I think that's right.

NM Jr.: She's got more pep and enthusiasm.
M: She really has.
NM Jr.: Yeah.
M: You called me last night but when I got in it was too late ....
NM Jr.: Yeah.
M: .... to call back.
NM Jr.: Well, let me tell you this.....
M: Yeah.
NM Jr.: .... and if you tell it to Stimson, please tell him not to repeat it....
M: Yes.
NM Jr.: .... except to himself.
M: Yes.
NM Jr.: What I did was this: I want you to know -- I stayed behind. See?
M: Yes.
NM Jr.: And I had a very frank talk with Stettinius.
M: Yes.
NM Jr.: And I shook him terrifically. See?
M: Yes.
NM Jr.: And he as much as said this thing was given to him the day after he returned, and he was tired and he really didn't know what was in it.
M: Yes.
NM Jr.: And I believe him.
M: I think he's right. I'm sure of that.
And you noticed that when he said -- somebody asked him had the President read it carefully, he didn't answer.

M: Yes.

HMJr: So I am preparing a very careful report....

M: Yes.

HMJr: .... showing where this interpretation of the protocol is quite different from 1067, and showing how this protocol could be interpreted to be -- well, to completely fit into 1067.

M: Yes. Yes.

HMJr: Now, he's away and I'm going to give it to Drew at his request.

M: Yes.

HMJr: I couldn't refuse to because he said he wanted Drew to have it.

M: Yes.

HMJr: And I wanted to know what we -- we were going to do.

M: Yes.

HMJr: I'm calling you up to find out what you were going to do.

M: Well, what I did yesterday -- well, let me -- let me give you a little more background. The Secretary when -- I didn't know it at that meeting....

HMJr: Yes.

M: .... but at that meeting that we had, he just had seen the President.

HMJr: Yes.

M: And the President brought this subject up.

HMJr: Yeah.
Mr: That I didn't know where we were going to end on economic control; that that wasn't a matter that we were interested in as military people, but we were interested in it as to what could be carried out effectively and to come back with the -- with their thoughts on the modifications.

HMJr: Yeah.

M: And they're going to bring it up apparently tomorrow. Milford is back.

HMJr: Yeah.

M: And he's ....

HMJr: Where has he been?

M: He just took a little trip around -- inspection trip around. And he is back now on that, too. Now ....

HMJr: Go ahead, please.

M: .... that's where we stand.

HMJr: Well, I'd like to show you....

M: Yeah.

HMJr: .... what we sent over there before we do it.

M: I'd like very much to see it, naturally.

HMJr: And I would appreciate it if you will do the same.

M: We will do the same thing with you.

HMJr: I'm leaving at one o'clock Tuesday ....

M: Yeah.

HMJr: .... to go up to New York. I've got a job to do up there.

M: Selling bonds or something, huh?

HMJr: Well, it's on Bremont Woods.

M: Oh, yes.

HMJr: But -- and bonds.

M: Yeah.

HMJr: So between now and one -- some time Tuesday morning ....

M: Yes.

HMJr: Ah, if you want to set a date now, I'll be ready Tuesday.

M: Well, we might as well. The -- let's see now -- Tuesday morning is that Committee of Three that I've got to attend -- that State, War and Navy business that ....

HMJr: Oh. What time is that over?

M: Well, it will be over by -- it will be over by eleven o'clock.

HMJr: Do you want to come from there over here?

M: I'll come over there, yes.

HMJr: Say, about eleven-fifteen.

M: Yes.

HMJr: I'll be ready between eleven -- eleven o'clock -- how's that?

M: Suppose I say eleven-fifteen.

HMJr: Eleven-fifteen, will you bring ....

M: I'll bring Milford with me.

HMJr: Supposing you do that.

M: Yeah.

HMJr: Yeah.

M: Now, this business is all pretty delicate because of the relations with the State Department, but I think that now, that in the light of the fact that they went off on a frolic of their own on this thing, that we -- we've got a right to sulk on it.
HMJr: Well, we've got a right to talk, and let me tell you something else. I -- I don't think it would be smart to send a joint memorandum.

M: No, certainly not.

HMJr: But certainly I can show it to you, and you can show it to me.

M: Yeah.

HMJr: And I have no hesitancy in telling them so.

M: Yeah.

HMJr: Now, the thing that happened -- I don't know whether you -- were you there after I went in in the outer office when Frank Oee was talking with Riddleberger and what's that other fellow's name -- the economist?

M: Dupres.

HMJr: Dupres.

M: Not that I recall.

HMJr: Well, let me tell you about the conversation that took place.

M: Yeah.

HMJr: Because this is indicative.

M: Yeah.

HMJr: They were laughing and joking and said, "Well, sure this is tough, but we had to make it tough for training purposes."

M: Oh, really.

HMJr: I think that's the God-damnedest....

M: Isn't it terrible?

HMJr: And then they admitted to Oee that that Yalta thing could be perfectly well interpreted another way to completely fit 1967.

M: Yeah. Yeah.

HMJr: Oh, they were kidding, "We did this -- we knew we had to be tough because we'd have to give in something as we thought we'd be extra tough."

M: Good God!

HMJr: Now, that's what Riddleberger and....

M: Yeah.

HMJr: And you know Oee is....

M: They oughtn't let -- they oughtn't let that Riddleberger do that. I mean, they oughtn't let Riddleberger have his head that way. He's a damned....

HMJr: Well, what happened was that, as I say, they just handed this thing to Stettinius, and Stettinius said he was tired.

M: Yeah.

HMJr: He implied he didn't read it.

M: Yeah.

HMJr: We gave it to the President and evidently the President didn't read it.

M: Yeah.

HMJr: And the whole future of Germany is at stake.

M: Precisely. Isn't it the most....

HMJr: It's despicable, an outrage.

M: Absolutely, it really is. You didn't get a chance to talk to the President about it at all after Cabinet?

HMJr: No. No, because, oh, Stettinius and your boss were all in a huddle and -- I'll tell you, there were about six people hanging around, and I don't find it's a very good time to talk.

M: Yeah. Yeah.

HMJr: So I went to draft this thing but....
M: I think what they've done -- they -- they -- on that line, I mean, from them to sit there and say they didn't mean what they said that gets my goat. You can't read that language any other way.

MKJr: I just had a talk with General -- with Admiral Leahy ....

M: Yes.

MKJr: .... and he said that he attended every meeting on military, political and everything else ....

M: Yes.

MKJr: And he said this question of a strong central Germany was never raised by anybody....

M: Yeah. Yeah.

MKJr: .... in his hearing.

M: Yeah.

MKJr: And he said he attended every single meeting.

M: Yeah.

MKJr: Now, these fellows -- Riddleberger and these fellows are just putting this thing across.

M: I know they have. Just because, God damn it, they -- they all set around the table and agreed to this thing the other time. They said they didn't like some of the things in it, but they agreed to them.

MKJr: I see. I'm not going to take it lying down. Is that English?

M: (Laughs)

MKJr: Am I lying down or laying down?

M: Lying down.

MKJr: I think I'm lying down.

M: Yeah, that's right.
Mr: Conf'd. can't let the Germans do it.

M: But Mr. Burch takes the position that the repercussions on this country financially under reparations are so enormous that the Treasury should be the dominant figure in the thing.

M: Yes.

M: That's the position that he takes.

M: Uh-huh.

M: And I mean that I've got to this morning write a letter to Congress telling them we have not made any commitments on any long-term loans. The Congress looks to me.

M: Yes.

M: They don't look to Riddleberger.

M: (Laughs) That's right.

M: What?

M: That's right. That's right.

M: But one hell or high water, at least, in the first instance, I'm going to bring this to the attention of the State Department.

M: Yeah.

M: And see what happens.

M: Yeah.

M: But I can tell you ....

M: Yeah.

M: .... that I never have seen Stattonius more shaken, and I just think the man is over-tired and somebody put something over on him.

M: I'm sure that's right.

M: And that can happen to any of us.

M: Yes, that's quite true. Oh, I don't have any resentment against him at all. I do -- I do think that Riddleberger was ....

M: Well, he told me, furthermore, that it was Dunn who had presented it to him.

M: He did, huh?

M: Yep, he said Dunn gave it to him.

M: Dunn -- that shocks me because Dunn sat with me -- has been sitting with me all these years on the preparation of these papers, and we have gone along step by step with him, on every directive, and he knows perfectly well what this theory was. We couldn't have worked more closely with him. We never kept a thing from him. It was -- he was in the formulation of everything, and he knew perfectly well that this was right against the grain.

M: Well, I'm just telling you what Ed said.

M: Yeah.

M: Now, I'm going to ask you on your word of honor -- what I've told you is only for you and Mr. Stimson.

M: Right. Right.

M: Only for you and Mr. Stimson.

M: Right.

M: I mean, would you keep it to that one person besides yourself?

M: Well, I've got -- Mildred is sitting across the desk from me, so she's heard half of the conversation.

M: Well, all right. It's Stimson, Mildred and you.

M: All right.

M: Because I mean ....

M: Well, you be sure -- you can be sure that ....

M: .... if it goes below that level ....
M: Yeah, it will get around.
NMJr: Yeah, but Stimson, Hilldring and you. How is Hilldring?
M: You can be sure.
NMJr: Can I say, "Hello," to him?
M: Wait a second. Hold the wire.
General Hilldring: Yes, Mr. Secretary.
NMJr: I just want to tell you I'm a fool but I keep on fighting just the same.
M: (Laughs) Well, that's fine, Mr. Secretary.
NMJr: I-- I--
M: We had quite an upheaval when I was-- I just left town two weeks, but....
NMJr: Well, I-- I'm going to keep on fighting until-- well, I'm not going to get licked, that's all.
M: Yes, sir. Well, I expected that reaction from you, Mr. Secretary.
NMJr: Yeah, I'm not going to take....
M: (Laughs) I don't blame you, sir.
NMJr: No. And I want some support.
M: Oh, yes, sir. Well, you'll get it.
NMJr: I need something better than an S6, too.
M: Yes, sir.
NMJr: Something that can outshoot an S6.
M: Yes, sir.
NMJr: You've got that new 90, haven't you?
M: Yes, sir, we have and it's a fine piece of artillery.

NMJr: Well, bring up the General's -- General Pershing.
M: All right, sir, I will.
NMJr: And tell McHenry if he and I are going to run a General Pershing, I don't expect him to stall it this time.
M: Who, Mr. McHenry?
NMJr: Yeah, just tell him that. He knows what I mean.
M: I see.
NMJr: Tell him that while I'm on the phone.
M: Yes, sir. (Takes aside)
John McHenry: What are you talking about -- stall -- here?
NMJr: We get -- I want an invitation to see a General Pershing, and when I run it, I'll show you how to do it.
M: Oh, you mean a tank?
NMJr: Yeah.
M: Oh.
NMJr: Yeah.
M: You want to see one of the tanks?
NMJr: Yeah.
M: We'll go over to Aberdeen.
NMJr: All right.
M: They're very good.
NMJr: All right.
M: I'll set it up with -- with Campbell.
NMJr: Now, don't stall it in the middle of the mud this time.
M: Oh, I hope not -- I get you.
NM Jr: All right.
N: Right.
NM Jr: Bye.

March 17, 1945
10:11 a.m.

NM Jr: Henry talking.
Senator George: Yes, sir. This is Walter George, Henry.
NM Jr: Now are you?
N: Pretty good.
NM Jr: Walter, I wondered if some time over the week-end I could come around and see you. I'd like to have a little talk.
N: Over this week-end, Henry?
NM Jr: Well, if it's convenient. If not, Monday. I -- I don't want to intrude on your Sunday.
N: Oh, I'll be very glad to see you. Henry, I'll be glad if you come by any time that's convenient for you.
NM Jr: Well, you say how and when, and ....
N: I'll drop by to see you.
NM Jr: Do you want to do that Monday morning.
N: Let me see now -- Monday morning I have a Committee -- I'm starting on hearings on the treaties, as a sub-committee chairman. Uh - I -- I could come by very early Monday morning, Henry.
NM Jr: All right. What do you call very early?
N: Would it suit you for me to come about nine o'clock?
NM Jr: That will be perfect.
N: At your office.
NM Jr: Yeah.
N: All right, I'll come about nine o'clock.
NM Jr: That's all right.
N: 9:00 a.m. Monday.
FINANCING

Present: Mr. D. W. Bell
Mr. Blough
Mr. O'Connell
Mr. Wales
Mrs. Klots

H.M.JR: I am on double day light saving. I'm sorry. I had to see a fellow like that. Now, I can't ask him to come out of a sick bed from Chicago to testify and have him sit in my outer-room and not say hello. I just can't. If you fellows are so dumb as to sit out there and wait--

MR. O'CONNELL: I figured we had a better chance to see you if we waited.

MRS. KLOTS: There's something to that, Mr. Morgenthau.

H.M.JR: I just had to see Ned Brown. He is almost the only banker in the United States who is for Bretton Woods.

MR. BLOUGH: I am not critical, and the reason we camped was I had to have your approval.

H.M.JR: On what?

MR. BLOUGH: These suggested tax changes to be made to the Joint Committee next Tuesday. I opened the pamphlet to the point where the thing is summarized in a page and a quarter. I would like to read it if you can permit that.

H.M.JR: If I can listen.

MR. BLOUGH: (Quoting from pamphlet entitled "Studies in Post-War Taxation, dated March, 1945") "Outline of Suggested Tax Changes, changes effective in 1945. Although
tax reductions do not seem advisable after victory in Europe; tax revisions to improve the working-capital position of business for reconversion may be made without decreasing ultimate taxes."

I might say that in an earlier page it said we oppose any reduction in tax rates until the war is over.

(Quoting) "Four proposals are suggested to take effect after victory in Europe: one, make the post-war credit of ten percent of excess-profits taxes currently available for liabilities of 1946 and subsequent years."

H.M.Jr: Just a minute!

Discussion (off the record)

Mr. Brough: That's that ten percent compulsory bond now in excess-profits taxes which accompanies indebtedness—paying off indebtedness, and is now taken currently, and the others are supposed to get it after the war. This suggestion is with respect to payments made after the end of the war in Europe, that ten percent be taken currently by the taxpayer if he wishes it, and they all will.

Mr. Bell: Those are post-war refund bonds, and this is on the assumption that the war in Europe ends this year?

Mr. Brough: Yes, nothing will happen until the war in Europe ends.

Mr. Bell: If the war in Europe ended in 1946, you might change this.

H.M.Jr: There is no chance of changing anything on taxes until the war in Europe is over.

Mr. Bell: Even these are not material changes.

Mr. Brough: These may be considered before the end of the war.

H.M.Jr: Does this mean a tax bill before the war in Europe ends?

Mr. Brough: We don't know. I doubt that.

H.M.Jr: I don't want any tax bill.

Mr. Bell: This is for consideration before the Joint Committee, which so far has been strictly confidential, of this problem. This is carrying forward the post-war tax program as a study.

H.M.Jr: There will be no tax bill before VE-Day.

Mr. Brough: I certainly hope we can hold to that.

H.M.Jr: We are going to stick to that.

Mr. Brough: (Quoting) "Two; advance to January 1, 1946 the maturity date for the outstanding post-war refund bonds.

There would be about one billion and a half of those outstanding after 1945. Instead of paying them in some later year, we suggest that to help out the business cash position those be cashable on January 1, 1946, assuming that the war in Europe is over by that time.

Mr. Bell: Another thing that does after the war in Europe, they become available to borrow on them or sell them; that is, after the war is over altogether.

Mr. Brough: They do not become negotiable until after the war is over. This prevents those bonds from selling at any discount.

Mr. Bell: Well, they couldn't sell at a discount until after the war is over, at any time.

Mr. Brough: That's right, but there is a demand they be made available and there is some justification for it, because a company paying off its debts is now taking this post-war credit and never has to take the bonds at all.
(Quoting) "Three; speed up the benefits of the carry-backs by providing for deferment of current taxes to the extent of refund attributable to estimated carry-backs of net operating losses and of unused excess-profits credits."

That's a bit technical, but you may recall we discussed the problem of the company that owed the Government money while at the same time it was accumulating carry-back refunds the Government owed it, and in order to make it possible for that company to move from war-time to peace-time production, we provided that the tax currently due could be postponed or deferred as a means of allowing an offset.

MR. BELL: How could you tell that they would have a refund coming to them?

MR. WALES: It would be based on an estimate in the first instance.

MR. BELL: They can't just postpone the gift tax and find out later they didn't have a refund.

MR. BŁOUGH: That can happen. If it does, they pay a fairly substantial penalty.

MR. BELL: I see. Is there a penalty there?

MR. BŁOUGH: Yes.

MR. BELL: Okay.

MR. BŁOUGH: (Quoting) "Four; speed-up the refunds resulting from the recomputation of amortization deductions for emergency facilities."

That's the five-year amortization if the war ends before five years, or you recompute a five-year amortization over a shorter time. This permits then to get the money back faster.

H.M.Jr: That will please Mr. Kaiser.

MR. BŁOUGH: It should. Now, number three and number four will mean a somewhat new policy in the payment of refunds. It will mean a tentative refund will be paid upon application of the taxpayer and later on it will be checked to see whether it was right or not, and whether we have to collect back some money. We will undoubtedly lose some money in that process, but we think, and Commissioner Numan is in agreement on all of this--

H.M.Jr: Does he know about this?

MR. BŁOUGH: He should know about all of it, but we specifically talked about that problem.

H.M.Jr: He ought to know about all of it.

MR. BŁOUGH: His name have been in it every day. Can has done very noble service on this. I want to commend him, and the Commissioner's attitude has been excellent all the way through.

MR. BELL: Three and four could really mean money, couldn't it?

MR. BŁOUGH: Not ultimately, but for the time being.

MR. BELL: Quick money.

MR. BŁOUGH: Quick money, that's right. Now, those aren't reductions in taxes, but they are the speeding up of certain benefits which are now in the law.

(Quoting) "5. Changes for the Remainder of the Transition period. If major hostilities were to end in 1945, the peacetime interval before 1946 would be brief and large war expenditures would probably carry over into that year. Thus, incomes resulting from the continuing high levels of Government expenditures, together with the backlog of savings, would provide an adequate stimulus.
to business, reconversion, and expansion. At the same time, it is unlikely that civilian production would be able to expand sufficiently in 1946 to remove the threat of serious inflation in that year. If the war ends in 1945, the following suggestions would be applicable to the year 1946:

One, the excess-profits tax rate should be reduced to 55 percent for 1945 and repealed thereafter, and the specific exemption should be increased from $10,000 to $25,000.

Now, in the fine print at the bottom of the page it says that in case major hostilities on both fronts should end before June 30, 1945, then the excess-profits taxes will be repealed for 1945. There are elements of compromise all the way through here. We thought that fairly harmless in view of the prospects.

MR. BELL: That would be a good thing if the war ended before June 30th, repealed as of June last.

MR. BLOUGH: Yes. (Quoting) "Two, the capital stock and declared-value excess-profits taxes should be repealed."

MR. BELL: Any, would the increase in the exception from ten to twenty-five take effect at the same time you get a reduction to sixty-five, or would it wait until the whole thing is repealed?

MR. BLOUGH: No, it would increase in a specific direction and would take place January 1, 1946.

MR. BELL: Applicable on excess-profits?

MR. BLOUGH: Yes. Now, we can skip the next paragraph. I think. No--

H.M.JR: Do you know all about this? Are you in agreement with it?

MR. O'CONNELL: Yes, are you?

MR. WALES: Certainly.
H.M. Jr.: You say this is all right, and I am going to take it sight unseen. What the hell you have been talking about I don’t know, and I am not going to pretend to know.

Mr. Brough: This is the same thing we talked about at the Shoreham, but a little tougher.

Mr. O’Connell: It is better.

Mr. Brough: It is better from our point of view. We didn’t have to compromise as much as I thought.

H.M. Jr.: I can’t be doing all the things I am doing. I know it is important and I know I should give you a couple of hours, but I can’t do it physically, and when a fellow like Brown comes along and I have this very difficult piece of legislation and he is the only banker, I have to stop everything to be appreciative. So, Roy, this is a vote of confidence in you and the rest of the fellows, mainly you.

Mr. Brough: That’s what I wanted.

H.M. Jr.: All right, you’ve got it.

Mr. Bell: This is something you have agreed on, too, with the same group.

Mr. Brough: Yes.

H.M. Jr.: And no incriminations. If it’s wrong I’ll just have to support you.

Mr. Brough: I don’t think there will be much kick-back on this. It is fairly cautious.

Mr. Bell: I don’t think there will be any kick-back.

Mr. Brough: We are doing our best so there won’t be any recriminations.

H.M. Jr.: Don’t want to have you walk out of here thinking, “Well, I explained this all to Mr. Morgenthau, and you know damn well I don’t understand it.” (Laughter) You know it takes me a couple of hours to understand it.

Mr. Brough: I am not going to hold you responsible for this, but all I am asking is that you back us up on it.

H.M. Jr.: No, I just want you to know—I’ve seen you, and you tell me it’s all right. These fellows you have explained it to say it is all right. I take it you explained it to people on this end in other departments?

Mr. Brough: The Inter-Departmental Committee says it is all right.

H.M. Jr.: God bless you!

Mr. Bell: He may be asked by some members if this has the approval of the Treasury, and he wants to be in a position to say—

H.M. Jr.: The answer is yes. He says yes very emphatically. “I spent days with the Secretary on it.” (Laughter)

Mr. Bell: Roy, one more thing about the Davis Committee.

Mr. Brough: Won’t you mention that?

Mr. Bell: Yes. “We told you the other day he had been discussing it with the Loan Committee, now the Davis Committee, the proposal of Eccles to change the capital gains tax to take care of inflationary elements in the stock market and the real estate market. Well, they had another meeting the other day, as he told you, and there was some question about where we would go from there.

H.M. Jr.: May I interrupt you? Can you put it on one page? Mr. Davis is coming to have dinner with me tomorrow night and I want to know about it. Will you?
MR. BROUGH: Yes.

H.M.JR: They are coming to dinner tomorrow night, so supposing you put it on your agenda. Do you want me to see the presentation, and that Mrs. Klotz gets it so I can take it home with me.

MR. BELL: He and Vinson want to go to see Doughton on Wednesday about some changes in the capital gains tax provisions.

H.M.JR: Must I sell my farm before this goes through? I bought one a year ago and they want to offer me about fifteen percent profit on it. I bought a farm for seventy-five hundred dollars, one hundred and thirty acres, last August. I think I can sell it for around twelve thousand dollars.

MR. BROUGH: You believe in inflation prices.

H.M.JR: The joke is my wife didn't want me to buy another farm, and now she is all against selling it. So I never sold a piece of land in my life.

MR. BELL: It sounds like cheap land.

H.M.JR: A house which I had to have appraised for insurance was appraised at five thousand dollars by the insurance company, and one hundred and thirty acres.

MR. BELL: It sounds cheap.

H.M.JR: You go through the Catskills--

MRS. KLOTZ: Is there any water on it?

H.M.JR: Yes.

MR. BROUGH: Mr. Bell and I may want to suggest that they postpone seeing Doughton until we get some additional information. It will be on the page if we do.

MR. BELL: I think it might be well for you to tell Davis that we ought to gather some information on this front and it would be well to postpone the meeting until after the recess, at which time Roy thinks he will have it.

H.M.JR: Put it on a sheet of paper. You see, I've spent half a year and a half with you over so many lines of bills for your information that I keep putting the thing off until I am right up against it, and then I have this Bretton Woods thing around my neck. Oh boy!

MR. O'CONNELL: It is going wonderfully.

MR. BELL: I think the sentiments are changing.

MR. O'CONNELL: Really?

MR. BELL: Mr. Wolcott is still worried about lend-lease, and that will be straightened out.

MR. O'CONNELL: I am going to New York today at noon.

H.M.JR: On St. Patrick's Day?

MR. O'CONNELL: Yes. I see you have something green on.

I don't.

H.M.JR: What's the matter?

MR. BELL: I thought this was green this morning when it was dark.

H.M.JR: You better not call anybody in the General Counsellor's office after one o'clock.

MR. O'CONNELL: There will be people there.

MR. BELL: Non-Irish, I take it.
MR. O'CONNELL: I had not planned to come back until Monday. Unless you think it is important, I'll be back Monday morning. Herbert Gaston is going with me.

H.M.JR.: Another Irishman. You really think that things are going good?

MR. O'CONNELL: Oh, yes, don't you?

MR. BELL: Yes, I think the sentiments are changed, I really do.

MR. O'CONNELL: Isolate opposition to New York bankers. I think it's getting clearer and clearer, and that will get to be an asset after a while--New York bankers opposition.

MR. BELL: Eccles thinks that the GED report is going to be good. Has he seen it?

H.M.JR.: I don't think so.

MR. BELL: And Will Clayton said something that surprised me a little. He is on the Banking Committee.

MR. O'CONNELL: The Committee has been very amazing, and even Smith has not been difficult. Crawford couldn't have been more helpful if we had talked to him for weeks on the questions he asked Harry white and others. Ned Brown was very good. I think we have talked enough before the Committee. Dean is going on Monday morning to talk and ask more questions and explain the questions Wolcott asked yesterday about lend-lease.

H.M.JR.: I asked White this morning to prepare a letter to go up there. I called him about eight o'clock at his house. I told him to write a letter to Spencer about loans and told him to clear it around here and State. Ask him about it and where it is, will you?

MR. O'CONNELL: Yes.

MR. BELL: That's on lend-lease.

H.M.JR.: When are you going?

MR. O'CONNELL: At twelve o'clock. I have time.

H.M.JR.: Just say there are no loans, and if there are--

MR. BELL: Of course there are no loans, but Section 3-G in the Lend-Lease Act provides for commitments which will develop into loans when the war ends, and that is what Wolcott was driving at. If only half a billion of this two and one-half billion for the French has been given and the other two billion is in the mill, they would get two billion dollars of long-term loans and that is what he's kicking about.

H.M.JR.: He told the Cabinet he didn't know what the answer is.

MR. O'CONNELL: The main reason Dean is going back Monday morning is to answer that specific question. I think it wouldn't hurt to have it answered from several quarters.

MR. BELL: I would let Dean answer that if I were in your place, for the time being.

(The Secretary holds a telephone conversation with Senator Glass, as follows):
March 17, 1945 11:18 a.m.

NMJr: Hello.
NMJr: Hello.
Mrs. Carter Glass: Mr. Secretary.
NMJr: Mrs. Glass?
G: Yes. The Senator is on the other phone right now.
NMJr: Is he listening?
G: Yes. You can talk right to him if you wish.
NMJr: Well, either way that is convenient.
G: All right, sir. Well, he's there.
NMJr: Hello. Hello.
Senator Glass: (Coughs)
NMJr: Hello.
Mrs. G: It's the Secretary of the Treasury, dear.
G: Well -- (Continues to cough).
Mrs. G: He got into a coughing spell. Wait just a second.
NMJr: I can tell you, Mrs. Glass, what I wanted.
Mrs. G: Well, he's all right. He wants to speak to you now.
NMJr: Well, I wondered if I could come around some time tomorrow and see the Senator.
G: Some time tomorrow.
Mrs. G: (Calls for water).
G: Come down some time ....

If I could come down some time Sunday and see you.
G: Yes. Yes.
NMJr: Around twelve o'clock?
G: Yes.
NMJr: Would that be a good time?
G: Yes, that will be a good time.
NMJr: Well, then I'll come around about twelve o'clock to see you.
G: All right.
NMJr: It's so nice to be able to talk to you.
G: Thank you.
NMJr: I'll look forward to seeing you.
G: Thank you.
NMJr: All right, Senator. Good bye.
G: Bye.
Mr. BELL: There has been very little change in the market since we talked about it the last time, and I think about the same type of securities could be put out. The longer market has come down a little, but it has gone back a little, too. It has lost ground as a whole. At the time we talked about the rates Warriner wrote me a letter dated the 9th and said he felt rather strongly that he should not attempt to put out the two and one-quarter's and the two and one-half's too far and that he would prefer to put the shorter two and one-quarter's '06-'07 as opposed to Mess' recommendation of '06-'08 and he would prefer to put the long bond in the '66-'71, but he said that he wouldn't go too far--'07-'08 which is in line with what you did before--and he points out that if you--and he's got a good point--if you put it out there you are taking advantage of this market rise, and you are making them support the present market at the high premiums, and he says that this--

H.M.JR: I am not getting this. You don't want to do it by noon, do you?

Mr. BELL: No. I just wondered if we couldn't do it the first of the week.

(Mr. Bell hands the Secretary copy of letter from Mr. Eccles, dated March 9, 1945, addressed to Mr. E. W. Bell.)

Mr. BELL: There are one or two other things I would have to have Monday morning. People are going to ask me, and I have asked investment bankers not to do private financing of any kind during the War Loan Drive. This is going to be a long period. They have lost money. Bob House had a case yesterday where the people made their arrangements to come out on May 15th, and I said certainly they cannot. On that I asked the investment bankers to stay out of the market between April 14th and May 14th. That's too long. Wallace Fulton was just in to see me and I said I didn't think we would be doing anything up to May 14th, and he said six weeks is even quite a long time. Heretofore,
It had been three weeks.

H.M. Jr.: See what time loans are.

Mr. Bell: They are usually refunding.

H.M. Jr.: I don't want to--

Mr. Bell: I wondered if we couldn't say to them--

H.M. Jr.: Okay until the 14th.

Mr. Bell: ...stay out until after June 1st. Between May 14th and June 1st we will have an intensive drive on individuals only and very few subscriptions until the day of--

H.M. Jr.: Tell them to keep out of--

Mr. Bell: ...the month of June entirely and keep others down as much as possible.

H.M. Jr.: It's all right with me if you clear it with Gamble.

Mr. Bell: Just keep out. They may have committed themselves.

H.M. Jr.: Stay out for June.

Mr. Bell: Now we have the Home Owners Loan with one and one-half percent bonds, seven hundred and fifty million callable for June 1st, and we have sixty days' notice, and I would like to be getting up the notices and everything to call those bonds on April 1st.

H.M. Jr.: Okay.

Mr. Bell: That's notice. They are dated June 1st so they will probably come right in with the Drive.

There was one other thing I wanted to see you on so I could begin drafting a memo, and so forth, between Bartelt and me and Charlie Bell. Do you want Bartelt to report to you? We talked a little about it the day that I--

H.M. Jr.: Let's do it the same way as any other assistant.

Mr. Bell: We would normally, but the time I talked to you I said I was sure he would be willing to report through me if you didn't want him to take on that additional task.

H.M. Jr.: No, I'll take him on just the same.

Mr. Bell: He would come to staff meetings and everything.

H.M. Jr.: Let him come.
March 17, 1945
11:35 a.m.

BRETTON WOODS

Present: Mr. White
Mr. Feltus
Mr. Russell
Mr. Luxford
Mrs. Klotz

H.W.JR: I called Walter George, and he is coming to see me at nine o'clock Monday morning. He wondered what the situation was as far as Atlanta is concerned and my speaking down there. You talked to McFarland, didn't you?

MR. FELTUS: Not yet. I tried to get him last night.

H.W.JR: You better talk to him and give Mrs. Klotz a memo on it so I will have it by nine.

(Mrs. Klotz entered the conference.)

MR. FELTUS: He is going to want dates.

H.W.JR: I just want to know how he feels. Let me call him myself. McFarland?

MR. FELTUS: Yes, I-c-l-s-r-l-n.

H.W.JR: All right.

I called Carter Glass, and it was the most tragic experience I ever heard. He practically coughed his lungs out on the phone before I could get him, and he just whispered. His wife said, "Sure, you can talk to him."

I am going to go see him at noon tomorrow, but my God, it is like talking to a man on his deathbed.

WIFE: That is just what he sounded like.

MR. WHITE: He probably doesn't know anything about it.

H.W.JR: But what I thought you fellows could do is this: I will be leaving sometime this afternoon, so give me some kind of general statement he might make that I could give to his wife, see?

MR. FELTUS: Good.

MR. WHITE: It wouldn't involve his knowing all about the techniques, so he can't turn it down.

MR. FELTUS: I think you ought to compare it to the Federal Reserve System as a progressive system, because he was a great sponsor of that.

H.W.JR: Yes, that is it. Get me something so I will have it, will you? It is the most tragic thing. I mean, I had him on the loud-speaker, and he just coughed and coughed and coughed. I thought he was going to cough his lungs out.

MR. LUSFORD: A one-paragraph statement for Carter Glass?

H.W.JR: Yes; if he is too sick, I don't know how I will give it to him.

MR. WHITE: Make a simple statement about world prosperity. The Federal Reserve System is the monetary system of the U.S., and this is the next step.

MR. FELTUS: It is good for American business just as the Federal Reserve System was.

MR. LUSFORD: I think he has got a good mind.

MR. FUSSELL: The same groups fought it, too.

H.W.JR: Yes, but put your heads together. Now, the only other thing I did that I told you fellows—Paul McNutt said he can pick up the phone, talk to Schaeferling any time
and keep the American Legion from doing anything. He said, "They have no right to do it."

**MR. WHITE:** John Sullivan just called me and talked to Luxford.

**MR. LUXFORD:** He is going to try to get them to get the right kind of report out.

**H.N.JR.:** Is there anything else today? I haven't talked to Shipstead, and I haven't talked to things-a-ma-bob. I will have to wait.

**MR. FELTUS:** I would like to bring up one idea for your approval. I think we ought to have a press conference and let Stettinus call it in his office at some later date and have conservative people in the Government, Vinson, Crowley, Loeles and all those people in a joint press conference on Bretton Woods at a strategic time in the Senate, and discuss Bretton Woods and its implications in the world picture in Stettinus' office.

**H.N.JR.:** He is not here. You will have to do a little selling. You see me up in New York.

**MR. WHITE:** Then we ought to have it here if he can't.

**MR. FELTUS:** That is a wonderful group of people you are seeing Wednesday.

**H.N.JR.:** Yes. About that idea, put it in the icebox for a while. You won't be able to sell anything new to me today. Who have you got for Wednesday?

**MR. FELTUS:** These are the people who are invited: Cecil Brown, Ned Calmer, W. W. Chaplin, John Daly, George Fielding Elliot, John Gunther, Charles Hughes, Quincy Howe.

**H.N.JR.:** Who is Hughes?

**MR. FELTUS:** He is.

**H.N.JR.:** Never mind.

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**MR. FELTUS:** He is on one of the networks; he is a member of the Association of Radio News Analysts.


**MR. WHITE:** Isn't John B. Kennedy a sour note in there?

**MR. FELTUS:** ...Gabriel heater, Royal Arch Gunnison, Arthur Hale, and that is all.

**H.N.JR.:** When do those telegrams go out?

**MR. FELTUS:** In a little while. They didn't go out yesterday.

**H.N.JR.:** They ought to go out before one o'clock.

**MR. WHITE:** Isn't John B. Kennedy a wrong note?

**MR. FELTUS:** We can scratch him off. There were so many favorable I thought we might surround him. There's Earl Browne. I didn't ask Lowell Thomas for a reason. He is beyond the pale, but I thought Kennedy might be--

**MR. WHITE:** When will we know how many there are?

**MR. FELTUS:** Monday, I suppose.

**H.N.JR.:** You had better ask Lowell Thomas.

**MR. FELTUS:** Do you think he ought to be invited?

**H.N.JR.:** He is a neighbor of mine; I know him personally.

**MR. LUXFORD:** He is a neighbor?

**MR. WHITE:** I think you said if we get two out of the others--

**H.N.JR.:** Thomas won't go out personally for it. He wouldn't do it for me, but he might be asked. It might stop him. He might not come out for it, but it might stop him.
MR. WHITE: Wouldn't Kennedy use this to say, "high pressure tactics," and so forth?
MR. FULTON: We will scratch him.
H.M.JR: I think so.
MR. FUSSELL: I question Gallow.
MR. WHITE: I don't know.
H.M.JR: If he feels doubtful--
MR. FULTON: Gallow has been one hundred percent for Bretton Woods.
MR. FUSSELL: No doubt of that. He will be picked by Peagler, and Peagler will smear the whole thing.
MR. FULTON: I don't think we ought to be afraid of Peagler.
H.M.JR: Talk that over among yourselves, but I would have Lowell Thomas. I don't know anything about Kennedy. I know Thomas well enough to know that if he didn't believe in it, he wouldn't knock it.

(Secretary holds a telephone conversation with Mr. Molinaro, as follows:)

March 17, 1945
11:31 a.m.

WMJr: Hello.
W. S. Molinaro, Jr.: Good morning, Mr. Secretary.
WMJr: How are you all down there?
W: We're nice and warm. The sun is shining just as pretty as it can be.
WMJr: I hope you've got a Coca-Cola on your desk.
W: No, there's one upstairs, but not one on my desk.
WMJr: I see. How's it going down there on Bretton Woods?
W: Well, don't many people know about it a whole lot. They just haven't been able to keep up with it or haven't kept up with it. We had a man here the other night, Robey of Newsweek.
WMJr: Yeah.
W: He was talking to a lot of manufacturers -- Manufacturers Association. He was violently opposed to it.
WMJr: Yeah. Well, he's opposed to anything that I'm for.
W: (Laughs)
WMJr: Are they sending him around the country?
W: No, he was invited down here to speak to this little meeting of the -- of the Associated Industries of Georgia -- just about twenty-five or thirty people.
WMJr: Robey -- he's a bad boy. He doesn't always tell ....
W: We have very definite ideas about Bretton Woods.
WMJr: He doesn't always tell the truth.
W: We said anything the American Bankers Association says is all right.
WMJr: Well, that's enough, isn't it?
Mr: Yeah.

HHJr: Have you looked at the things that they were against over the last thirty years.

Mr: Yeah, they -- they -- they accepted very few.

HHJr: No. Now, what's your advice? Do you think -- do you think we need a meeting down there?

Mr: Well, the -- I understood indirectly that you might be interested in coming down here, and I sort of sounded out the proposition. I think one of the most influential groups in Atlanta is the League of Women Voters. They have about 900 members....

HHJr: Yeah.

Mr: ... and about 300 of those, the subscribing members are the leading business men in Atlanta.

HHJr: Yeah.

Mr: And they were very enthusiastic about getting you down here.

HHJr: Yeah. How much notice would they need?

Mr: Well, of course, it's hard to say. I think they'd need at least a week, so they can get some publicity on it. One of the -- one of the newspaper men is a staunch supporter of the League and he would give it a lot of publicity.

HHJr: Yeah. Well, I'll tell you, Senator George is coming in Monday morning. Hello?

Mr: Yeah.

HHJr: And I'm going to talk to him about it, see? It would be very useful if I went down there, if he went with me, wouldn't it?

Mr: I think it would. It certainly would. There's another thing, a member of the -- we haven't had a member of the Cabinet down here in a long time and this is a Democratic country, you know, and it would help a whole lot.

HHJr: Well, what night of the week do they like to meet? Is a Saturday night a good or a bad night?

Mr: I should think that would be a bad night.

HHJr: A bad night?

Mr: Yes, sir.

HHJr: What about a Sunday night?

Mr: Well, I think that would be a bad night, too.

HHJr: You're down in the Methodist belt there, aren't you?

Mr: We want -- all like to go to church on Sunday night.

HHJr: Oh, huh. Monday night, huh?

Mr: Sunday night. I think any other night in the week. I don't know -- I'm not an expert on those things.

HHJr: No.

Mr: I'm just giving you what I think.

HHJr: But a Saturday and a Monday is bad, huh?

Mr: I would say so.

HHJr: Mon -- I mean a Saturday or Sunday.

Mr: Yes.

HHJr: Well, I'll talk to Senator George and then I'll give you another ring on Monday.

Mr: All right. I'll be glad to hear from you, because these people have been -- I probably made a mistake in letting them know there was a possibility of getting you down here, and they've been after me about it ever since.

HHJr: Well, that's nice. It's nice to know one is wanted.

Mr: Yeah.

HHJr: Well, thank you very much.
All right, sir.

Mr.: Bye.

Mr: I'll hear from you Monday.

Mr.: You'll hear from me Monday.

Mr: All right.

MR. JR.: I have practically made up my mind, Harry, that I am going away Friday or Saturday night.

MR. WHITE: You are going west or south?

MR. JR.: Somewhere near Jackson where I can get back in three or four hours if I have to.

MR. WHITE: We had an idea that probably--don't throw it off until I am through, but we thought if you could--it's a wonderful place, and there are a number of excellent reasons why Los Angeles would be a place for a big meeting, and it would be a very nice place. You could rest up for a week or ten days around there. There are some lovely places in Southern California.

MR. LINXFORD: Fly there, and fly back.

MR. WHITE: The moving picture industry is after us. They are very much interested in this, and Los Angeles is one place where the press and everybody else is against this, and Los Angeles is very jealous because San Francisco has Paramount Oaks, and we can give Los Angeles Bronson Woods. You can meet--have a supper with the movie people and important people, and then you can have a breakfast with the publishers the way you did with Detroit, and lunch with the bankers, and a big mass meeting that night, and then you need a rest.

MR. LINXFORD: There is going to be a recess, and you might as well take advantage of it.

R.W. JR.: You know what they say. I dictated my talk to the Speaker last night. It is the 28th, 27th, or 29th now, but he is absolutely trying to get this through, and he told me--did you see it?

MR. WHITE: Not yet. It may be on my desk.

R.W. JR.: Who has it?

MRS. KLOFF: I think they are short of help, and I don't think they can turn those things out so fast.

(Secretary holds a telephone conversation with Mrs. McHugh.)

MRS. KLOFF: She must have just this minute brought it in. They were not there; I cleared everything this morning.
MR. WHITE: If there weren't a possibility of your—
I don't know what your plans are—spending a week or two
there, then we wouldn't consider it, but there are some
lovely spots there.

MR. LUXFORD: It is nice in the spring.

W.M. JR: You see what he offers me, newspapers in
the morning, something else at noon, and movie cameras in
the evening. That is as far as he goes. What is the
attraction?

MR. FELTS: A news meeting.

MR. WHITE: That night, and--

W.M. JR: When do I play?

MR. WHITE: And a couple of us could go and take a
two-weeks rest, too.

MRS. KLOTZ: I am in agreement, too.

MR. FELTS: There is also Hedy Lamarr.

MR. WHITE: I called up Huston; he is very much for it.
He is, and so is Ted Gamble.

W.M. JR: If you want to see a nice picture, see one
of Mrs. Klotz and Hedy Lamarr.

Hedy Lamarr doesn't show up bad, either.

MRS. KLOTZ: She is really an attractive girl.

W.M. JR: Harry, that is all right. It would be very
hard to sell me, but everything is in order. See, I have
to go see Carter Glass tomorrow.

The thing I keep asking myself—I want to go where
there are votes in the Senate, and I don't see as there
are any votes in Los Angeles.

MR. LUXFORD: There is this advantage in going to
Los Angeles: The movie producers are asking us what they
can do to help us. If you go out there, there are two
things they can do, give us a line of celebrities and
stars at a mass rally. You will get a nation-wide hook-
up and you will not be speaking only to Los Angeles.

MR. WHITE: You will get the pull of Dumbarton Oaks
behind Bretton Woods.

MR. LUXFORD: They will make newsreels of things right
and left.

W.M. JR: I can pick up the phone—this gentleman
in New York on income tax—and if there is anything I
want from 20th Century or Paramount, all I have to do is
just pick up the phone any time, and he will do it for me.

MR. WHITE: The point of the matter is there are a
lot of people who don't know what Bretton Woods is. All
we want to know—every time they mean Dumbarton Oaks they
say Bretton Woods, and that is what the editorial in P.M.
advises us. There are two pillars upholding peace and
security.

W.M. JR: I want to say Joan Morgenstern completely
blanketed everything in the Minneapolis papers. Joan
Morgenstern is the babe in Bretton Woods. That is wonderful.
MR. WHITE: All right, in your plans for a vacation will you include that as a possibility?

H.M. JR: Yes.

MR. LUXFORD: Palm Springs is nice.

MR. WHITE: Maybe we ought to sell Mrs. Morgenthau on it.

H.M. JR: That is very important.

MR. LUXFORD: She said she would like Palm Springs, Mr. Secretary.

MR. WHITE: Oh, you talked to her already?

H.M. JR: Who is going up with me Wednesday?

MR. WHITE: Well, I think with that group you ought to give them the works. You ought to take a number of us up there. It is an important group. You ought to take as many as you think you can appropriately stand.

H.M. JR: Right now I can’t stand more than one. Will you go, Harry?

MR. WHITE: I will be glad to go.

H.M. JR: And you?

MR. LUXFORD: Yes.

H.M. JR: And you two guys?

MR. FELTUS: I think that is enough, because you don’t want them to think they are being high-pressure.

H.M. JR: You make me laugh. You are supposed to be the high-pressure guy, and a little fellow like--

MR. FELTUS: Did you see Paul Mellon’s column? It is the most complimentary thing we ever had. He says...

"Morgenthau is doing the most skillful piece of lobbying and propaganda ever done in the history of the country."

MR. LUXFORD: That’s what he says.

H.M. JR: Give it to me, and I will show it to the President.

MR. WHITE: He indicates some of the ways the bankers are going to fight back. They are worried, and they will have a few things up their sleeves.

MR. FELTUS: He says you have been getting the best brains in the country to advise you on advertising propaganda. (Laughter)

H.M. JR: You will get a raise.

MR. WHITE: I didn’t get down that far.

H.M. JR: Send that in, will you please?

MR. WHITE: I didn’t know Paul Mellon was a friend of yours.

H.M. JR: Don’t you know he writes it sometimes?

MR. WHITE: I was on the radio last night.

H.M. JR: Mrs. Morgenthau tried to get you and couldn’t.

MR. WHITE: Mrs. White tried to get me, and couldn’t.

MR. FELTUS: They gave the wrong time.

H.M. JR: Mrs. Morgenthau couldn’t get you.

MR. FELTUS: Your part was only two or three minutes but the program was on fifteen minutes.

H.M. JR: Was it Mutual?

MR. FELTUS: No, the Blue Network.
Suggested Statement

To: Senator Robert F. Wagner,  
Chairman of the Banking and Currency Committee,  
U. S. Senate

From: Senator Carter Glass of Virginia

I want to add my unqualified endorsement in support of the Bretton Woods proposals as embodied in legislation now before the Congress. These proposals, when enacted into law, will aid substantially the establishment of orderly relations between nations in such a way as to minimize the threat of a third World War.

I consider the Bretton Woods proposals a sound step forward which will pay dividends to American business and agriculture in the form of expanded foreign markets. Bretton Woods means jobs and prosperity at home. Bretton Woods will round out the financial legislative program which includes the Federal Reserve Act, the Federal Deposit Insurance Act, and other measures which have served the business community and the public so well. I offer to the Banking and Currency Committee my hearty endorsement of these proposals.
March 17, 1945
3:15 p.m.

He: REPARATIONS

Present: Mr. D. W. Bell
       Mr. Dubois
       Mr. Coe
       Mr. Lubin
       Mrs. Klotz

H.M.JK: Well, where do we start?

Mr. Lubin: Well, I want you people to start. I have some ideas about this thing. That policy has not been formulated. A rough policy has been formulated in the sense that a memo was drafted, dated March 10th. Did you people get a copy? You probably did. It was on what to do about Germany, which had a lot of errors in it. For instance, they put in the Control Council the function of determining functions of reparations, although the Yalta agreement said we would have a special agreement for that. I called that to the State Department's attention and they said it was a questionable rating, but that it was initiated by the President. But it was evidently not read carefully.

Mr. Coe: That's the one Stettinius spoke about.

Mr. Lubin: And I think--

H.M.JK: It's quite evident he didn't read it at all.

Mr. Lubin: The part about centralized control?

H.M.JK: Yes.

Mr. Lubin: The people who wrote that didn't know certain things that happened at Yalta. That's the thing that bothers me, and I told Ad that there are a lot of people working on this problem and they don't know what the agreement is. They read the newspaper text on reparations, and on that basis they formulated a policy. I think I am going to have to sit down with the President and go over every sentence.

H.M.JK: Were you in Yalta?

Mr. Lubin: No.

H.M.JK: Do you know what they did agree to other than what we have been furnished?

Mr. Lubin: I know of certain conversations that took place. They agreed verbally to do certain things.

H.M.JK: I see. And you are ready to discuss them?

Mr. Lubin: I couldn't discuss them.

H.M.JK: Could you tell me later?

Mr. Lubin: I'll tell you later. After all, I was told this in confidence.

H.M.JK: Could you stay behind?

Mr. Lubin: Yes. Now, I would like your people to sit down and write up one page on what our policy should be on reparations, and I would like to use that as part of the framework of something I would like to get up and have approved. I mean, I am not going unless I am told specifically this is what we want. If you can't get that from the Russians and the British, negotiate and see how far you can get, but I want to be sure that things are very specific, and I have the President's backing on the thing, you see.

H.M.JK: Well, I think that's sensible. You see what we are doing now is, Stettinius gave us this agreement
which he initiated and prepared, and I told Stettinius—and I know this was done by Jimmy Middleberger—and what's the other fellow's name?

MR. DeBOIS: Despres.

H.M.JR: And it was handed to Stettinius by Jimmy Dunn and he said he was very tired and didn't read it. That's the way I got the story from Stettinius. I told him that I was going to prepare tomorrow what we think the President wants, based on the Yalta protocol, and he said he would be here with Drew and I said no.

MR. LUBIN: Drew doesn't know what it is all about.

H.M.JR: He told me—he said, "I can't see you Tuesday, but I am going to have to study the thing." Look, is this the thing?

(The Secretary hands Mr. Lubin two documents, one on Reparations, and the other a Memorandum for the Secretary of State.)

H.M.JR: We are starting with this.

MR. GOD: We like that.

MR. LUBIN: There is enough in there to do things.

H.M.JR: We are going to start with that and work on the thing with conversations I have had with the President, going back to before Quebec, see, and using 1067. Now, what we maintain is you can take 1067 and fit it into this. As far as the military thing goes—

MR. LUBIN:

H.M.JR: Yes, but they are not going to—

MR. LUBIN: They are working on the theory that you have to have thousands of people to administer these things.

H.M.JR: Since the meeting Thursday?

MR. LUBIN: This was Monday, I was talking to McCloy.

MR. DeBOIS: On the basis of this document here?

H.M.JR: He doesn't accept it?

MR. LUBIN: They haven't been told that and they are working on the theory that that is the thing.

H.M.JR: I understood Middleberger tried to get it changed.

MR. LUBIN: Yes.

H.M.JR: We are putting all our cards on the table.

MR. LUBIN: I am going to insist upon its being changed, because I don't agree with it.

H.M.JR: Let's save time. You have a document. Read it out loud. I haven't heard it yet.

MR. GOD: This is what several of us prepared, Joe, here mainly, on the basis of all of these documents. (Reading from "Memorandum for the Secretary of State.")

"Inference is made to the draft directive on the treatment of Germany, dated March 10, 1945, which was submitted to the President. In the memorandum to the President it was indicated that this directive was designed to implement the Yalta discussions and decisions.

On the basis of decisions made at Yalta of which I have been informed, it seems clear that the directive has adopted certain definitive views of the most fundamental issues involved in the treatment of Germany, which views are not required by or even implied in the Yalta decisions."
These views are those which were advanced by certain individuals in the State Department prior to Yalta; are completely opposed to the Treasury's views on these issues; are contrary in major respects to decisions made by this Government prior to Yalta; and are opposed in the most important implications to the views which I understood the President holds on Germany.

"To be specific, the following is a brief summary of decisions made prior to Yalta, decisions made at Yalta, and decisions made in the draft directive of March 10, dealing with three of the most important issues involved in the German problem.

1. Elimination of German Heavy Industry.

"A. Prior to Yalta. At Quebec, on September 15, 1944, the President and Prime Minister Churchill agreed upon the following objective with respect to German industry: This programme for eliminating the war-making industries in the Ruhr and in the Saar is looking forward to converting Germany into a country primarily agricultural and pastoral in its character.

"B. Yalta. At Yalta it was decided: (1) to eliminate or control all German industry that could be used for military production. These are the words of the communique. (2) That the removal of Germany's national wealth in the way of reparations 'be carried out chiefly for the purpose of destroying the war potential of Germany.' That's the reparations protocol.

"C. Draft Directive of March 10. Although the program set forth in the draft directive speaks of reducing 'Germany's relative predominance in capital goods' industries of key importance' (paragraph 12), the only industries which Germany is specifically forbidden to maintain are 'aircraft, synthetic oil, synthetic rubber and light metals'. (Paragraph 12.) And it is specifically indicated that Germany will be allowed to maintain 'metal, machinery and chemical industries' (see paragraph 10), although exports of these industries to other countries will be restricted.

4. Control of German Internal Economy.

"A. Prior to Yalta. In directive 1067, finally agreed upon after considerable discussion between State, War, and Treasury as representing the American views, it was provided that: Except for the purposes specified above, you will take no steps (1) looking toward the economic rehabilitation nor (2) designed to maintain or strengthen the German economy. Except to the extent necessary (1) to accomplish the purposes set out above, and (2) to assure thorough elimination of discriminatory Nazi practices in actual operation of economic controls, the responsibility for and the task of dealing with such economic problems as price controls, rationing, unemployment, production, reconstruction, distribution, consumption, housing or transportation be left in German hands. You should, however, take such steps as may be necessary to assure that economic controls are operated in conformity with the above purposes and the general objectives of military government.

H.M.J: That's 1067?

ML GOB: That's 1067. You have to assure that economic controls are operated in conformity with the above purposes, and the general objectives of military government.

(Reading) "B. Yalta. Nothing was decided on this basic question at Yalta to my knowledge. It may be that the provisions of the protocol on reparations are being used as an excuse to argue that in order to collect reparations in the future it is necessary to assume control of the German internal economy. Such an argument, however, is not only not required by the reparations protocol but is contrary to the whole spirit of the protocol, namely that reparations policy be a function of reducing Germany's war potential.

"The position that we must assume responsibility for the control of Germany's internal economy leads inevitably to the result that Allies will be taking steps designed to rehabilitate and strengthen the German economy.
"C. Draft Directive of March 10. Paragraphs 2, 4, and 5 of the draft directive provide: It is recognized that a substantial degree of centralized financial and economic control is essential to the discharge of the tasks mentioned in paragraph 2. The Control Council shall have general responsibility for insuring that all measures necessary to this end are taken.

"In particular, the Control Council shall be empowered to formulate, within the framework of existing and future directives, basic policies governing: (a) public finance; money and credit, (b) prices and wages, (c) rationing, (d) inland transportation and maritime shipping, (e) communications, (f) internal commerce, (g) foreign commerce and international payments (h) restitution and reparation, (i) treatment and movement of displaced persons, and (j) allocation of plant and equipment, materials, manpower and transportation.

"It is recognized that the prevention of uncontrolled inflation is in the interest of the United Nations. The Control Council shall strive to assure that appropriate controls, both financial and direct, are maintained or revived.

H.M.JJ.: Wait a minute. Do you want to interrupt?

MR. LUBIN: It was at that point that I took issue with them because that was in the original EAC Directive at Yalta. They took this away from EAC and gave it to Moscow and now they are giving it to Control Council.

MR. DEB: (leading) "S. Decentralization of Germany. A. Prior to Yalta. Directive 106 provided as follows:

H.M.JJ.: As I understand the thing, this was done by Middleberger and this other fellow without knowing anything that went on at Yalta, and was handed by Jimmy Dunn to Stettinius.

MR. LUBIN: They had that document and they had the minutes of what the Russians said and what the British said and what our answers were, and they based their document on the fact the Russians said, that we should have a definite base standard of living for the Germans.

H.M.JJ.: What?

MR. LUBIN: The Russians said we would have to have a basic minimum standard of living for the Germans. As a matter of fact the words they used, not in writing, but I got this by word of mouth, was a standard of living typical of central Europe. They didn't define that and I defined that to mean Romania, Bulgaria and Hungary, and that beyond that everything should be used for reparations purposes. Now, the minutes did say reparations shall be paid in plants and equipment, foreign investments, foreign exchange, and then there was, too, industrial productions, and starting out from the assumption that you had to have a minimum standard of living for Germany, they assumed we'll be responsible for that. Therefore, we must do these things they say there, so we wouldn't have inflation, and so forth. Then, too, assuming that they are going to pay reparations over a period of ten years, which means it has involved industrial production, therefore, we would have to rehabilitate certain German industries, and I raise the question, who pays for it? Would the American people be willing to invest a couple of billion dollars to putting in machinery, and so forth? This is receivership, and the first charge to be paid back to you is for this new investment. I raise the question whether that is our business.

H.M.JJ.: This is completely contrary to everything the President ever said. But these boys had the minutes of Yalta when they did this. They must have come on ahead. Matthews must have brought them.

MR. LUBIN: Yes, Matthews brought them.

H.M.JJ.: And they used that to draft this thing.
MR. LUBIN: Yes, and the question I raised with them, do we have a policy of our own, or is ours a policy of adopting ourselves to what the Russians might say or want. We might have to yield to them, but I want to know what our policy is. Just because the Russians have said that—they said they didn’t know.

MR. DUFOIS: I think it might be more fundamental than that. This has been their policy for a long time. Now what they are doing, as I see it, they are probably picking out catch phrases here and there to support the policy that they have been pursuing now for months, and it is just an attempt on their part to reinterpret anything they can find in such a way as to support their position. It is amazing. Two individuals draw up a document on their own initiative which has had two international conferences and get the thing cleared without apparently anybody even studying the thing.

H.M.JK: I think so far it is a good document. Don’t you think so?

MR. LUBIN: Yes.

H.M.JK: Go ahead and read.

MR. COE: We were getting on this question of decentralization. (reading) "Directive 1067 provided as follows: (1) Military administration shall be directed toward the promotion of the decentralization of the political structure of Germany. You may utilize in the beginning whatever German administrative agencies may serve the purposes of military government."

H.M.JK: Are you quoting now?

MR. COE: From 1067--the whole first part.

"You will wherever possible, however, endeavor to make use of and strengthen local, municipal and regional administrative organs."

The second quotation is from 1067.

"(G) The agreed policies of the Control Council shall be determinative throughout the zones. Subject to such policies the administration of military government in each of the three zones of occupation shall be the sole responsibility of the Commanders-in-Chief of the forces occupying each zone. You should, however, coordinate your administration with that of the other Commanders-in-Chief through the Control Council. The administration of each zone and of the regional and local branches of any centrally directed German agencies shall be such as to ensure that all policies formulated by the Control Council will be uniformly put into effect throughout Germany.

"H. Yalta. At Yalta it was decided that: Coordinated administration and control has been provided for under the plan through a central control commission consisting of the supreme commanders of the three powers with headquarters in Berlin.

"G. Draft Directive of March 10. The draft directive of March 10 provides: (1) the Control Council shall utilize centralized instrumentalities for the execution and implementation of its policies and directives to the maximum possible extent, subject to supervision and scrutiny of the occupying forces. Wherever central German agencies or administrative services which are needed for the adequate performance of such tasks have ceased to function they shall be revived or replaced as rapidly as possible. (2) The zones of occupation shall be areas for the enforcement of the Council’s decisions rather than regions in which the Zone Commanders possess a wide latitude of autonomous power."

It would seem there is a complete flipover from 1067 and Yalta could support either one. Then we worked up to a tentative conclusion here.

"In my judgment, the draft directive of March 10 not only makes basic decisions which were not made at Yalta but will not carry out the purpose of the Yalta Conference 'to insure that Germany will never again be able to disturb the peace of the world.'"
"It is my conclusion that the decisions which were
taken at Yalta are fully consistent with both the decision
taken by the President at the Quebec conference on the
elimination of industry and the views of the American
Government as embodied in J.C.S. 1067 (revised.) Accordingly,
J.C.S. 1067 should remain as it is and the immediate task
of the Government is to formulate a program to implement
the Quebec and Yalta decisions on German industry. The
draft directive of March 10 should, of course, be with-
drawn in toto."

Mr. Lubin: All of their logic—and I found that in
the Army in Paris, see—is based upon the word control in
that Yalta statement. Dismember or control.

Mr. Cole: Eliminate or control.

Mr. Lubin: And they defined the word control as
active control to the extent of running industry, and
I define it to the extent that you see it to that they
don't do the things you don't want them to do.

H.M.Jr.: Just one second. Could I make this suggestion?
If you think this is an ordinary way of proceeding, we have,
so to speak, a deadline on this document. I would like very
much to have it so it completely represents your views as
well as ours, see—I mean, so that this will be a united
front as much as possible, and we can't do anything until
this thing is settled. I think I am right on that. Don't
you agree with me? This gets down pretty much to the
heart of the thing. You can't say we want reparations until we
decide, well, are you going to build up German industry
or not, and the next thing would follow it.

Now, Mr. McCloy and General Biddle are coming over
at eleven-fifteen Tuesday and I want to show them this, and
they are going to show me theirs. They are not going to
send joint memos. I wondered if you would care to work
with me and Dubois over the week-end to get this thing
in the kind of shape, plus the knowledge you have back
here as to what was said, so that they can't pull something
on us and say, "Well, this is contrary to what was said
at Yalta." Then I will ask McCloy if it is agreeable to

him that you are here Tuesday at eleven-fifteen. I am
sure it will be, and your Reparations Commission, and
I will call Biddle and say we have this document in
good shape, and I am going to send mine over and go over
it with Stettinus. He asked me to send it to Grew and
I am seeing Grew Thursday. He wants to study it, but
he doesn't know a thing about it.

Mr. Lubin: Grew thought my job was to find out how
much Germany could pay and then come home.

H.M.Jr.: Who?

Mr. Lubin: Grew.

H.M.Jr.: Does this sound like ordinary procedure?
What do you think?

Mr. Bell: It sounds okay.

H.M.Jr.: When would you like to see these two men?

Mr. Lubin: This afternoon right after this meeting.

H.M.Jr.: Would you say this is largely Dubois' work?

Mr. Cole: Several of us are working on it very heavily.

H.M.Jr.: Joe can do it. There will be a chance for

you.

I would just like to put this aside for a moment.
The other complication in this thing is Baruch, and I
don't know how much you know about that.

Mr. Lubin: He is entirely on our side, almost entirely
I would say, ninety-five percent. He wouldn't go along with
that other document.

H.M.Jr.: No, but the thing is he has this Lubell who
is after us for all kinds of documents, see, but he said
he is only going to London, but he is going on reparations.
Mr. Lubin: Here is what he told me. Apparently the President found a few snags in some things he discussed with the Prime Minister and as Barne went to go to London, the President said, "There are three full issues I didn't get settled. You go and sell them a bill of goods." The British are sticky on reparations. They didn't want to discuss it at all at Yalta. We were forced into it by the Russians and in order to avoid a fight we suggested we would have a commission on this thing and do things in the Commission, and Barney thinks it is his job to go over to the British and sell them the idea that a tough reparations plan which would move a lot of industries out would be very helpful to the British in their foreign trade. But on top of that he says, "Reparations is the most important thing in the whole question of settling the war. Therefore, I want to see that a good job is done and I will tell you how to do it."

H. M. J.: To you?

Mr. Lubin: Yes.

H. M. J.: Besides that he said everything has to wait until reparations is settled, Bretton Woods and everything.

Mr. Lubin: That's wrong. The reparations policy would make Bretton Woods useless.

H. M. J.: Everything has got to wait. Then he wouldn't get into a thing like this.

Mr. Lubin: No, but he is very much interested in a policy that would make it impossible for Germany to compete. He is thinking in terms of the domestic policy and the British policy, and he said we can sell labor this whole business by making them realize it is a swell thing--bigger markets. We'll take care of the Balkan area from United States and Great Britain.

H. M. J.: Do you think we ought to show him this?
this thing to Churchill, which I did, and I never saw a man get rougher with anybody than he did with me. He was awfully dirty, and then he completely turned a somersault largely, almost entirely, due to Cherwell, and as far as I know, there has been no change.

MR. LUBIN: No. Well, every day the Foreign Office sends the Prime Minister a note on some aspects of the treatment of Germany, which is their policy, and every day Cherwell has to write an answer to it. If we can get him on that Commission we will be set. Two weeks ago on Sunday the Prime Minister offered the job to us, so I told him also that he ought to go. In about sixty or ninety days we would get the policy settled, and then we could go home.

H.M.JK: I'll see what I can do. I have a way, I think, of doing it. I'll talk to Winant. Winant is all right.

MR. LUBIN: Winant wants it.

H.M.JK: Winant wants him. Well--

Do you want to let Frank Coe know when you are ready to go to his office?

MR. LUBIN: If I can have a minute with you, I'll go to his office right after.

MEMORANDUM FOR THE SECRETARY OF STATE

Reference is made to the draft directive on the treatment of Germany, dated March 10, 1946, which was submitted to the President. In the memorandum to the President it was indicated that this directive was designed to implement the Yalta discussions and decisions.

On the basis of decisions made at Yalta of which I have been informed, it seems clear that the directive has adopted certain definitive views on the most fundamental issues involved in the treatment of Germany, which views are not required by or even implied in the Yalta decisions. These views are those which were advanced by certain individuals in the State Department prior to Yalta; are completely opposed to the Treasury's views on these issues; are contrary in major respects to decisions made by this Government prior to Yalta; and are opposed to their most important implications to the views which I understood the President holds on Germany.

To be specific, the following is a brief summary of decisions made prior to Yalta, decisions made at Yalta, and decisions made in the draft directive of March 10, dealing with three of the most important issues involved in the German problem.

I. Elimination of German Heavy Industry

A. Prior to Yalta.

At Quebec, on September 18, 1944, the President and Prime Minister Churchill agreed upon the following objective with respect to German industry:

"This programme for eliminating the war-making industries in the Ruhr and in the Harz is looking forward to converting Germany into a country primarily agricultural and pastoral in its character."

B. Yalta.

At Yalta it was decided:

(1) To "eliminate or control all German industry that
could be used for military production).

(2) That the removal of Germany's national wealth in the way of reparations be carried out chiefly for the purpose of destroying the war potential of Germany.


Although the program set forth in the draft directive speaks of reducing "Germany's relative predominance in capital goods industries of high importance" (paragraph 13), the only industries which Germany is specifically forbidden to maintain are "aeronautical, synthetic oil, synthetic rubber, and light metals" (paragraph 15). And it is specifically indicated that Germany will be allowed to maintain "metal, machinery and chemical industries" (see paragraph 16), although exports of those industries to other countries will be restricted.

II. Control of German Internal Economy

A. Prior to Yalta

In directive 1067, finally agreed upon after considerable discussion between State, War, and Treasury as representing the American views, it was provided that:

"Except for the purposes specified above, you will take no steps (1) looking toward the economic rehabilitation of Germany or the general restoration of German expert trade, nor (2) designed to maintain or strengthen the German economy. Except to the extent necessary (1) to accomplish the purposes set out above, and (2) to assure thorough elimination of discriminatory naval practices in actual operation of economic controls, the responsibility for and the task of dealing with such economic problems as price controls, rationing, unemployment, production, reconstruction, distribution, consumption, housing or transportation be left in German hands. You should, however, take such steps as may be necessary to assure that economic controls are operated in conformity with the above purposes and the general objectives of military government.

B. Yalta

Nothing was decided on this basic question at Yalta.

to my knowledge. It may be that the provisions of the protocol on reparations are being used as an excuse to argue that in order to collect reparations in the future it is necessary to assume control of the German internal economy. Such an argument, however, is not only not required by the reparations protocol but is contrary to the whole spirit of the protocol, namely that reparations policy be a function of reducing Germany's war potential.

The position that we must assume responsibility for the control of Germany's internal economy leads inevitably to the result that Allies will be taking steps designed to rehabilitate and strengthen the German economy.

C. Draft Directive of March 10

Paragraphs 3, 4 and 5 of the draft directive provide:

"It is recognized that a substantial degree of centralized financial and economic control is essential to the discharge of the tasks mentioned in paragraph 6. The Control Council shall have general responsibility for insuring that all measures necessary to this end are taken.

"In particular, the Control Council shall be empowered to formulate, within the framework of existing and future directives, basic policies governing: (a) public finance, money and credit, (b) prices and wages, (c) rationing, (d) inland transportation and maritime shipping, (e) communications, (f) internal commerce, (g) foreign commerce and international payments (h) restitution and repatriation, (i) treatment and movement of displaced persons, and (j) allocation of plant and equipment, materials, manpower and transportation.

"It is recognized that the prevention of uncontrolled inflation is in the interest of the United Nations. The Control Council shall strive to insure that appropriate controls, both financial and direct, are maintained or revived.

III. Decentralization of Germany

A. Prior to Yalta

Directive 1067 provided as follows:

Regraded Unclassified
(1) "Military administration shall be directed toward the promotion of the decentralization of the political structure of Germany. You may utilize in the beginning whatever German administrative agencies may serve the purposes of military government. You will wherever possible, however, endeavor to make use of and strengthen local municipal and regional administrative organs."

(2) "The agreed policies of the Control Council shall be determinative throughout the zones. Subject to such policies the administration of military government in each of the zones of occupation shall be the sole responsibility of the Commanders-in-Chief of the forces occupying each zone. You should, however, coordinate your administration with that of the other Commanders-in-Chief through the Control Council. The administration of each zone and of the regional and local branches of any centrally directed German agencies shall be such as to insure that all policies formulated by the Control Council will be uniformly put into effect throughout Germany."

B. Yalta.

At Yalta it was decided that:

"Coordinated administration and control has been provided for under the plan through a central control commission consisting of the supreme commanders of the three powers with headquarters in Berlin."


The draft directive of March 10 provides:

(1) "The Control Council shall utilize centralized instrumentalities for the execution and implementation of its policies and directives to the maximum possible extent, subject to supervision and scrutiny of the occupying forces. Whenever central German agencies or administrative services which are needed for the adequate performance of such tasks have ceased to function they shall be revived or replaced as rapidly as possible."

(2) "The zones of occupation shall be areas for the enforcement of the Council's decisions rather than regions in which the Zone Commanders possess a wide latitude of autonomous power."

Conclusion

In my judgment, the draft directive of March 10 not only makes basic decisions which were made at Yalta but will not carry out the purpose of the Yalta Conference "to insure that Germany will never again be able to disturb the peace of the world."

It is my conclusion that the decisions which were taken at Yalta are fully consistent with both the decision taken by the President at the Quebec Conference on the elimination of industry and the views of the American Government as embodied in J.C.S. 1097 (revised). Accordingly, J.C.S. 1097 should remain as it is and the immediate task of this Government is to formulate a program to implement the Quebec and Yalta decisions on German industry. The draft directive of March 10 should, of course, be withdrawn in toto.
March 17, 1945
4:31 P.M.

NMJr: Hello.
Operator: Mr. Henry Morgenthau?
NMJr: Speaking.
Operator: We're getting your call through to London, England. In the interest of security, you are requested to restrain from discussing departures or arrivals.

(Inaudible)

Operator: Go ahead.
Ambassador Winant: Hello.
NMJr: Hello, Gil?
W: Yes. Hello, Henry.
NMJr: How are you?
W: All right. Before we start speaking, I'll have to explain to you that the enemy are listening in to our conversation as has occurred with other previous conversations we may have had.
NMJr: Good.
W: All right, Henry.
NMJr: Gil, you know our mutual friend Lou, well he has been in here to see me.
W: Yes.
NMJr: And he thinks --he thought if when he goes to any football game and could have with him somebody who could cheer very well-- hello?
W: Yes, I understand.
NMJr: It would be very helpful.

W: Yes, I agree.
NMJr: Yes?
W: Yes.
NMJr: I didn't know whether the people where I went to have the couple of times might be helpful in bringing that about besides yourself.
W: I'm here now.
NMJr: Hello?
W: I'm here now.
NMJr: Oh, are you? That's interesting.
W: Yes.
NMJr: Are they there, both of them?
W: Yes.
NMJr: Well, I see. Well, that's very nice.
W: And I'll do everything I can to help on this.
NMJr: I don't have to say anymore.
W: No, I understand, Henry.
NMJr: Should I say "hello" to him, or not?
W: Well, he's not in the room.
NMJr: Will you give them both my very warm regards.
W: I will do that.
NMJr: And you know what I'm talking about.
W: I do perfectly.
NMJr: While I've got you on the phone, I think somebody must have been doing a little gossiping, making a little trouble between you and me.
W: Well, I didn't know that.
NMJr: Well, I didn't know whether they had, but I want...
you to know that my attitude hasn't changed. I'm not treating you.

W: Well, it's always going to be the same here.

MM: And you've got a friend here.

W: I know that.

MM: And I didn't know from some remarks some people made about you that I might have changed and I want you to know I haven't.

W: Well, thanks ever so much.

MM: I'm talking about two completely separate things, the first is --

W: I understand, Henry.

MM: But I wanted you to know that.

W: Yes, I understand that.

MM: What did you have --- some of that orange liquor?

W: Yes. (laughs)

MM: Did you?

W: What did you say?

MM: Did you have some of that orange liquor?

W: Yes, I did.

MM: Well, tell her that I would like some also.

W: All right, I will.

MM: And she had better come over and bring some over with her.

W: All right, I will do that. Thank you ever so much.

MM: I'm very jealous of you. Tell her that too.

W: I will do that.

MM: All right.
TO: Secretary Morgenthau
FROM: Mr. White
DATE: March 17, 1945

Respectfully, Feltus, Gaston, Smith, Buxford, Bernstein, and myself believe it would be very much worthwhile to have a Brattering Woods rally in Los Angeles during the Congressional recess. If this is staged on a big scale, we view it as not a matter affecting California only but as a nation-wide event. With Dumbarton Oaks in San Francisco and Brattering Woods in Los Angeles, we think we can build up public support at a very opportune time. We can get the movie industry wholly behind us.

You could meet the movie industry for, say, dinner on a Friday night, the publishers for a late breakfast Saturday morning, the finance group, etc. and bankers at Saturday lunch and a public mass meeting Saturday night.

This program will also give you the opportunity for a much needed rest in Southern California before or after the event.

Do you approve?

Dear Mr. Baukhaus,

I was happy to note your comments on the Brattering Woods Agreements in your recent broadcasts.

Broadcasts such as yours do a great deal to develop a better public understanding of this important matter.

I was delighted to meet you at lunch the other day.

Sincerely yours,

(Signed) H. Morgenthau, Jr.
Secretary of the Treasury

Mr. H. E. Baukhaus,
Blue Network,
National Broadcasting Company,
Washington, D.C.

RB:ec 3/15/45
BRITISH EMBASSY,  
WASHINGTON D.C.  

17th March, 1945.  

My Dear Morgenthau,  

I have just heard from the Chancellor of the Exchequer, who has asked me to thank you very much for the copy of your statement to the Banking and Currency Committee of the House of Representatives on the Bretton Woods agreements. He has asked me to let you know that he has read it with the greatest interest and deep appreciation.  

Yours sincerely,  

[Signature]  

The Honourable  
Henry Morgenthau, Jr.,  
Secretary of the Treasury,  
Washington, D.C.
Mr. Harry D. White

New Jersey
Englewood League of Women Voters
      Raymond American Association of University Women (April)

Pennsylvania
      Philadelphia: Academy of Political and Social Science (April)

Washington, D.C.
      Forum for Representatives of women's organizations
      National Democratic Committee, Women's Division, Forum

Illinois
      Chicago: Annual meeting of American Bank Women

Washington
      Spokes: radio interview
      American Association of University Women: open meeting, including business men

Seattle
      American Association of University Women: open meeting, including business men

California
      San Francisco: radio (California Conference of the Air)
      American Association of University Women: open meeting, including business men
      San Francisco State College
      San Jose: San Jose State College

In addition, I have written the following:

Monetary Plans for the United Nations, a pamphlet for the American Association of University Women (this seems to have had wide distribution to libraries, colleges, and various organizations in addition to the AAUW.)

Article for the Citizens' Conference on International Union published in their pamphlet The Bretton Woods Agreement and Why It Is Necessary

Short articles appearing in the American Banker, the Women Banker, the Commercial and Financial Chronicle, the Vassar Alumnae Magazine, the YWCA Women's Press, NOO word editorial for the Writers War Board which they are distributing to 1600 small newspapers all over the country.

Article in process for the Junior League Magazine (read by 46,000 rich, conservative women)

Sincerely yours,

Mabel Newcomer
Chairman

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

To: Secretary Morgenthau
From: Mr. Shafer

March 17, 1945

Attached is Pastoral Letter mentioned by Al Gregory at your recent press conference.

As I have already advised, it deals exclusively with Dumbarton Oaks.

Regraded Unclassified
Pastoral Letter

ISSUED BY THE HOUSE OF BISHOPS IN SESSION
IN BIRMINGHAM, ALABAMA, FEBRUARY, 1945
Canon 44

Section 2(e). Whenever the House of Bishops shall put forth a Pastoral Letter, it shall be the duty of every Minister having a pastoral charge to read it to his Congregation on some occasion of public worship on a Lord's Day, not later than one month after the receipt of the same.

Dear Brethren of the Clergy and Laity:

Grace be unto you and peace from God our Father and from the Lord Jesus Christ. God gives to us, in these tremendous and terrible times, both the obligation to take our full part with our fellow citizens in the service of our country and also the higher privilege and duty of taking part with Him in the strengthening and extension of that Kingdom of God which is righteousness and peace and joy in the Holy Spirit.

Wining the war is an essential part of our effort to build a just and durable peace. The majority of Americans are so far from a full understanding of the personal sacrifices and dedication of life required to win the war as quickly as possible that they are mentally and spiritually unfit to make their maximum contribution to the peace. We in America have not undergone the purging influence of widespread suffering and destruction. While the men in our Armed Forces are dying for the cause which is ours as well as theirs, and while our Allies are feeling the daily pressure of devastation and almost unbearable privation, we must be more ready to surrender personal and group privileges, comforts, and even those rights which in this time of crisis interfere with the speedy winning of the war. As whatever personal cost, full production must be maintained, unnecessary expenditures must be curbed, blood donation quotas must be met, and each individual must make his maximum contribution in whatever activity an awakened conscience may require.

Victory in war is not enough.

But victory in war is not enough. The conflict in which we are engaged is spiritual as well as physical. The age-old battle between good and evil, between Christian and anti-Christian beliefs and purposes, has come to an awful climax. Men have allowed an anti-Christian philosophy of life to possess their minds, wed itself to the innate evil in human nature, and bring forth its
evil brood of pride, arrogance, cruelty, hatred, greed, and falsehood.

These evil spirits do not confine their operations to the nations with which we are at war. They are here in America, infiltrating our political, industrial, social, and domestic life. They fill our penal institutions, jails, and mental hospitals with their victims. They set race against race, class against class. They poison, distort, and destroy the souls of men. Always deadly, they find added opportunity in war and in the aftermath of war. Hatred, cruelty, and malice are contagious. False propaganda weakens men's love and reverence for truth. National selfishness, disguised as patriotism, gains a false sanctity. When victory comes, relief from strain will give a golden opportunity to sloth and self-indulgence. Pride and arrogance find easy access to the minds and hearts of victorious peoples. We might win total victory by land, sea, and air, yet suffer total defeat in the spiritual realm.

These foes cannot be fought with physical weapons. Only a true faith can overcome false faith. Only real righteousness can conquer spurious standards.

Therefore, we call upon every member of the Church now to renew his allegiance and deepen his devotion, and by prayer and worship, study and service, to play his part and fit himself for a fuller part in the service of Christ. Duty in the Armed Forces and in war work has taken many of our clergy and lay leaders from their normal tasks in the Church. Those who remain must fill the gaps. Normal activities must be maintained and made more effective. Every congregation must follow its absent members with frequent prayer and loving thoughts and letters as well as with the materials for war. Some servicemen are already returning from the fighting fronts. It is our privilege to welcome them, to help them to find their places in community and church, to learn from them what they have learned as they have faced the stark realities of life and death, and to join with them in building, under God's guidance, a more Christian civilization.

WORLD ORGANIZATION IS ESSENTIAL TO LASTING PEACE

THOUGHTFUL people are agreed that the peace for which we all pray and for which those dear to us are making heroic sacrifices cannot be achieved and maintained without a union or concert of nations organized under law and backed by force.

Responsible use of the great power and influence of the United States of America in international relationships is, in our judgment, a primary necessity for the maintenance of the justice, order, and peace of the world in the immediate future. The Dumbarton Oaks Proposals, agreed to by representatives of the United States, the United Kingdom, the Soviet Union, and China, offer a forward-looking plan representing the widest area of agreement yet achieved by the four Great Powers on a general organization making for world stability. The support of these Proposals seems to us the first step toward a just and durable peace.

These Proposals have grown out of the common interests and tasks of the United Nations. They carry into the postwar era an association already established through cooperation in war. This association, existing to win the war, must be continued to win the peace, with provision for expansion and modification as experience dictates, ultimately reaching out toward universality through the inclusion of neutral and enemy States.

We agree with the statement of the President that "perfection, no less than isolationism or imperialism or power politics, may obstruct the paths to international peace." We think that an irresponsible idealism under the guise of Christianity which will not submit to the discipline of the achievable will ultimately give support to the isolationism so deeply rooted in many citizens and so dangerous to the peace of the world.

In the near future a general United Nations Conference will be called at which the Dumbarton Oaks Proposals will be used as the basis of discussion in preparing the charter for the new organization. Our representatives at that conference must know
where our people stand and will need evidence of substantial support for their efforts.

We, therefore, commend the Dumbarton Oaks Proposals to our fellow Churchmen for immediate study, and we urge that as citizens they support the basic principles and machinery outlined in the Proposals, and organize and make known their determination to build increasingly on this beginning a just and more Christian world.

JUSTICE IS BASIS OF LASTING PEACE

But no international union can be effective for lasting peace unless it is based on eternal principles of justice and infused with a spirit of mutual trust and good will. Law is regulative. Force, though essential, is only an instrument. But good will is creative. "God is love." The ultimate creative force in the universe is active self-giving good will. And God works through the good will which He inspires in man.

And there is not enough intelligent good will in ungenerate human nature for the accomplishment of these tasks. The world is faced now and will be faced at the end of the war by critical shortages of food, clothing, fuel, medical supplies, houses, transportation, and many other necessities. But the greatest shortages are of good will and patient understanding between nations, races, classes, and individuals. The supply of this most vital of all needs can come only from God through His creative and redemptive work in the minds and hearts of men. It is impossible to abolish the differences between nations, races, and individuals. These differences without a principle of unity are chaos; but these differences animated by the Spirit of Christ are riches. We share with our Christian brethren of every name and in every land the solemn duty and high privilege of being the humble instruments of that Spirit, not in isolation, but in coordinated devotion to the one Lord.

While we pray and labor for the full reunion of Christendom, we can find many ways of fellowship and coloporation with others who love the Lord Jesus in sincerity. The Lausanne and Jerusalem, Madras and Oxford and Edinburgh conferences and the work of the late Archbishop of Canterbury in organizing the World Council of Churches have pointed the way to effective fellowship and cooperation in the world-wide service of Christ. There are many opportunities on the local level. But there can never be unity without fellowship.

CHURCH'S WORLD MISSION CALLS FOR PARTICIPATION OF ALL.

Even more clear and imperative is the need for fuller and more generous participation of dioceses, parishes, and individuals in the work of our own Church as a whole. The Church cannot be strong without strong dioceses and parishes; but the strength of a parish or a diocese is not a Christian strength if it is self-centered, exclusive, and forgetful of the world mission of the Church. Of them, as of individuals, it is true that "he that findeth his life shall lose it: and he that loseth his life for Christ's sake shall find it."

America is playing a vastly increased role in the affairs of the world. American Churches must take a vastly increased part in Christianizing the world. This involves the giving of money, but it involves far more than that. It involves the giving of life. The war against the Axis Powers could not be carried on without war bonds and the products of factories and farms; but it is being won actually by those who go to the front to fight. So the warfare of the Prince of Peace against sin and degradation is won by men and women who offer their lives for Christ's service at home and abroad. As the young men from our Churches and our homes have gone to the uttermost parts of the earth as soldiers and sailors and marines, so they must go in the years to come, "their feet shod with the preparation of the gospel of peace," to share
with all men of all nations and races the truth which makes men
free, the love which is life more abundant.

As we look to the immediate future, our thoughts turn with
respect and affection to the missionaries in every land, men and
women who, through all the years of war and peace, have been
working steadily to fulfill the Church's Mission in the world.
Their faithfulness would be in vain without our constant support;
indeed the accomplishment of that great task has too often been
hampered or delayed by our negligences and ignorances. The
Reconstruction and Advance Fund program for 1945, with its
primary emphasis on an intensive study of the Church's whole
mission, offers to all of us the great privilege of sharing more
completely than ever before in the fulfillment of that mission.

In the Name of Christ our Lord, we call upon everyone to
whom this message comes, to give himself with renewed faith
and hope and love to the service of Christ and His Church in his
own local congregation, and wherever the Spirit of God may call.
The Treasury's Role in the Control of Inflation

I. Wars are breeders of inflation. War production generates income just as other production does; but it contributes nothing to the supply of goods and services which can be purchased with the income generated by war and nonwar production. It thus creates inflationary pressures, the strength of which depends on the volume of war expenditures of the government and the percentage these constitute of the total national product. During the present war, we have been subjected to inflationary pressures greater than ever before in our history. In each successive major war in which the American people have been engaged, they have shown a greater willingness to submit to the self-discipline and sacrifices which are necessary to avoid the greater sacrifices of inflation. In consequence, although we have been faced in this war with a greater pressure toward inflation than ever before, price increases have been the smallest.

A. Intensity of inflationary pressures

1. Since Pearl Harbor, war expenditures have been $265 billion, nearly eight times as great as in World War I.

2. Since Pearl Harbor, we have spent over 40 percent of our national product for war; the comparable figure for World War I was 25 percent.

B. Success in preventing inflation

1. During the whole of World War I (August 1914-November 1918), wholesale prices rose 110 percent; cost of living rose 62 percent.

2. During the present war, which has already lasted fourteen months longer than the whole of World War I (September 1939-February 1945), wholesale prices have risen only 40 percent; cost of living has risen only 25 percent.

II. The problem of inflation has been attacked directly by the setting of price ceilings, the rationing of scarce but essential consumers' goods, and the allocation of priorities for critical materials; and indirectly, by fiscal measures designed to absorb and sterile surplus...
purchasing power. These two types of attack are mutually supporting. The Treasury Department is responsible for the administration of the fiscal measures. These measures comprise the tax program and the borrowing program.

III. The Tax Program

A. The Treasury has been in the forefront in urging the adoption of an adequate wartime tax program. Its recommendations have been for an even heavier tax program than that which has been adopted by Congress, but the achievements of our wartime tax program have been remarkable enough.

1. Of the $294 billion of total Federal expenditures since Pearl Harbor, $104 billion, or 39 percent, has been raised in taxes.

2. During calendar year 1944, 45 percent of total Federal expenditures was financed by taxes.

3. In fiscal year 1940, taxes were slightly less than $5.5 billion; during fiscal year 1944, they were $14 billion, an eightfold increase.

B. A heavy tax program is not only one of the most effective weapons against inflation; it is also desirable for reasons of equity — so that as large a part as possible of the money cost of the war may be borne by those who are now civilians, rather than by the whole population, which after the war will include the returning members of the armed forces.

C. Principles of equity have not been sacrificed in the war tax program. The main reliance has been on the progressive individual income tax and the corporate income and excess profits taxes. The Treasury has consistently resisted pressure to increase revenues by adopting such inequitable devices as the regressive general sales tax. It has, moreover, urged and secured the elimination of the special privilege of tax exemption, which until recently characterized all issues of Federal securities.

IV. The Borrowing Program

A. All expenditures not financed by taxation must be borrowed. The success of the fiscal program depends on a major reliance on nonbank sources for Treasury borrowing, since such borrowing results in the transfer of the real savings of individuals and business enterprises to the Government. Borrowing from banks, on the other hand, creates additional currency and demand deposits. It should be borne in mind, however, that increases in currency and demand deposits are necessary to take care of expanding production. The national product has doubled since the beginning of the defense program, and this has required a considerable increase in the supply of currency and demand deposits which can in no sense be termed inflationary.

B. The facts of the borrowing program

1. The net increase in the public debt since Pearl Harbor has been $172 billion. Of this increase, $75 billion is held by banks; $97 billion, or 56 percent, has been absorbed by nonbank investors.

2. Net borrowing by the Treasury increased from $46 billion in calendar year 1944 to $62 billion in 1944. The amount of this borrowing absorbed by banks increased only from $26 billion to $25 billion. Thus, practically all of the increase in the annual amount of borrowing has been accounted for by nonbank investors.
3. The increase in currency and demand deposits during the calendar year 1944 (resulting principally from Treasury borrowing from banks) was only about 5 percent of the national product for that year.

4. The average interest rate on the whole increase in debt since Pearl Harbor has been low — only about 1-7/8%, as contrasted with an average rate of 4-1/4% for World War I.

G. This is a good performance. It has been made possible by the wholehearted cooperation of the American people, and the fact that the Treasury has adapted its borrowing techniques to meet the exigencies of the situation and the needs of the people. Some of these techniques have been:

1. The development of Series E bonds as the instrument for mass borrowing.

2. The adoption of the payroll savings plan.

3. The periodic war loan drives.

4. The issuance of securities specially suited to the needs of business enterprises and to the needs of trust funds and insurance companies.

V. The war is not yet won. Huge expenditures will still be necessary before final victory is achieved, and to take care of the aftermath of war. We have so far successfully controlled the forces of inflation. We must not prematurely relax our efforts under the delusion that now that victory is closer, they are no longer needed. High rates of taxation, an intensive war savings program, and adequate direct controls must be continued as long as necessary to insure an orderly transition from wartime prosperity to peacetime prosperity.

March 17, 1945
March 17, 1945

Dear Henry:

I understand that while I was in Minneapolis Mr. Blough and Mr. Russell of the Treasury called upon you to discuss the tax suggestions in your article on small business, the major subject of your letter of March 4th, and that as a result of a very agreeable conversation that particular subject is out of the way.

I have been delaying a final reply to your letter in the hope that we could give you full comments on the drafts of chapters on "The Cost of Full Employment" and "Sixty Million Jobs." These drafts are still under study by our technical people.

One point which they definitely suggest should be eliminated is the reference to compulsory savings.

I am asking our people to expedite their study, but in view of your natural desire to make progress on the books you may desire to have the drafts returned immediately, with such comments as are now available. If such is your wish we will of course comply.

But the final line of your postscript, voicing your desire to "play ball in every way with the other members of the team," confirms my thought that what you want is a careful appraisal of all matters in which the Treasury is interested, and that is what is now being done.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

The Honorable Henry A. Wallace
The Secretary of Commerce
Department of Commerce
Washington, D. C.
TO Secretary Morgenthau

FROM J. W. Pehle

DATE Mar. 17, 1945

FOR YOUR INFORMATION

You may be interested in the attached copy of a letter from Major General E. Reybold, Chief of Engineers, with regard to the assistance which the Procurement Division rendered to the Corps of Engineers in the flood emergency in the Lower Mississippi Valley.

Attachment

Reference is made to your letter of 8 March 1945, with which you enclosed a copy of your telegram to the Regional Directors at Atlanta, Georgia, and Fort Worth, Texas, informing them of the agreement with the Corps of Engineers for the loan of property during the flood emergency in the Lower Mississippi Valley. Your prompt cooperation in this matter is sincerely appreciated. I can assure you that assistance of this nature aids immeasurably in the prompt procurement of equipment urgently needed for flood fighting operations.

Sincerely yours,

/s/ E. Reybold

E. REYBOLD
Major General
Chief of Engineers
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE March 17, 1945

TO Secretary Morgenthau (For information)
FROM Mr. Coe

Subject: Rosenman Mission

1. Taylor reports that Rosenman is returning to the Continent, and that his mission is going to cover more countries and include more people.

2. Malta Conference discussed reductions in British stockpiles and Hopkins, Clayton and Phil Reed are supposed to look into the matter.

3. Lubin asked Taylor and Bernstein for Commander Fisher of Bernstein's Paris staff.
London, March 5, 1945.

No. 281

PERSONAL AND CONFIDENTIAL

Dear Mr. White:

After enjoying three weeks vacation in London the Rosenman Mission is once again about to be activated. It is our understanding that Judge Rosenman left Washington last evening and should arrive here tomorrow morning. He is being accompanied by Charles Denby of the FRA who will become attached to the Mission. The Mission has grown by leaps and bounds and at present consists of the following people:

State Department:
Libby Merchant
Dudley Maynard Phelps

FRA:
Charles Denby
Hupart Emerson
Haggett H. Howard
Paul White (unofficial)

MFA: (London Counterpart of FRA)
Walter Shayer

War Department:
Lt. Col. James Davis
Lt. Col. Charles Falles (unofficial) representing SHAEF.

We have been informed by transatlantic phone conversation that the Judge anticipates spending about five to six days in London before going forward for a prolonged stay on the Continent. It was also stated that the scope of the Judge’s mission has been extended to include more areas than France, Belgium and Holland though we have not as yet received any particulars in this regard. In the time since the Judge’s departure I have busied myself with the affairs of the Treasury office here and Jim Mann and I have opened preliminary discussions with Mr. Losey who constitutes the Ambassador’s executive officer for the handling of all problems relating to EAC.

In a recent cable you requested that we should give our views regarding the personnel and organization of the Paris Treasury office. Both Tomlinson and Jim Mann have recently returned from trips to Paris and both are inclined to believe that the present set up in Paris should be allowed to continue until we have had an opportunity of going more exhaustively into the subject. As you know, we transferred Del Spier to Paris so that Ted Ball could have the benefits of a trained economist. In this move Eddie Rains came to the London office where he is at present working on the SAFER project. Inasmuch as I expect to get to Paris next week and can review the situation anew with the people there, it has been thought best to defer sending a reply to your inquiry until later this month. At that time we may also take advantage of the opportunity to comment on the Brussels and London offices as well.

Bernie, Lt. Col. Dave Horse and I had luncheon yesterday with Isadore Lubin. Lubin, as you know, has been designated as the American member of the reparations commission that will sit in Moscow. Lubin assured both Bernie and myself that he would get in touch with you immediately upon his return to the States to discuss with you the question of obtaining Treasury personnel for his mission. He is most anxious to obtain your approval to the designation of Lt. Comdr. Joel H. Fisher as his financial adviser. He has seen a good deal of Fisher in the weeks that he spent on the Continent and has been greatly impressed by Joe’s abilities and expert knowledge on German affairs gained as a result of his work with the financial division of SHAEF. Fisher is Bernie’s right hand man in the financial division at SHAEF, and a thoroughly competent individual with unquestioned loyalty to the Treasury and what it represents. Bernie has informed Lubin that he will review the question of making Fisher available if Lubin clears the matter with both the Treasury and War Departments in Washington, and providing a cable comes through official channels. Fisher is anxious to go and should he become attached to the mission will do, we are convinced, a satisfactory job.

The question of UK stockpiles is receiving quite a bit of attention at this time. It would seem that the UK has
accumulated somewhere in the neighborhood of 7 million tons of foodstuffs in its reserve stocks and several million tons also of stockpiles of raw materials and semi-processed goods. Of these foodstuffs it is estimated that probably 1 million tons could be released for use in the liberated areas without cutting into reserves that the UK must maintain for its own population. This matter has been carried to the highest levels and was discussed at the Malta Conference. At that time the decision was taken that the matter should be reviewed at a high level. We have now learned that Will Clayton, Harry Hopkins and Phil Reed have been designated as the American officials to look into this matter. It is likely that Phil Reed will come back to the UK to examine the matter anew with the British Food and Transportation Ministries and make a recommendation which will probably be accepted by the other members of the committee.

Sincerely,

Bill Taylor,
U.S. Treasury Representative.
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE
March 17, 1945

TO
Secretary Morgenthau - For Your Information

FROM
Dr. Joe

Subject: Revised German Directive on Education

The revised directive for military government concerning education and religion, issued by BBC on February 10, 1945, reveals the obvious inadequacy of the present de-nazification program.

The categories of persons to be removed from office are far too limited. Particularly in the field of education, a thorough cleansing of personnel is desirable. Moreover, all persons removed from office will retain their pension rights, except persons "acquired through criminal activities." Payment of pensions to removed persons would be a great help to Nazi underground activities.
Annex III of Directive for Military Government of Germany Prior to Defeat or Surrender

SECTION IX

EDUCATION AND RELIGION AFFAIRS

This Directive is issued in substitution for Section IX of Annex III - Education and religion - of the Supreme Commander's Directive to Army Group Commanders for Military Government of Germany prior to Defeat or Surrender, dated 9 November 1944 (file: AN Cl.4-1 (Germany), 05-485) which should be destroyed.

EDUCATION

1. Definitions.
   a. The term "elementary schools" (Volkschulen) throughout includes the following types whether publicly or privately controlled:
      (1) Grundschulen or Internatschulen der Volkschulen and Oberstufen der Volkschulen.
      (2) Realschulen.
      (3) Gymnasien.
   b. The term "secondary schools" (Gymnasien) throughout includes, among others, the following types whether publicly or privately controlled:
      (1) Akademischen and
      (2) Oberrealschulen.

2. Policy.
   It is the policy of the Supreme Commander to eradicate Nazi and German militarism in all their aspects from the German educational system. It is unlikely that this object can be fully achieved during the Supreme Commander's period of responsibility. Nevertheless, everything possible should be done to initiate the process.

   a. It is your responsibility to take the following actions:
      (1) to close all educational institutions except schools for the handicapped and boarding schools (including schools for juvenile delinquents (Jugendstrafanstalten), evacuation camps (Kinderlagers) and orphanages) and organize in which, however, you will prevent all teaching.
      (2) to ensure that German authorities imposed all schoolbooks which incorporate Nazi or militaristic teaching.
      (3) to remove all active Nazis, ardent Nazi sympathizers and militarists from educational positions.
      (4) to take steps preparatory to the re-opening of schools.
   b. Supreme Headquarters will be responsible for selecting emergency textbooks for use in German schools. No other books may be used without permission of this Headquarters. Format of textbooks printed under Army Group direction will be submitted to Supreme Headquarters for approval.

   You will order the abolition of all objectionable courses of study introduced by the Nazis and will direct German teachers to eliminate from their teaching anything which:
   a. glorifies militarism, expounds the practice of war or of totalization and preparation for war, whether in the scientific, economic or industrial fields, or promotes the study of military geography;
   b. seeks to propagate, revive or justify the doctrines of Nazism or to exalt the achievements of Nazi leaders;
   c. favours a policy of discrimination on grounds of race or religion;
   d. is hostile to, or seeks to disturb the relations between, any of the United Nations.
   Any infringement of these provisions will be cause for immediate dismissal and punishment.

11. Youth Organizations.
   You will abolish Nazi youth organizations (Jugendsozialistische, Hitlerjugend, Jungvolk, and Bund Deutscher Mädel) and have their records and properties.
   You may place the use of such property at the disposal of approved educational authorities. No youth organizations will be founded or revived without the approval of Supreme Headquarters.

12. Further Education.
   You will make no preparations for the resumption of adult education and vocational education, or for the resumption of full-time technical and vocational schools, universities and colleges of equal rank, until you are so directed by the Supreme Commander. You may, however, require the appropriate German authorities to direct vocational pupils under fourteen years of age to existing elementary schools.

13. New Educational Organizations or Schools.
   You will not permit the founding of new educational organizations or new types of school or the revival of formerly existing organizations or types of school without the consent of the Supreme Commander.

   You will not intervene in questions of denominational control of German schools or religious instruction in German schools except insofar as may be necessary to ensure that religious instruction and the administration of such schools conform to such regulations as are or may be established for all subjects and all schools.

15. Religion.
   It is the policy of the Supreme Commander to eliminate Nazi influence in official religious circles, to provide protection and fair treatment for all religious elements, and to permit freedom of religious worship for everyone.

   You will do all you can to foster freedom of religion and the maintenance of respect for the churches and other religious institutions in Germany. Subject to military necessity, you will permit all places of worship to remain open and will not restrict normal religious activities. You should, however, take steps to ensure that religious activities, including sermons, are not used as a cloak for the spreading of political ideas or of propaganda directed against any of the United Nations.

- 3 -
4. Control.

You will exercise control and direction of the existing German educational system to the extent necessary to carry out the above policy and to avoid, as far as possible, any increase of administrative difficulties and any manifestations of the kind of military government. You will exercise control and direction, as far as possible, personal of the existing German educational system as purged of Nazi influence.

5. Preparation for the Re-opening of Elementary Schools.

You will prepare for the re-opening of elementary schools, as well as the resumption of teaching in schools for the handi capped, giving priority to the first four school years (Grundschule or Unterschule der Volksschulen). When it is practicable to open one or more elementary schools, you will advise your headquarters. You will, however, continue the re-opening of elementary schools until you are so directed by your Supreme Commander.


a. As soon as preparations for the re-opening of elementary schools have been completed, you will prepare for the re-opening of secondary schools. You will not, however, permit the re-opening of secondary schools until you are so directed by the Supreme Commander.

b. After the Supreme Commander has directed that secondary schools may be re-opened:

1. you will permit no secondary school to be re-opened unless the number of secondary school pupils resident in the area served by the school justifies such action;

2. you will permit secondary school pupils, for whose secondary school is available, to be directed to attend appropriate classes of the nearest elementary school;

3. you will continue the type of secondary school existing in a given place. If there is objection on the part of the German local authorities, you will refer the matter to Supreme Headquarters.

7. Removal and Appointment of Educational Officials.

You will dismiss or suspend German educational officials, including teachers, who are considered to be active Nazis or militarists, according to instructions in Appendix A to this Directive. Appointees or removals made by you in the German educational system will be considered permanent. All educational personnel not dismissed or suspended and all appointees for temporary appointments will be investigated. In no circumstances will active Nazis, active Nazi sympathizers or militarists be employed.


Except as required by military necessity, you will not use academic buildings or equipment for non-educational purposes. The German authorities may be directed to make emergency repairs in school buildings.

9. Abolition of Nazi Educational Organizations and Special Schools.

You will abolish all Nazi educational organizations (including the Deutsche Volkshilfe agencies) and their affiliates in schools and universities and acquire their resources and property. You may place the use of such property and the disposal of such property in approved educational authorities. All special Nazi schools including Abteilung Finance, Nuremberg and Grunder (Nazi Leaders' college) will be abolished.

17. Treatment of Clergy and Ecclesiastical Property.

Ecclesiastical leaders will be treated with respect. Leading local clergy may be consulted on appropriate community problems. Ecclesiastical property will, as far as is consistent with military necessity, be used only for religious purposes. The case of real property normally used for religious purposes, seized by the Nazis and diverted from church use, it will be your policy to appoint former church owners as temporary custodians, pending decision as to its ultimate disposal.

18. Elimination of Nazi Elements.

You will know from ecclesiastical offices (normally through the established ecclesiastical authorities) all churchmen who are proved by investigation to be active Nazis. Any officials or officers appointed by you ecclesiastical authorities will fill their own vacancies. You will, however, ensure that such appointments are not active Nazis. Ecclesiastical institutions must not be permitted to propagate Nazi ideology in any form.

19. Political Activity of Clergy.

Any number of the German clergy engaging in political activity should in principle be treated in the same manner as any other person guilty of such activity. You are, however, at liberty to initiate appropriate action through the officer's superior ecclesiastical authority, should you consider such a course preferable to direct action.
Appendix A

MISUSE OF GERMAN EDUCATIONAL PERSONNEL

1. Three lists should be prepared, a "Black", a "Gray", and a "White".

2. The Black List should define those categories of persons who should be dismissed without notice or compensation at the earliest date after the beginning of hostilities. With the exception of those in category (a) below, they should retain their pension rights, subject to future good behavior. With the same exception, they should have the right to submit within one month of dismissal a written statement of evidence showing cause why their cases should be reviewed.

3. The Black List should consist of the following categories:
   (a) Persons convicted as war criminals by the United Nations.
   (b) Reichsschulrat, Reichsnachrichtenamtsrat, and the Reichsnachrichtenamt the head or leader of any group of persons in this category.
   (c) Persons who have received the highest rank of any group of persons in this category.
   (d) Persons who have received the highest rank of any group of persons in this category.
   (e) Persons who have received the highest rank of any group of persons in this category.
   (f) Persons who have received the highest rank of any group of persons in this category.
   (g) Persons who have received the highest rank of any group of persons in this category.
   (h) Persons who have received the highest rank of any group of persons in this category.

In addition, existing persons (minister) of universities and Heads of Teachers' Training Colleges should be dismissed from their positions without notice if they were not appointed to such offices under the National Socialist regime. In the absence of any other educational offices they may hold, they may be employed in any educational capacity unless otherwise notified.

Note: Persons employed as teachers or administrators in National Socialist, anti-Nazi, or other prohibited institutions will automatically lose their present employment. They should not be re-employed in any educational capacity unless otherwise notified.

The Grey List should cover the remaining categories of persons against whom there are reasonable grounds of suspicion. Such persons should not be dismissed without further investigation but the allegations of persons in categories (a) to (e) below, and of others against whom they have already given grounds of suspicion appear to be strong, should be subjected to further investigation. Persons on the "Grey List" should be employed in the highest offices in the Reich. The cases of persons in categories (a) to (e) below should be as far as possible handled in the same manner as those on the "Black List."
(b) Teachers in all types of school who hold or have held the office of 
Vorstandesführer.

(c) Headmasters and headmistresses of secondary schools, and heads of 
institutions for adult education, who were appointed to their present 
offices under the National Socialist regime.

(d) Headmasters and headmistresses of schools of all other types, who were 
appointed to their present offices under the National Socialist regime.

(e) University professors, Directors of institutes, and curators (Kuratoren) 
of universities, who were appointed to their present offices under the 
National Socialist regime.

(f) Present or past administrative officials of all grades of the following 
National Socialist professional organisations: N.S.-Bundesbund, 
N.S.-Rechtsanwaltsbund, N.S.-Reichsbund für Leibesübungen, Reichsbund 
der deutschen Schule.

(g) Members of the National Socialist Party.

(h) Present or past commissioned officers of the S.A., the S.S., and 
the S.S.-G., below the rank of Obersturmführer (in the S.S.-G., 
Sturmführer).

(i) Persons who in their public speeches or writings have actively and 
voluntarily propagated National Socialism, militarism or nationalism.

(j) Persons who are known to have engaged in activities in support of 
the National Socialist cause, or who are suspected of having done so.

(k) Persons who have been awarded decorations for service in the 
National Socialist Party.

6. The White List should contain the names of persons inside Germany whose charac-
ter, professional standing, experience and political reliability render them especially 
suitable to be placed in positions of special responsibility, and in particular to act (a) as temporary educational administrators and/or assistants, pending the 
establishment of a regular administrative system; (b) as acting rectors of universities, pending regular elections by the Senate; (c) as acting Heads of Teachers' Training Colleges. A preliminary list should be compiled by the Working Party, 
which will thereafter submit it to the Ministry of Education for consideration.
Regraded Unclassified

Supreme Headquarters
Allied Expeditionary Force

AG 09 11-1 (Germany)

SUBJECT: Directive for Military Government of Germany
Prior to Defeat or Surrender

TO: Headquarters, 21 Army Group
Commanding General, Twelfth Army Group, APO 665
Commanding General, Sixth Army Group, APO 65

1. Reference is made to letter, this headquarters, file and subject as above, dated 9 November 1944.

2. Attached is Law No. 7, "Removal from Official Seals of National Socialist Insignia".

By direction of the Supreme Commander:

T. J. DAVIS
Brigadier General, USA
Assistant General

1. Encl:
   Law No. 7, as listed

DISTRIBUTION:
As for letter, Supreme Hq. All.
file and subject as above,
9 November 1944.

1. Theater Judge Advocate,
   European T. of Opns

Regraded Unclassified
SIGNED AND SUBSCRIBED
ALLIED ECONOMICAL FORCES

AD 014.1-1 (Germany) 86-ADF
AIR 737 (India)
1 February 1946


TO: Headquarter, 12 Army Group,
Commander General, Twelfth Army Group, APO 655.
Commanding General, Fifth Army Group, APO 45.

1. Reference is made to letter, file and subject as above, dated 2 November 1944.

2. Attached is Law No. 181, "Surrender of Effects of Deseased Members of the United States Forces".

By direction of the Supreme Commander:

1 April
Law No. 181, as listed.

REGISTRATION:
As for Air, Bureau of JAG, file and subject as above,
Ad 5 November 1944.

Claude
1 - Theater Judge Advocate, European Theatre of War.

This document contains information affecting the national defense of the United States within the meaning of the Espionage Act, MCO 5078.1 and EL 30040.1. If any portion of this document is used by any unauthorized person, it is a violation of law.

20063
MAR 17 1945

My dear Mr. Secretary:

This is to acknowledge receipt of Mr. Clayton’s letter of March 10, 1945, transmitting a copy of the memorandum handed to the Italian Technical Mission on March 6.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

The Honorable,

The Secretary of State.

Sent 3/19/45

T.E.T. to Mr. Hoffmann - Tent. 2418
SECRET

My dear Mr. Secretary:

I refer to Mr. Stettinius' letter to you of January 10 regarding the statement to be handed to the Italian technical mission at the conclusion of discussions. As you undoubtedly know, the final meeting with the mission took place on March 6. I enclose for your information a copy of the memorandum handed to it at that time.

Sincerely yours,

For the Acting Secretary of State

[Signature]

Assistant Secretary

Enclosure:

Memorandum.

The Honorable

Henry L. Morgenthau, Jr.,

Secretary of the Treasury.
United States Government has learned with pleasure its fully shared by the Italian Government. At the same time, while in no way qualifying this desire or minimizing the importance which it attaches to the prompt restoration of normal relations, the United States Government feels that the attainment of this objective will necessarily involve a gradual process in view of the special problems arising out of wartime conditions in the Mediterranean area and in view of the legal consequences which have resulted from the state of war between the two countries.

The United States Government feels that the conversations have laid a basis for measures in various fields looking toward the normalization of relations of an economic and financial nature which both Governments desire. It is the hope of the United States Government that the reestablishment of diplomatic missions in Rome and Washington will facilitate further progress toward this objective.

FINANCIAL MATTERS
FINANCIAL MATTERS

1. The United States Government has given sympathetic consideration to the explanations and proposals of the Italian economic mission and expresses its desire to take such steps as may be appropriate and feasible to restore to Italy responsibility and authority for its financial administration at the earliest possible moment.

2. The desire of the Italian Government, as expressed by the mission, to have transferred to it the issuing authority for Allied military lire, has been brought to the attention of the appropriate Allied agencies. The subject is now receiving active consideration and the Italian Government will be informed of the views of the Allied Governments through the Allied Commission.

3. The United States Government is prepared to enter into an agreement with the Italian Government to formalize the existing financial arrangements between the two Governments arising out of the participation of American forces in military operations in Italy.

4. The United States Government will take steps directed to provide the Italian Government with all information available concerning transactions which affect the financial relations between the two Governments.

5. The United States Government will assist the Italian Government in its efforts to mobilize to the maximum extent the foreign exchange assets of Italy with the objective of permitting Italy to assume the greatest amount of responsibility for the rehabilitation and reconstruction of Italy.

6. The United States Government will acquire lire for its diplomatic expenditures in Italy against dollars to be credited to Italian post-liberation accounts. Furthermore, the United States Government will make available to the Italian Government the dollar equivalent of United States post-occupation diplomatic and consular expenditures of lire for which no counter payment in foreign exchange has been made.

7. The Italian mission has raised the question of steps by the United States and other Allied Governments designed
designed to provide foreign exchange equivalent to the military expenditures of the Allied forces in Italy and to the value of supplies and services furnished to the Allied forces on a requisition basis. While the United States Government has not regarded this subject as an appropriate one for discussion with the mission, the American representatives have indicated to the mission some of the difficulties which would stand in the way of agreement on the part of the United States Government to such an arrangement. It has been reported to the United States Government that requests of a similar nature have been made by the Italian Government to the Allied Commission and to the American and British Embassies in Rome. These requests are now receiving consideration and a reply will be made to the Italian Government in due course through appropriate channels.

TRADE MATTERS

8. In general terms it is the hope of the Government of the United States that Italy will be able to reconstruct its economy along the lines of production best suited to the resources and aptitudes of its people and that it will adopt a commercial policy which will facilitate the expansion of Italy's foreign trade and external payments on a multilateral non-discriminatory basis through private commercial channels. This is believed to be the route to internal prosperity in Italy and to peaceful political as well as economic relations among the nations of the world.

9. In meeting the immediate problems of commercial relations between Italy and the United States during the present war period, the general principles outlined above must be modified in accordance with the demands of the war, which is still being fought in part on Italian soil. Regardless of the desire of the Government of the United States to facilitate the interchange of goods between the two countries, the expansion of trade is hampered by the severe shortages of many commodities in both countries, the absence of easy channels for communication and financial exchange, and above all the limitations on use of shipping space to military and the most essential civilian items.
10. The Governments of the United Kingdom and of the United States have recently agreed on several specific policies to assist in the restoration of Italian economic life in this period when, however, military requirements must still receive first consideration.

a) Under this agreement the exports of Italian goods will be handled in two ways, depending on whether the commodities are exported on supply or on commercial grounds. In the first category, commodities in short supply or necessary to the Allied war effort, the destination of exports of such commodities from Italy will be determined by the Combined Chiefs of Staff or other combined Allied agencies and the price will usually be agreed upon by those participating in the sale. If such agreement is not reached the goods will still be exported and the price adjusted to local selling, or normal selling, prices in the country of destination.

b) These commodities exported on commercial grounds may be offered by the Italian seller on any market he chooses, at any price. The Allied Commission, however, will recommend that export sales, except some related to wartime conditions, be made only when the selling prices at least cover costs (including transportation to foreign markets).

d) As soon as circumstances permit, the Italian Government will have complete responsibility for promoting the country’s exports, with Allied Commission supervision limited to ensuring adherence to policies of the Combined Chiefs of Staff and the carrying out of any procurement responsibilities assigned to the Italian Government.

d) Funding the desired reestablishment of private trade between Italy and other countries, the United States Commercial Company will offer its services to the Italian Government in handling the sale abroad of Italian goods.

11. In addition to civilian supplies imported by the Allied military authorities, the Italian Government, advised and assisted by the Allied Commission will be
authorized to prepare an import program of supplies to initiate the rehabilitation of Italian agriculture and industry. This will be submitted for procurement by civilian agencies of the United States and the United Kingdom.

12. It is hoped that it will soon be possible for commercial representatives from the United States to enter Italy, and for Italian representatives to visit the United States for the purpose of stimulating trade, although at the present time this is not permitted for military reasons.

13. As a first step towards the reestablishment of contractual relations governing trade between Italy and the United States, the United States Government is prepared to enter into an agreement with the Italian Government in which both Governments would undertake to cooperate in formulating a program designed to promote expanded world-wide production, employment, exchange and consumption of goods, the elimination of all forms of discriminatory treatment in international commerce and the reduction of tariffs and other trade barriers. Such an agreement would provide that at the earliest practicable date conversations would be begun between the two Governments with a view to determining, in the light of prevailing economic conditions, the best means of attaining these objectives.

14. As the Italian Government is aware, Italian exports to the United States are currently being accorded unconditional most-favored-nation treatment, including the benefit of the tariff and other advantages accorded under the various trade agreements entered into by the United States with other countries (except Cuba) since 1934. It is of course the hope and expectation of the United States Government that as Italy's foreign trade is revived the Italian Government will reciprocally accord complete nondiscriminatory treatment to American commerce in respect of tariffs and all other forms of trade control. At a later date, the United States Government may wish to propose the negotiation of a commercial agreement.
agreement embodying reciprocal assurances of complete 
most-favored-nation treatment by each country of the 
other's commerce.

16. Furthermore, it is the earnest desire of the 
United States Government that trade between the United 
States and Italy be expanded as rapidly as possible and 
that such trade be returned to private commercial channels. 
While it is recognized that supply, shipping and financial 
dependencies may prevent the early attainment of these 
goals, it is the hope of the United States Government 
that the Italian Government will agree with and cooperate 
in working out measures to achieve these objectives.

TRADE WITH THE ENEMY CUSTODIAL

16. The mission has been informed of the substan-
tial changes of policy which have been adopted by the 
Alien Property Custodian toward Italian property in the 
United States since Italy's declaration of war on Germany 
and her acceptance as a co-belligerent with the Allied 
Nations. In the fall of 1943, a decision was reached 
by the United States Government that Italian property in 
the

the United States would not be vested in the future in 
instances where vesting might be proposed simply because 
of the Italian nationality of the owner of the property. 
The matter of vesting policy involving patents was 
specifically excepted, pending completion of the Custodian's 
program with respect to enemy patents in the United States. 
In January, 1944, a decision was made that the Custodian 
would adopt a policy of refusing to vest property 
vested from Italian owners, particularly business enterprises 
and properties of peculiar sentimental value to Italy or Italian nationals. In all of these matters, 
however, the Custodian reserves the right to take any 
action required by the public interest of the United States.

17. The decisions described in the preceding para-
graph should not be taken as an indication of an inten-
tion on the part of the United States Government to 
return to their owners assets which have been vested by 
the Alien Property Custodian or to release from central 
assets
concerned, which have been complained to tamely by the
Treasury Department. The ultimate disposition of
Italian assets in the United States remains subject
for determination by this Government in the light of
American claims against Italy, after consultation with
other Allied Governments.

12. At the appropriate time, the Treasury Depart-
ment of the United States will issue licenses which will
authorize all transactions incident to the repatriation
of goods, vessels, and merchandise into the United States
from Italy. The license will require that payment for
such imports be made only by payment of the dollar-amount
of a banking institution in the United States for credit
to a post-liberation blocked account in the name of a
banking institution in Italy or by the acquisition of
Italian lire exchange from a person in the United States
having a license specifically authorizing the sale of lira.

13. It is the view of the United States Government
that the speed with which Italian external financing will
be restored to normal conditions will
depend upon the cooperation of
the Italian Government with the economic warfare measures
that have been adopted by the United States and other Allied nations.

In this connection, the mission has been informed of the
importance which the United States Government attaches
to the prompt development of effective exchange and
property controls in Italy.

Department of State.
Washington, March 8, 1945.
March 16, 1945

To reply refer to

SECRET

My dear Mr. Secretary:

I refer to my letter of March 8 to you and enclose for your information a paraphrase of a cable from the American Embassy at Rome concerning the question of whether the Italian Government should be urged officially to give public recognition at this time to the responsibility for the Allied military aid program.

Sincerely yours,

For the Secretary of State:

James Claxton Bulloch
Assistant Secretary

Enclosure:
Paraphrase of cable.

The Honorable
Henry L. Morgenthau, Jr.,
Secretary of the Treasury.
FROM:  American Political Adviser, Caserta
TO:    Secretary of State, Washington
DATED: March 7, 1943
NUMBER: 798

SECRET

Yesterday at meeting of SAC's Political Committee, a draft cable to OSS recommending that the Italian Government should not be urged officially now to give public recognition to its responsibilities or lire currency was deferred in view of the statement by the Secretary of Treasury. Indeed it was decided to send a cable to OSS asking for a clarification on this subject. The subject will be on the agenda for the next political conference of SAC.

NAME

DC/L:YAG  3/6/43
Dear Mr. Crowley:

I read with interest your letter of March 3, 1945 regarding exports of gold to China. As you know, we have had the question of gold exports to China, including gold acquired in payments for sale of tin, under discussion for many months.

As you point out in your letter the problem has not been that the Treasury has objected to the export of earmarked gold obtained from the proceeds of tin sales but rather it has been largely a matter of shipping facilities.

We have not gone into the question of whether gold is actually needed in China to maintain tin production although it would be interesting to learn from the Chinese why it is that the gold is needed physically in China to maintain tin production or why other more feasible arrangements have not been or could not be made.

I have just informed the Chinese Government authorities here that we have been able to obtain facilities for the export of about 200,000 ounces or the equivalent of $7 million of gold during the next few months and have also informed them of the request of the National Resources Commission for the immediate export of 100,000 ounces of gold. One-half of the tonnage being made available, or about 100,000 ounces, will be devoted to the export of gold acquired from the sale of tin.

Sincerely yours,

[Signature]

Mr. Leo T. Crowley,
Administrator,
Foreign Economic Administration,
Washington, D. C.

137/efm 3/17/45
The Honorable
The Secretary of the Treasury
Washington 25, D.C.

MAR 8 1945

Dear Mr. Secretary:

The Foreign Economic Administration, acting under a public purchase directive from the War Production Board, is requested to purchase "all available" amounts of tin. A considerable portion of the available tin which the United States requires to fulfill its 1945 commitments under CMEA allocations must come from China. We obtain Chinese tin through the National Resources Commission of China. The Commission in turn, under the terms of its offer to the Chinese tin producers, must pay for much tin with gold.

In February 1944, both the Treasury and the Foreign Economic Administration agreed on a program of gold sales to China in payment for tin. On September 26, 1944, a Tin Agreement was signed between the National Resources Commission and the U.S. Commercial Company providing, among other things, that in return for dollars received from the U.S. Commercial Company the Federal Reserve Bank would transfer gold to the General Reserve Bank of China as payment for tin delivered by the National Resources Commission. The gold so transferred was to be made in a special account of the Central Reserve Bank of China with the Federal Reserve Bank of New York. Up to the present time, $10,000,000 of gold ($7,000,000.00) have been transferred under the terms of this agreement.

The National Resources Commission has no gold in China to continue the tin program. In anticipation of replacements from its own holdings in the Federal Reserve Bank for use in China, it has sent gold to the Reserve Bank of China, but it is now unable to obtain the tin to replace it. In consequence of this situation, the Foreign Economic Administration finds itself unable to purchase further tin with dollars from China. It will remain unable to purchase tin unless gold, equivalent to the tin purchase program, is made available to resume its own tin purchase program.

In a letter to Mr. Quade dated December 8, 1944, the Foreign Economic Administration indicated that if the Chinese government eased the restrictions imposed on tin exports, it would be willing to purchase considerable amounts from the Chinese government at what the Chinese government had insisted on as the lowest price. It was understood that tin prices would be established by the United States government for the tin purchased. Since this letter was made the basis for the proposed Tin Agreement, it would seem logical to have this letter as the basis for further discussions.

Sincerely yours,

[Signature]

Leo F. Crowley
Administrator
The requirement that Argentina's actions be genuine is not stated in so many words. Instead, readmission to the American community is not the automatic result of the two actions, which must be of the purpose and character pursued by the other American Republics. We in the American Delegation were specifically assured that Argentina's actions would be subject to review by the other American Republics.

II. Economic Resolutions. The Resolutions in this field deal either with special transition problems or long-run policy formulation.

It was the desire of the other American Republics to have this Government assure them of continuing markets for their raw material production and to have some guarantee of participation in this country's industrial output during the transition period.

L. Clayton's arguments were persuasive enough to accept instead an assurance of bilateral consideration of special marketing problems and of equitable treatment in supply. The American Delegation felt that it could not commit this Government to a (footnote: ) requirement program nor would it assure Latin America of a preference over Europe in supply.

Long-term policy declarations were for the most part contained in "an Economic Charter for the Americas," calling for equality of access to raw materials and industrial equipment, the reduction of trade barriers, the elimination of cartels and economic nationalism, and recommending the International Fund and Bank, the Food and Agriculture Organization and the Declaration of Philadelphia concerning the rights of labor.

May I particularly commend Mr. Irving Moskovitz, who accompanied me to Mexico City. It was in no small measure due to his efforts that the Resolutions concerning controls and safeguards came from the Conference in the form in which we desired them.
Dear Sir:

As you may know, the sale of the Spanish properties of the International Telephone and Telegraph Company, a matter which has been discussed with this Government in various forms in the last few years, is again before the Treasury Department in the form of an application by the Company to sell its properties to the Spanish Government. The nature of the contract proposed has changed somewhat since February 22 when the Department of State wrote us that it saw no objection to the transaction, but the broad outlines are the same. The Company would receive Spanish Government bonds for its properties and the Spanish Government in turn would resell the shares of the Spanish Company. In addition, the Spanish Government will give the I.T. & T. dollars for the escala accounts receivable which are due it. Some $15,000,000 were thus transferred the other day under the Spanish general license.

The Treasury believes that, other considerations apart, we should help an American firm, which wants to and is able to, affect a sale of its foreign properties on favorable terms. However, there are other considerations and I would like to ask your advice about these.

The assurances which the Spanish Government proposes to give to the I.T. & T. regarding the resale of the shares of this company to foreign interests are obviously not satisfactory. We are afraid that these properties may be later transferred or fall into the hands of cloaked German Interests in Spain. We can be sure that the plans of the Axis, after defeat, are to acquire economic bases for operations in foreign countries. A strategic enterprise such as the I.T. & T. subsidiary would be ideal for this purpose. The Spanish Government is evidently taking no measures to counteract these plans. Spain has not adhered to Bretton Woods Resolution No. VII regarding looted property nor has it shown any disposition to cooperate on measures such as those recently agreed to by Switzerland. So far as we know, the country is still a major base for German espionage and propaganda, especially in Latin America.

Our second point of uncertainty relates to the previous connections and activities of the I.T. & T. According to our information, I.T. & T. properties in Germany are under the control of Bernard Westrick, a Nazi propagandist who was in this country in 1940, and whose law partner, Dr. Albert, was a notorious agent of the German Government in the last war. Colonel Sein of I.T. & T. told Treasury representatives in 1942 that he had discussed with German officials arrangements to have Westrick made custodian of I.T. & T. properties in the event of war. Also with a possible bearing on this case is the information which Colonel Sein gave us of previous I.T. & T. attempts to liquidate German properties and obtain dollar exchange for them through deals in France, the Netherlands and Spain. It will also be recalled that in 1941 I.T. & T. (a communications company) made an attempt to purchase the shares of General Aniline and Film (a chemical company) at the time when it seemed likely that the German interests in the latter company were going to be vested.

It would be very helpful to us in making a decision on this application if I could have the benefit of your advice.

Sincerely,

(Signed) H. Morgenthau, Jr.
Secretary of the Treasury.

Hon. Edward H. Stettinius, Jr.,
Secretary of State.

Washington
3/17/45
INCOMING
TELEGRAM
DIVISION OF
CENTRAL SERVICES
TELEGRAPH SECTION

DEPARTMENT
OF
STATE

INCOMING
TELEGRAM
DIVISION OF
CENTRAL SERVICES
TELEGRAPH SECTION

DEPARTMENT
OF
STATE

No. 599

Chungking

Dated March 17, 1945

Rec'd 11:50 p.m.

This telegram must be paraphrased before being communicated to anyone other than a Government Agency. (SECRET C)

Secretary of State
Washington

483, March 17, 10 a.m.

TO SECRETARY OF TREASURY FROM ADLER

One. United States Army no-ration in dollars expenditures. Advances by Chinese Government January 3 billion February 4 while actual disbursements by Army disbursing officers were 2.6 billion in January and 2.6 billion in January and 2.18 billion in February for engineering commission to be expended for United States Army construction and operations but actual expenditures not yet known.

Two. Fonnun Engineering Commission expenditures for United States Army between 5 and 6 billion.

JN

ATCHESON

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OF
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TELEGRAM
DIVISION OF
CENTRAL SERVICES
TELEGRAPH SECTION

DEPARTMENT
OF
STATE

No. 599

Chungking

Dated March 17, 1945

Rec'd 11:50 p.m.

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Secretary of State,
Washington

483, March 17, 10 a.m.

TO SECRETARY OF TREASURY FROM ADLER

One. United States Army no-ration in dollars expenditures. Advances by Chinese Government January three billion February four billion while actual disbursements by Army disbursing officers were 2.6 billion in January and 2.19 billion in February for engineering commission to be expended for United States Army construction and operations but actual expenditures not yet known.

Two. Fonnun Engineering Commission expenditures for United States Army between 5 and 6 billion.

JN

ATCHESON
CABLE TO HAMBURG, HAMB, FOR SOUTH AFRICA FROM WAR REFUGEE BOARD

Reference your No. 111 of February 23, 1945.

Interested groups here authorize you to remit to IDIO for relief of Luxembourg deportees 60,000 francs from balance of 63,000 francs held by you for labor-sponsored projects. They also advise that prior consultation with Julius Ilter is left to your discretion.

THIS IS WAR REFUGE CASE NO. 501

March 17, 1945

10:45 a.m.
March 17, 1945

JSD
Dist. Read mg only by special
arrangement (SOBRET W)

Regraded Unclassified

AMBASSADOR

BN

1108

The following was sent to the

Reference your no. 1108 of February 23, 1945.

Department of Justice for release of Luxembourg deportees to

Address to the Inter-American Committee on Refugees

Salem Elter is left to your discretion.

ATTACHMENT

ATTACHMENT

(FNL)

FRANCE

March 17, 1945

Dated March 17, 1945

Read 10:30 a.m.

Washington

724, March 17, 10 a.m.

RECEIVED BY H. McCLELLAND, WAR RESISTANCE BOARD

REPRESENTATIVE Virtual from Representative Smith,

DEPARTMENT OF STATE, WASHINGTON, D.C.

I understand that you have brought to my attention the fact that the

Representative Inter-American Committee on Refugees

interest of the Luxembourg deportees to

Doomes. Can you recommend for favorable consideration and

Department of Justice

Interest of the Luxembourg deportees, who wish to escape to

Department of Justice and thereafter submit their names

Department of Justice and thereafter submit their names

Favorable psychological conditions; (four) it might well serve

Terrorism and other forms of terrorism, calling on them to

Terrorism and other forms of terrorism, calling on them to

Regraded Unclassified
March 17, 1945
2 p.m.

ARMS

STAFF

902

The following for Johnson and Glar from War Refugee Board
in WR 326.

Re our 170, January 31, and your 676, February 22. There is
requested below for your information text of our cable to London
requesting: (a) 혼히 authorization for an shipment from Sevden of
medical supplies, clothing, and food parcels with over-all amount
of 1,000,000 kroner

(1) Expansion of parcel program from Sevden for
destinates in Bergenbelsen desirable at this time and recom-
ended by delegation and WR representative Stockholm. Pro-
posal covers shipments from Sevden of 300,000 kroner medical
supplies, 50,000 kroner clothing, and 200,000 kroner (24,000
parcels) food from Sevden.

Distribution would be handled after the manner of the
currently approved food parcel program from Sevden. Reference
is made to department's 945 of February 9, your 1599,
February 23, year 1947, February 23, and earlier exchange on
this subject.

Department, 974, and WR request urgent approval from
Joint Relief Subcouncil so that procurement and shipment
can be begun at the earliest possible moment. If WR agrees,
please inform Stockholm direct, repeating to Washington,

UKOTT

For your information the American Jewish Joint Distribution
Committee here has indicated to the Board that it will underwrite
the cost of this program.

ACTION

Acting

(SM)
MARCH 17, 1945
6 P.M.

AMBASSADOR
LONDON
2070

The following for Chiefs of Staff from Department, FIA, and
War Refugee Board is MS-397.

Expansion of parcel program from Sweden for detainees in
Bergiansen desirable at this time and recommended by delegation
and MRV representative Stockholm. Proposal covers on shipments
from Sweden of 100,000 boxes of medical supplies, 800,000 boxes
of clothing, and 300,000 boxes (24,000 parcels) food from Sweden.

Distribution would be handled after the number of the cur-
rently approved food parcel program from Sweden. Reference is
made to Department's 345 of February 7, 1959, February 13,
year 1959, February 13, and earlier exchange on this subject.

Department, FIA, and MRV request urgent approval from Joint
Relief Committee so that procurement and shipment can be begun
at the earliest possible moment. If FIA agrees, please inform
Stockholm of their decision. Re. Washington.

ACREMAN
(Acting) (OSI)

DEPARTMENT
3/17/45

FIA

Mr. Crocker

Secretary of State
Washington.

595, Seventeenth

FRA 340, 340 340

For Gravity from Handle Marks

Gottfried cabled that medical conference with
Sweden's foremost experts and governmental relief
authorities who stress necessity sending high quality food together with medicines. How have exceptional
opportunity purchase twenty-five tons cod liver oil for
125,000 thousand czech crowns best quality used every day
in Sweden. Export license available and transport could be decided later according your advice. urge
purchase strongly as don't think opportunity will recur.

Be advised Gottfried purchase dried milk assuming funds
would come from appropriation according your 11) or
additional appropriation if you prefer. Reference cod
liver oil advised Gottfried hold deal open pending our
checking with you. Please advise.

Mr. Crocker
March 16, 1945
11:56 a.m.

Henry talking. I just thought I'd call you, kind of off-the-record, and see how things were going.

Jesse Volcott: I think they're going along splendidly.

HMJr: You think they're going all right?

W: He's asking a mistake in calling a meeting this afternoon. If you can get to suggest to Harry White that he suggest to them if there aren't very many there, that they shouldn't meet this afternoon, it would be helpful, because I think we're clearing up all of this lend-lease situation as it affects Bretton Woods here on the floor today.

HMJr: I see.

W: I had to pick the more inopportune time to see than afternoon ....

HMJr: You mean the -- Spence has called a meeting?

W: Yeah, at 1:30.

HMJr: Of the Committee?

W: Yes.

HMJr: On Bretton Woods?

W: Oh, yes. Harry is testifying.

HMJr: And you think that's ....

W: We have to be there to listen to it, of course, but we've got this lend-lease thing on the floor here, and this debate on lend-lease will probably clarify the lend-lease phases of Bretton Woods.

HMJr: I see. And you think it would be wise to call it off?

W: I've suggested it to him.

HMJr: You have?

W: It has been suggested by two or three others.

HMJr: But nothing happened?

W: That is, I think -- no, not as yet. I think, perhaps, he thinks that he's inconveniencing Harry if he doesn't -- he does call it off.

HMJr: I'll take care of it right away.

W: I think it would be ....

HMJr: Tell me, frankly, how has Harry been doing?

W: Doing splendidly.

HMJr: He hasn't ....

W: Doing splendidly.

HMJr: I mean, he ....

W: Keeping his temper, very polite.

HMJr: Wonderful.

W: (Laughs)

HMJr: Wonderful.

W: Yeah, he's coming along splendidly. I think everything is doing all right. I've -- I've hesitated on the questions thus far to see what the Committee was going to bring out.

HMJr: Yeah.

W: And I -- I think you have a right to feel fairly good about it as of today.

HMJr: Well, thank you so much. I'll -- I'll see that -- I'll do what I can at this end to ....

W: I think if somebody could suggest to him diplomatically that ....

HMJr: Yeah.

W: ... it wouldn't -- wouldn't inconvenience Harry any if -- not being there.
MRJr: Yeah.
Mr: There's a little soreness developing on account of the....
MRJr: Well, I -- I -- I'm awfully glad I called you.
Mr: All right.
MRJr: Thank you, Jesse.
Mr: All right.
MEMORANDUM FOR THE SECRETARY

From: Mr. Blough

Subject: Chairman Eccles' capital gains tax proposal.

In February Chairman Eccles submitted to the Economic Stabilization Board a memorandum forecasting a speculative boom in securities, farm real estate, and urban real estate; stressing the harmful effects; indicating why credit control was not a solution, in his opinion; and urging passage of a heavy tax on profits derived from the "realize" or capital assets, i.e., from the sale of capital assets purchased after January 1, 1945. The idea of this tax is not new, having been proposed by his before and by Secretary McCormick for farm real estate over a year ago.

Upon request of the Board the Interdepartmental Tax Committee prepared a report which concluded that the Eccles proposal was too severe at least for the present. It suggested strengthening credit and market controls and lengthening the holding period for "long-term" capital assets from the present 6 months to 2 or 8 years (it used to be 6 years).

Mr. Davis, Director of Economic Stabilization, has proposed that, if Mr. Bell and Judge Vinson not consult with Chairman Doughton on Wednesday, March 31. Mr. Bell and I would prefer postponing this conference until after the congressional recess, as the Treasury is continuing the study of prospects for inflation in capital values and probable effectiveness of the tax. The necessity that the subject might come before the Joint Committee has been mentioned by me to Senator George, Chairman Doughton and Mr. Stan.

Opinions differ widely on the dangers of capital value inflation, the harmfulness of the effects, and the effectiveness of tax measures to prevent it. Senator George expressed the belief that the Eccles proposal would not be effective because it attacks a symptom but not the cause of inflation. Mr. Hallahan, Chairman of the New York Stock Exchange, objects to any increase in capital gains tax, arguing that it would make matters worse by freezing the supply of capital assets. Political reaction to the Eccles proposal has been adverse, but labor and agricultural leaders on the Economic Stabilization Board have expressed approval of it.

Roy Blough
March 15, 1945

MEMORANDUM FOR THE SECRETARY

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Subject: Chairman Eccles' capital gains tax proposal.

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Upon request of the Board, the Interdepartmental Tax Committee prepared a report which concluded that the Eccles proposal was too severe, at least for the present. It suggested strengthening credit and market controls and lengthening the holding period for 'long-term' capital assets from the present 6 months to 2 or 3 years (it used to be 2 years).

Mr. Davis, Director of Economic Stabilization, has proposed that he, Mr. Bell and Judge Vineon consult with Chairman Soughton an Wednesday, March 21. Mr. Bell and I would prefer postponing this conference until after the Congressional recess, as the Treasury is continuing the study of prospects for inflation in capital values and probable effectiveness of the tax. The possibility that the subject might come before the Joint Committee has been mentioned by me to Senator George, Chairman Soughton and Mr. Stas.

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Regraded Unclassified
March 18, 1945

Mr. Daniel Bell
The Secretary

The full question of reparations — who handled it during the last war? What part did the Treasury play in it? I wish you would talk to me about it Monday morning, please.

[Handwritten note]
due groups 3/19/45 - will submit memo. Tell mem. in.
SECRETARY OF STATE

INCOMING TELEGRAM

LFG-658

PLAIN

London

Dated March 18, 1945

Rec'd 10 a.m.

SECRETARY OF STATE,

Washington.

US URGENT

2603, Eighteenth

FOR SECRETARY OF TREASURY FROM MANN

Reference to your 2102, March 17, 1945 FROM SECRETARY OF TREASURY TO TAYLOR there are quoted herewith complete text of article entitled "the German problem" appearing in March 10 and March 17 issues of the ECONOMIST which you requested for use Monday March 19.

At last the Allies stand upon the Rhine and tomorrow they may be across it. Cologne the third city of the Reich is already in Allied control and the moment for applying the chosen solution of the German problem is at hand. Decisions cannot be much longer delayed. But by all appearances they have not yet been finally made and there is still an opportunity though possibly fleeting to plead for a peace that will last. There is no intention of reiterating here the arguments that the ECONOMIST has often used in

--2603, Eighteenth, from London

often used in favour of a policy of moderation. Those arguments have not been based on any sentimentalism or any pity for the hard fate of the German people still less on any calculating desire to curry their favour or to make future use of them in any diplomatic combinations. It has simply been a desire to learn the lessons of the Versailles settlement and to insist that we should not bite off more than we can chew. Neither the American nor the British people will for long enforce a settlement that has the double disadvantage of raising doubts about its justice and of requiring painful efforts for its enforcement. This is not to say that the German people ought not to be punished or that they ought not to be compelled to make heavy material restitution for the damage they have done—but that these policies should be limited in time to the short period during which the will and the means to enforcement are likely to be present. The long-period and complete disarmament of Germany is an essential requirement but it would be as well to limit the permanent penalties to this one.

This is a brief summary of an argument which has been often repeated and often criticised. Of the more reasonable
-3-02803, Eighteenth, from London

criticisms two stand out. The first is that a purely negative attitude of objecting to other peoples solutions of a difficult problem is not enough. Those who say of a policy of severity that it will not work should be under the obligation of proving that their alternative would work better. Moreover a policy of severity may only the opening phase of a long term constructive programme for realigning economic and political forces in Europe in such a way that the compact war making potential of Germany will pass away forever and leave in its place a more stable equilibrium which will be able in due course to maintain itself without external force. If the heavy industry of the Ruhr for example were in the hands of controllers who could be relied upon not to use it for aggressive purposes the German problem would be largely solved.

The second line of criticism is that if the British Government were to preach a policy of moderation it would merely alienate all its European allies and disrupt the grand alliance on which the peace depends as much as it does on the disarming of Germany. The European nations have been invaded exploited and crushed. They have seen every principle of humanity violated. A veil of suffering and bloodshed hangs between them and the old ideals of liberalism and democracy and peoples rights. Any British attempt to prevent these emotions of passionate hatred from finding expression in action would merely bring the alliance to an abrupt end and precipitate a disaster of the first order. Anything that can be done to guard against it should certainly be attempted. But the preservation of the alliance requires a consideration of what the western allies can tolerate not merely of what the continental allies want. To commit ourselves to a policy which we shall not in fact implement would be the worst of all possible ways of keeping the alliance alive since it would lead to differences of view and possibly to bitter recriminations at a time when in the natural course of events the ties of the alliance may in any case be suffering some relaxation. No American Congress or British Parliament can commit its successor. The greater is the necessity for being absolutely certain that nothing is promised that is not likely to keep a sufficient degree of popular support to ensure its performance. If this involves some difference of opinion it is far
-5-1919, Eighteenth, from London

It is far better to say so now when it cannot possibly be ascribed to misplaced affection for the Germans than to leave it to later years when suspicions may be more easily roused. There can be very little doubt that both the Russian and the British Governments are at the moment deeply sincere in their anxiety to remain allies for an indefinite. But that does not mean that all suspicions are dead. The Soviet regime has all through its career suspected Great Britain of anti-Bolshevik designs—and not wholly without reason. The favourite nightmare of British diplomats ever since the Treaty of Rapallo has been a German-Russian alliance and it is less than six years since it seemed to be on the verge of coming about. Each country wants to be friends with the other. But each country has also within less than a decade given the other grounds for suspecting it of hostile deals with Berlin. This is a situation in which even with the closest relationships and the most complete interchange of information distrust may easily arise. London and Moscow are compelled by the mere logic of geography to keep a very sharp eye on each other German policy. For the sake of the Russian alliance more even than for the sake of

-5-1919, Eighteenth, from London

sake of an effective settlement of the German problem it is absolutely essential that the policy once jointly agreed should be jointly pursued without wavering and that in its turn means that the utmost care must be taken not to put into the policy anything that will not be performed.

If there were no possibility of an accommodation between the sort of settlement that is desired by the continental Allies and the sort of settlement that British and American public opinion will support the outlook would be gloomy. It is the purpose of a short series of articles of which this is the first to explore the possibilities of an effective synthesis of the two approaches. One obvious line of compromise is on time limits. Very fortunately the time when the continental insistence on retribution of restitution will be at its maximum is the time when the objection to severity from the British standpoint are at their lowest—that is immediately after the armistice. If there is a penal period during which every practical measure is taken to convince the German people in their own persons of the unprofitability of aggressive war and during which their productive powers can be fully preempted in making goods to replace
to replace what they have stolen and destroyed this might meet the very legitimate desires of the liberated and victorious Allies. But if this penal period is short—say not more than five years—there is comparatively little danger of western opinion weakening in its resolve. A short sharp period of penal servitude may be the means of effecting a considerable reconciliation between the two views.

A second point of agreement is on the complete and permanent disarmament of Germany. Even those who most doubt the possibility of permanently enforcing a severe peace agree with the necessity for taking all arms out of the hands of the Germans, for completely disbanding the Wehrmacht and for prohibiting the manufacture of all important munitions. Indeed one of the chief arguments for a moderate long term policy is the desirability of concentrating all efforts on this one permanent provision; for which Senator Vandenberg's recent proposal indicates the strong probability of American support. This than is a second matter on which agreement can be secured and performance honestly promised. These two points go a long way. But it would be idle to suppose that

that they go far enough to meet those who not content with disarmament (or perhaps not trusting that it will be enforced) wish to have some more organic assurance that Germany will not again make war. This is the starting point of those who advocate a so-called "constructive" settlement. This school of thought recognises that the only lasting peace is one of stable equilibrium—that is a settlement which will maintain itself of its own internal strength when in due course the external force of great-power coercion is withdrawn. But before that time comes they hope to have produced such a natural realignment of European forces, such a rearrangement of the atoms that Germany will no longer be strong enough to make war even when it is released from all its restrictive impositions.

Clearly the most complete embodiment of this order of ideas would be a complete federation, a United States of Europe, with a central government strong enough to control all international relations, armaments and industrial policy. Within such a federation Germany could safely be allowed to be a free and equal member without being a menace. But such a solution is obviously so far outside the realm of practical politics that it need not
Regraded Unclassified

-3-2803, Eighteenth, from London

need not be further discussed.

If federation is impossible the "constructive" policy can make an approach from the economic angle. Germany's strength for war lies in its industry particularly its heavy industry. This heavy industry could of course be destroyed or removed and its replacement prohibited as the Morgenthau plan proposed. But a plan that would drastically reduce the standard of living not merely of Germany but of all those parts of Europe that have over the decades been integrated with German industry could hardly be called "constructive" and would be likely to be repudiated by Mr. Morgenthau's compatriots within a very few years. The Ruhr is the source of Germany's speculative power but it is also the source of a large part of Europe's material wealth. It is impossible—save in a few exceptional cases—to draw a distinction between industry that is useful in war and industry that is useful in peace hence arises the proposal to leave the industrial areas in being but to remove them from German control. Fortunately the two chief industrial areas lie on the flanks of central Germany not in the center. Silesia is to be annexed to Poland. Could not the Ruhr and the Rhineland—so runs the
Germany could not fight an aggressive war without control of the heavy industries of the Ruhr and the Rhine. Nor, without their industrial capacity, could it even use force to reunite the lost provinces with the main body of the nation. It can therefore be argued that a stable peace would be achieved by the creation of an independent Ruhr-Rhine state. Germany might not be reconciled to such a settlement, but it would be powerless to undo it.

This stability would, however, depend upon the Allies' determination to see that no voluntary amalgamation or annexation of the Rhineland with the rump took place. In other words, the settlement would have to rest not only on the Germans' inability to use force, but on the Allies' readiness to use it to check all efforts—peaceful, voluntary, or disguised—to restore the separated areas to the Reich. This is a much more difficult proposition. Dismemberment of national territory is not a solution which either Britain or the United States or indeed many liberal elements on the continent can accept easily, without any twinge of conscience. The opposition of the French to the proposed customs union between Germany and Austria.

Austria in 1931 was severely criticized in this country and led the Germans persisted and the French mobilised, no urging on earth could have brought the British to support the use of force to maintain this particular separatist provision of the Versailles settlement.

The policy of creating an independent Rhineland is not, therefore, one that can safely be tried just on the off chance that it might work. If it did not work, it would leave the general position far worse than if it had never been tried. To create an independent Rhineland, and then to allow it, after a few years, to merge itself once more into Germany, would be a disastrous policy. It would encourage the Germans to believe that, if this provision of the settlement could be undermined, all others—including the vital disarmament provisions—would also yield to a little cajoling and creasing, a little bluster and blandishment. It would also inevitably create discord and distrust among the major allies, one party criticising the other for destroying the settlement, the other criticising the first for clinging to it too rigidly. This is no idle apprehension. It is in both respects—both in the encouragement of the

Germans and in
-13-2803, Eighteenth, from London

Germans and in disruption of the Allies—exactly what happened to the Treaty of Versailles. The only safeguard is to enter upon nothing that will not be carried through, to adopt no policy merely on the outside chance that it might prove effective.

The independent Rhineland policy should therefore be adopted only if it stands a more than even chance of working and this in its turn means that it must not outrage too far the accepted principles and beliefs of the Western democracies who will be responsible for it. They are not likely to continue for long to make the effort of supporting it if the people of the Rhineland are actively hostile, or if it involves a radical impoverishment for what was once one of the richest areas of Europe. Is it not that the Rhineland Germans have an inherent right to liberty or prosperity; the governing fact is that the democracies are incapable, in the long run, of enforcing a regime of tyranny or starvation. A state soothing with frustrated patriotism, a victim of mass unemployment, a permanent centre of unrest and misery, would hardly allay the uneasiness which the mere fact of dismemberment would have aroused.

Such a state

-14-2803, Eighteenth, from London

Such a state would be a constant reminder that the settlement was not working and a constant and potent plea for the modification of its terms.

It would be wrong, at this stage of the argument, to conclude that the "independent Rhineland" solution would not work. But it is right, before going into details, to insist that an essential condition of its working would be some degree of acceptance by the Rhinelanders themselves. That much Germany would never accept it may not be an entirely conclusive objection—though it would certainly increase the difficulties. But that the liberal democracies of the West would be prepared to be directly responsible, over an indefinite period, for the government of a large, skilled and well-educated population who persevered in being outraged by their own compulsory independence, is clearly out of the question. At least passive acceptance is an essential condition of any positive policy of state-building even with Allied troops in occupation. And the acceptance would have to be active before the troops could be withdrawn and the independent Rhineland state could take its place in a new stable alignment of European forces.

The argument,
-18-02803, Eighteenth, from London

The argument, therefore, turns on the prospect of securing some degree of acceptance among the Rhinelander.

It is difficult to feel very optimistic about this prospect. The experiment of lopping off provinces from a modern centralised highly nationalist state and giving them independence has not yet been tried. The only close analogy is the behaviour of national groups and minorities who are separated from the parent nation. In Europe most of these are German and certainly their recent record suggests an overwhelming preference for union in one Reich. Austria, after the last war, the Saar in 1935, do not offer much hope for the quick political pacification of a Rhineland state, quite apart from the original grievance of dismemberment, the Rhinelander would-at least for a time—lack many of the attributes of full sovereignty. The Allies would presumably control their foreign policy and their trade policy. Yet who can deny that the desire for full self-government is a political passion in the modern world second only to nationalism itself?

Much would obviously depend upon the economic settlement. It is possible for a country to be economically prosperous and politically discontented. It is absolutely certain that a ruined country will feel even more bitterly its political discontent. The chances for the economic development of a separate Rhine-Ruhr state are particularly difficult to assess at this moment. It is possible to give production figures for the area before the war when, with a population of fourteen of fifteen millions, it produced about 160 million tons of coal, 26 million tons of coke, 57 million tons of brown coal, 18 million tons of pig iron, 18 billion tons of steel ingots, and nearly 20,000 million kWh of electricity. These figures represent a very high proportion of Germany's total output—81.2 per cent of its coal, 87.5 per cent of its coke, 99 per cent of its brown coal, 64 per cent of its pig iron, 97.5 per cent of its steel ingots, and 40 per cent of its electricity.

All these figures, however, have been made rather meaningless by bunker coverage. The Ruhr towns have been pulverised. According to official estimates, over 60 per cent of Cologne and Dusseldorf have been destroyed, 50 per cent of Essen, over 80 per cent of Hubsch. The Nazis are said to be adding to the ruin by flooding the
firing the coal mines. Many thousands of workers have been transferred to central Germany. Many others are retreating with the Nazis. The Allies are likely to find a Rhineland which is little more than an empty derelict shell. The problem may well be to control the German economy but to keep the people alive without one.

The fact of so much destruction may, in the very first stages of the peace, give the Allies a means of reconciling the Rhinelanders to independence. If in a measure of reconstruction in the devastated Ruhr-Rhine area is given a higher priority than any reconstruction work in other parts of Germany, the need to live and eat may encourage the peoples of western Germany to accept independence and even move into the independent zone. In Austria after the last war, enthusiasm for the Anschluss was at its lowest in 1933 and 1934 when Germany was going through its greatest inflation. There is also a direct allied interest in achieving some measure of reconstruction in the Ruhr-Rhine area. Europe is desperately short of coal and the next winters are likely to be even harder than the last. The immense Ruhr-Rhine coal reserves will be needed so urgently that the measures necessary to reopen the pits and get the men back to work will probably have to be taken quickly and these measures might have the political consequences of making the Rhineland for a time the most economically attractive area in the whole devastated and disorganised Reich.

No one, however, would pretend that a temporary programme of partial reconstruction in certain industries would provide a permanent foundation for the proposed state. Its economic problems will be formidable enough. If it be assumed that something like the pre-war number of people remain in the area, there would be a density of population made possible in other countries only by intensive industrial activity. The basis for this will have been very largely destroyed by the war. How much of the Rhineland’s industrial structure will be restored, apart from urgent needs such as the coal industry? And, when restored, how much of it will find a market? It is quite clear from the experience of liberation so far that all Europe will be crying out for industrial reconstruction and that, until the end of the war with Japan and for some time after, the physical means of reconstruction will be very short supply. The Russians will naturally claim the highest priority, both
priority, both in goods and loans. The claims of the western countries—France, Belgium and Holland—will be quite as pressing. Where on this straitened list, will the Rhineland stand?

After the last war the Germans had at least their economic system intact. They could immediately play a considerable part in their own reconstruction. Even so, they needed—and received—over 7,000 million reichsmarks in long-term loans between 1924 and 1930 and at the same price they received an even higher figure in short-term loans. In each year between 1924 and 1929 they had a deficit in their balance of trade. They were importing more than they sold to the extent of 3,000 million RM in 1925; in 1927 the deficit stood even higher at 4,000 million RM. After this war, the German economy both in the Rhineland and the Ruhr will hardly be in a position for much self-help. Left to their own resources, the Rhinelanders would face ruin. But if loans and goods on such a scale were necessary to help a functioning economy after 1918, on what scale ought the assistance to be given after this war, to restore a totally disrupted system? Will the Rhineland be given the necessary priority?

Indeed, is it envisaged by Allied policy that any form of assistance at all will be given? The Crislen Agreement speaks, on the contrary, of reparations. They are, it is true, to be reparations in kind, but this may well result in a heavier effective burden being placed upon the German economy than after the last war. There is reason to believe that the Big Three are thinking in terms of exacting reparations to the tune of about 1,000 million pounds sterling a year for twenty years, in addition to the restitution of what has been stolen.

Is any part of this burden to be put on the new Rhineland state? And if so will it make possible the attainment of a standard of living that will breed even passive acceptance of their lot among the Rhinelanders? The asking of these questions does not imply that there is anything necessarily wrong or incomprehensible about reparations. It does lift into very clear relief the difficulties that lie in the way of combining a reparations policy with any
policy with any constructive attempt to build a new stable equilibrium in Europe—one, that is to say, that will stand of its own strength when—as much happen some day—the compulsive force of the victors is withdrawn.

Even if it is assumed that the necessary capital investment and imports are forthcoming and that the Ruhr-Rhine state is restored to something like its pre-war productivity, very difficult economic problems would still have to be met. The most would be to find markets for the great output of coal, steel and chemicals which were formerly absorbed by the whole Reich. Rump Germany would presumably not continue to be a market on the same scale, because the whole purpose of the Rhineland scheme is to break up the German nexus. If the engineering works of central Germany were still fed, although perhaps at slightly higher prices, from the heavy industrial output of the Ruhr-Rhine, then German economic dominance in Europe would be unchanged. The policy of a separate Rhineland demands special tariff arrangements—quotas, export duties—to see that the flow of the Rhineland exports is diverted from Rump Germany to new channels.

But where would they be found?

If no special arrangements were made to replace the German hinterland, Rhineland goods would have to compete on a world market which would have shrunk by the amount of Rump Germany's lost capacity to consume. Rhineland coal and steel and chemicals would therefore compete with British and Belgian and French supplies, all of which would in their turn be trying to find buyers in international markets. Under such conditions, the Rhineland could probably maintain a certain economic activity, although it would probably be much lower than the pre-war level and might well entail widespread unemployment. After the last war, Czechoslovakia, cut off from its old markets in the Austro-Hungarian empire, managed to compete on the markets of the world, but there were prolonged depressions in the German-speaking area and in any case, Czechoslovakia was much more self-sufficient area than the Rhineland could ever be. In the Rhineland such a limited degree of economic prosperity would probably offer little compensation for the people's continuing political grievances. No stability would be achieved, no genuine rearrangement of the European pattern.

There remains
There remains one other possibility, the integration of the Rhineland into a European, or at least a west European, structure that provides for substantial freedom of movement both of goods and of men, and for substantial pooling of national sovereignty, within its borders. If the Rhineland were not left to make its way as best it could in a Europe of nationalist economies, a Balkan state in a Balkanised continent, if it could form part of a large area within which the principle of the division of labour was allowed to operate with some freedom, the problems of markets and employment might be solved. If the major issues of security and diplomacy were taken over by some super-national body, the Rhinelanders could safely be given a wide degree of political autonomy. If, in short, western Europe is to be an integrated area—politically and economically—then there is some prospect that the independent Rhineland state would serve the purposes for which it is intended.

In those circumstances, the Rhinelanders could reconstruct a life of economic prosperity and political liberty that might well come to be more attractive than the war economies and Prussianism they have known in Germany. In those circumstances, the industries of the Ruhr might...
SECRETARY OF STATE

INCOMING TELEGRAM

DIVISION OF CENTRAL SERVICES TELEGRAPH SECTION

LFG-598

PLAIN

London

Dated March 16, 1945

Res'd 10 a.m.

Secretary of State,

Washington.

US URGENT

20:03, Eighteenth

FOR SECRETARY OF TREASURY FROM HANK

Reference to your S102, March 17, 1946 FROM SECRETARY OF TREASURY TO TAYLOR there are quoted herewith complete text of article entitled "the German problem" appearing in March 10 and March 17 issues of the ECONOMIST which you requested for use Monday March 19.

As last the Allies stand upon the Rhine and tomorrow they may be across it. Cologne, three miles of the Reich is already in Allied control and the moment for applying the chosen solution of the German problem is at hand. Decisions cannot be much longer delayed. But by all appearances they have not yet been finally made and there is still an opportunity though possibly fleeting to plead for a peace that will last. There is no intention of reiterating here the arguments that the ECONOMIST has often used in

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often used in favour of a policy of moderation. Those arguments have not been based on any sentimentalism or any pity for the hard fate of the German people still less on any calculating desire to curry their favour or to make future use of them in any diplomatic combinations. It has simply been a desire to learn the lessons of the Versailles settlement and to insist that we should not bite off more than we can chew. Neither the American nor the British people will for long enforce a settlement that has the double disadvantage of raising doubts about its justice and of requiring painful efforts for its enforcement. This is not to say that the German people ought not to be punished or that they ought not to be compelled to make heavy material restitution for the damage they have done—but that these policies should be limited in time to the short period during which the will and the means to enforcement are likely to be present. The long-period and complete disarmament of Germany is an essential requirement but it would be as well to limit the permanent penalties to this.

This is a brief summary of an argument which has been often repeated and often criticised. Of the more reasonable criticisms...
criticisms two stand out. The first is that a purely negative attitude of objecting to other peoples solutions of a difficult problem is not enough. Those who say of a policy of severity that it will not work should be under the obligation of proving that their alternative would work better. Moreover a policy of severity may be only the opening phase of a long term constructive programme for realigning economic and political forces in Europe in such a way that the compact war making potential of Germany will pass away forever and leave in its place a more stable equilibrium which will be able in due course to maintain itself without external force. If the heavy industry of the Ruhr for example were in the hands of controllers who could be relied upon not to use it for aggressive purposes the German problem would be largely solved.

The second line of criticism is that if the British Government were to preach a policy of moderation it would merely alienate all its European allies and disrupt the grand alliance on which the peace depends as much as it does on the disarming of Germany. The European nations have been invaded, exploited, and crushed. They have seen every principle of humanity violated. A veil of suffering and bloodshed hangs between them and the old ideals of liberalism and democracy and peoples rights. Any British attempt to prevent these emotions of passionate hatred from finding expression in action would merely bring the alliance to an abrupt end and precipitate a disaster of the first order. Anything that can be done to guard against it should certainly be attempted. But the preservation of the alliance requires a consideration of what the western allies can tolerate not merely of what the continental allies want. To commit ourselves to a policy which we shall not in fact implement would be the worst of all possible ways of keeping the alliance alive since it would lead to differences of view and possibly to bitter recriminations at a time when in the natural course of events the ties of the alliance may in any case be suffering some relaxation. No American Congress or British Parliament can commit its successor. The greater is the necessity for being absolutely certain that nothing is promised that is not likely to keep a sufficient degree of popular support to ensure its performance. If this involves some difference of opinion it is far
it is far better to say so now when it cannot possibly be ascribed to misplaced affection for the Germans than to leave it to later years when suspicions may be more easily roused. There can be very little doubt that both the Russian and the British Governments are at the moment deeply sincere in their anxiety to remain allies for an indefinite. But that does not mean that all suspicions are dead. The Soviet regime has all through its career suspected Great Britain of anti-Bolshevist designs—and not wholly without reason. The favourite nightmare of British diplomats ever since the Treaty of Rapallo has been a German-Russian alliance and it is less than six years since it seemed to be on the verge of coming about. Each country wants to be friends with the other. But each country has also within less than a decade given the other grounds for suspecting it of hostile deals with Berlin. This is a situation in which even with the closest relationships and the most complete interchange of information distrust may easily arise. London and Moscow are compelled by the bare logic of geography to keep a very sharp eye on each other's German policy. For the sake of the Russian alliance more even than for the sake of

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 sake of an effective settlement of the German problem it is absolutely essential that the policy once jointly agreed should be jointly pursued without wavering, and that in its turn means that the utmost care must be taken not to put into the policy anything that will not be performed.

If there were no possibility of an accommodation between the sort of settlement that is desired by the continental Allies and the sort of settlement that British and American public opinion will support the outlook would be gloomy. It is the purpose of a short series of articles of which this is the first to explore the possibilities of an effective synthesis of the two approaches. One obvious line of compromise is on time limits. Very fortunately the time when the continental insistence on retribution of restitution will be at its maximum is the time when the objection to severity from the British standpoint are at their lowest—that is immediately after the armistice. If there is a period during which every practical measure is taken to convince the German people in their own persons of the unprofitability of aggressive war and during which their productive powers can be fully preoccupied in making goods to replace
to replace what they have stolen and destroyed this
might meet the very legitimate desires of the liberated
and victorious Allies. But if this penal period is
short—say not more than five years—there is comparatively
little danger of western opinion weakening in its resolve.
A short sharp period of penal servitude may be the means
of effecting a considerable reconciliation between the
two views.

A second point of agreement is on the complete and
permanent disarmament of Germany. Even those who most
do not the possibility of permanently enforcing a severe
peace agree with the necessity for taking all arms out
of the hands of the Germans, for completely disbanding
the Wehrmacht and for prohibiting the manufacture of all
important munitions. Indeed one of the chief arguments for
a moderate long term policy is the desirability of
concentrating all efforts on this one permanent
provision; for which Senator Vandenberg’s recent proposal
indicates the strong probability of American support.
This than is a second matter on which agreement can be
secured and performance honestly promised. These two
points go a long way. But it would be idle to suppose
that

that they go far enough to meet those who not content
with disarmament (or perhaps not trusting that it will
be enforced) wish to have some more organic assurance
that Germany will not again make war. This is the
starting point of those who advocate a so-called
"constructive" settlement. This school of thought
recognises that the only lasting peace is one of stable
equilibrium—that is a settlement which will maintain
itself of its own internal strength when in due course
the external force of great power coercion is with-
drawn. But before that time comes they hope to have
produced such a natural realignment of European forces,
such a rearrangement of the atoms that Germany will no
longer be strong enough to make war even when it is
released from all its restrictive impositions.

Clearly the most complete embodiment of this order
of ideas would be a complete federation, a United States
of Europe, with a central government strong enough to
control all international relations, armaments and
industrial policy. Within such a federation Germany
could safely be allowed to be a free and equal member
without being a menace. But such a solution is obviously
so far outside the realm of practical politics that it
need not
need not be further discussed.

If federation is impossible the "constructive" policy can make an approach from the economic angle. Germany's strength for war lies in its industry particularly its heavy industry. This heavy industry could of course be destroyed or removed and its replacement prohibited as the Morgenthau plan proposed. But a plan that would drastically reduce the standard of living not merely of Germany but of all those parts of Europe that have over the decades been integrated with German industry could hardly be called "constructive" and would be likely to be repudiated by Mr. Morgenthau's countrymen within a very few years. The Ruhr is the source of German aggressive power but it is also the source of a large part of Europe's material wealth. It is impossible—save in a few exceptional cases—to draw a distinction between industry that is useful in war and industry that is useful in peace hence arises the proposal to leave the industrial areas in being but to remove them from German control. Fortunately the two chief industrial areas lie on the flanks of Germany not in the centre. Silesia is to be annexed to Poland. Could not the Ruhr and the Rhineland—so runs the argument—be detached from Germany not for annexation to or exploitation by any other state but as an independent German state? The inhabitants would not be impoverished or tyrannised. They would be self-governing in local matters but their external relations would be supervised by the United Nations and their commercial policy would be so directed that the metallurgical industries of the Ruhr gradually fitted themselves into a west European pattern instead of into the war economy of a greater Germany. This it is hoped would be a painless operation to sterilise Germany's aggressive potential. The hope would be that after a generation or two the advantages of Western liberalism and prosperity would make the Rhinelanders definitely prefer their independence to Prussian militarism. The forces of Europe would have been successfully realigned; Germany would no longer be strong even when it was free; and a new stable equilibrium would have been achieved.

This is very brief summary is the proposal. It will be further examined and its prospects of stability analyzed in subsequent articles.

An independent Rhineland

Germany
Germany could not fight an aggressive war without control of the heavy industries of the Ruhr and the Rhine. Nor, without their industrial capacity, could it even use force to reunite the lost provinces with the main body of the nation. It can therefore be argued that a stable peace would be achieved by the creation of an independent Ruhr-Rhine state. Germany might not be reconciled to such a settlement, but it would be powerless to undo it.

This stability would, however, depend upon the Allies' determination to see that no voluntary amalgamation or annexation of the Rhineland with the rump took place. In other words, the settlement would have to rest not only on the Germans' inability to use force, but on the Allies' readiness to use it to check all efforts—peaceful, voluntary, or disguised—to restore the separated areas to the Reich. This is a much more difficult proposition. Dismemberment of national territory is not a solution which either Britain or the United States or indeed many liberal elements on the continent can accept easily, without any twinge of conscience. The opposition of the French to the proposed customs union between Germany and Austria.

Austria in 1931 was severely criticised in this country and had the Germans persisted and the French mobilised, no urging on earth could have brought the British to support the use of force to maintain this particular separatist provision of the Versailles settlement.

The policy of creating an independent Rhineland is not, therefore, one that can safely be tried just on the off chance that it might work. If it did not work, it would leave the general position far worse than it had never been tried. To create an independent Rhineland, and then to allow it, after a few years, to merge itself once more into Germany, would be a disastrous policy. It would encourage the Germans to believe that, if this provision of the settlement could be undermined, all others—including the vital disarmament provisions—would also yield to a little squeezing and mining, a little bluster and blandishment. It would also inevitably create discord and distrust among the major allies, one party criticising the other for destroying the settlement, the other criticising the first for clinging to it too rigidly. This is no idle apprehension. It is in both respects—both in the encouragement of the Germans and in
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Germans and in disruption of the Allies—exactly what happened to the Treaty of Versailles. The only safeguard is to enter upon nothing that will not be carried through, to adopt no policy merely on the outside chance that it might prove effective.

The independent Rhineland policy should therefore be adopted only if it stands a more than even chance of working and this in its turn means that it must not outrage too far the accepted principles and beliefs of the western democracies who will be responsible for it. They are not likely to continue for long to make the effort or supporting it if the people of the Rhineland are actively hostile, or if it involves a radical impoverishment for what was once one of the richest areas of Europe. Is it not that the Rhineland Germans have an inherent right to liberty or prosperity; the governing fact is that the democracies are incapable, in the long run, of enforcing a regime of tyranny or starvation. A state soothed with frustrated patriotism, a victim of mass unemployment, a permanent centre of unrest and misery, would hardly alloy the unenemies which the mere fact of dismemberment would have aroused.

Such a state would be a constant reminder that the settlement was not working and a constant and potent plea for the modification of its terms.

It would be wrong, at this stage of the argument, to conclude that the "independent Rhineland" solution would not work. But it is right, before going into details, to insist that an essential condition of its working would be some degree of acceptance by the Rhinelanders themselves. That many Germans would never accept it may not be an entirely conclusive objection—though it would certainly increase the difficulties.

But that the liberal democracies of the west would be prepared to be directly responsible, over an indefinite period, for the government of a large, skilled and well-educated population who persisted in being outraged by their own compulsory independence, is clearly out of the question. At least passive acceptance is an essential condition of any positive policy of state-building even with Allied troops in occupation. And the acceptance would have to be active before the troops could be withdrawn and the independent Rhineland state could take its place in a new stable alignment of European forces.

The argument,
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The argument, therefore, turns on the prospect of securing some degree of acceptance among the Rhinelanders.

It is difficult to feel very optimistic about this prospect. The experiment of lopping off provinces from a modern centralised highly nationalist state and giving them independence has not yet been tried. The only close analogy is the behaviour of national groups and minorities who are separated from the parent nation. In Europe most of these are German and certainly their recent record suggests an overwhelming preference for union in one Reich. Austria, after the last war, the Saar in 1935, do not offer much hope for the quick political pacification of a Rhineland state, quite apart from the original grievance of dismemberment, the Rhinelanders would—at least for a time—lose many of the attributes of full sovereignty. The Allies would presumably control their foreign policy and their trade policy. Yet who can deny that the desire for full self-government is a political passion in the modern world second only to nationalism itself?

Much would obviously depend upon the economic settlement. It is possible for a country to be economically prosperous and politically discontented. It is absolutely certain that a ruined country will feel even more bitterly its political discontent. The chances for the economic development of a separate Rhine-Ruhr state are particularly difficult to assess at this moment. It is possible to give production figures for the area before the war when, with a population of fourteen of fifteen millions, it produced about 160 million tons of coal, 38 million tons of coke, 87 million tons of brown coal, 15 million tons of pig iron, 18 million tons of steel in ose, and nearly 20,000 million kWh of electricity. These figures represent a very high proportion of Germany's total—about 61.2 per cent of its coal, 87.5 per cent of its coke, 29 per cent of its brown coal, 84 per cent of its pig iron, 87.5 per cent of its steel ingots, and 40 per cent of its electricity.

All these figures, however, have been made rather meaningless by recent events. The Ruhr towns have been pulverised. According to official estimates, over 60 per cent of Cologne and Dusseldorf have been destroyed, 80 per cent of Essen, over 80 per cent of Rheinhausen. The Roses are said to be adding to the ruin by flooding and
firing the coal mines. Many thousands of workers have
been transferred to central Germany. Many others are
retreating with the Nazis. The Allies are likely to find
a Rhineland which is little more than an empty derelict
shanty. The problem may well be not to control the German
economy but to keep the people alive without one.

The fact of so much destruction may, in the very
first stages of the peace, give the Allies a means of
reconciling the Rhinelanders to independence. If a
measure of reconstruction in the devastated Ruhr-Rhine
area is given a far higher priority than any reconstruction
work in other parts of Germany, the show need to live
and eat may encourage the peoples of western Germany to
accept independence and even move into the independent
zone. In Austria after the last war, enthusiasm for
the Anschluss was at its lowest in 1923 and 1924 when
Germany was going through its greatest inflation. There
is also a direct allied interest in achieving some
measure of reconstruction in the Ruhr-Rhine area. Europe
is desperately short of coal and the next winters are
likely to be even harsher than the last. The immense
Ruhr-Rhine coal reserves will be needed so urgently that
the measures necessary to reopen the pits and get the
men back

men back to work will probably have to be taken quickly
and these measures might have the political consequence
of making the Rhineland for a time the most economically
attractive area in the whole devastated and disorganized
Reich.

No one, however, would pretend that a temporary
programme of partial reconstruction in certain industries
would provide a permanent foundation for the proposed
state. Its economic problems will be formidable enough.
If it is assumed that something like the pre-war number
of people remain in the area, there would be a density
of population made possible in other countries only
by intensive industrial activity. The basis for this
will have been very largely destroyed by the war. How
much of the Rhineland's industrial structure will be
restored, apart from urgent needs such as the coal
industry? And, when restored, how much of it will
find a market? It is quite clear from the experience
of liberation so far that all Europe will be crying
out for industrial reconstruction and that, until the
end of the war with Japan and for some time after, the
physical means of reconstruction will be very short
supply. The Russians will naturally claim the highest
priority, both
priority, both in goods and loans. The claims of the western countries—France, Belgium and Holland—will be quite as pressing. Where on this straitened list, will the Rhineland stand?

After the last war the Germans had at least their economic system intact. They could immediately play a considerable part in their own reconstruction. Even so, they needed—and received—over 7,000 million reichsmarks in long-term loans between 1924 and 1930 and at the same price they received an even higher figure in short-term loans. In each year between 1924 and 1929 they had a deficit in their balance of trade. They were importing more than they sold to the extent of 3,068 million RM in 1925; in 1927 the deficit stood even higher at 4,093 million RM. After this war, the German economy both in the Rhineland and the Ruhr will hardly be in a position for much self-help. Left to their own resources, the Rhinelanders would face ruin. But if loans and goods on such a scale were necessary to help a functioning economy after 1918, on what scale ought the assistance to be given after this war, to restore a totally disrupted system? Will the Rhineland be given the necessary priority?

Will the Allies think it a matter of urgency to restore some semblance of economic activity, when other calls on their physical and financial resources are so pressing.

Indeed, is it envisaged by Allied policy that any form of assistance at all will be given? The Crimen Agreement speaks, on the contrary, of reparations. They are, it is true, to be reparations in kind, but this may well result in a heavier effective burden being placed upon the German economy than after the last war. There is reason to believe that the Big Three are thinking in terms of exacting reparations to the tune of about 1,000 million pounds sterling a year for twenty years, in addition to the restitution of what has been stolen.

Is any part of this burden to be put on the new Rhineland state? And if so will it make possible the attainment of a standard of living that will breed even passive acceptance of their lot among the Rhinelanders? The making of these questions does not imply that there is anything necessarily wrong or impracticable about reparations. It does lift into very clear relief the difficulties that lie in the way of combining a reparations policy with any...
policy with any constructive attempt to build a new stable equilibrium in Europe—one, that is to say, that will stand of its own strength when—as much happen some day—the compulsive force of the victors is withdrawn.

Even if it is assumed that the necessary capital investment and imports are forthcoming and that the Ruhr-Rhine area is restored to something like its pre-war productivity, very difficult economic problems would still have to be met. The most would be to find markets for the great output of coal, steel and chemicals which were formerly absorbed by the whole Reich. Ruhr-Germany would presumably not continue to be a market on the same scale, because the whole purpose of the Rhineland scheme is to break up the German nexus. If the engineering works of central Germany were still fed, although perhaps at slightly higher prices, from the heavy industrial output of the Ruhr-Rhine, then German economic dominance in Europe would be unchanged. The policy of a separate Rhineland demands special tariff arrangements—quotas, export duties—to see that the flow of the Rhineland exports is diverted from Rump Germany to new channels.

But where would they be found?

If no special arrangements were made to replace the German hinterland, Rhineland goods would have to compete on a world market which would have shrunk by the amount of Rump Germany’s lost capacity to consume. Rhineland coal and steel and chemicals would therefore compete with British and Belgian and French supplies, all of which would in turn be trying to find buyers in international markets. Under such conditions, the Rhineland could probably maintain a certain economic activity, although it would probably be much lower than the pre-war level and might well entail widespread unemployment. After the last war, Czechoslovakia, cut off from its old markets in the Austro-Hungarian empire managed to compete on the markets of the world, but there were prolonged depression in the German-speaking area and in any case, Czechoslovakia was a much more self-sufficient area than the Rhineland could ever be. In the Rhineland such a limited degree of economic prosperity would probably offer little compensation for the people’s continuing political grievances. No stability would be achieved, no genuine rearrangement of the European pattern.

There remains
There remains one other possibility, the integration of the Rhineland into a European, or at least a west European, structure that provides for substantial freedom of movement both of goods and of men, and for substantial pooling of national sovereignty, within its borders. If the Rhineland were not left to make its way as best it could in a Europe of nationalist economies, a Balkan state in a Balkanised continent, if it could form part of a large area within which the principle of the division of labour was allowed to operate without freedom, the problems of markets and employment might be solved. If the major issues of security and diplomacy were taken over by some super-national body, the Rhinelanders could safely be given a wide degree of political autonomy. If, in short, western Europe is to be an integrated area—politically and economically—then there is some prospect that the independent Rhineland state would serve the purposes for which it is intended.

In those circumstances, the Rhinelanders could reconstruct a life of economic prosperity and political liberty that might well come to be more attractive than the war economies and Prussianism they have known in Germany. In those circumstances, the industries of the Ruhr might
Information received up to 10 a.m., 18th March, 1945.

NAVAL

1. HOME WATERS. 17th/18th (night). One of H.M. LSS's mined and sunk off Dieppe. E-boats possibly minelaying active off S.E. Coast.

2. NORTH ATLANTIC. 17th. One of H.M. Canadian minesweepers reports being torpedoed in S.W. Approaches.

3. EAST INDIA. During recent patrols one of H.M. Submarines sank 7 native craft and torpedoed coaster north Malacca Strait. Another of H.M. Submarines sank 4 native craft N.E. Sumatra and another damaged coaster off Andamana.

MILITARY

4. WESTERN FRONT. Southern Sector: Steady progress made by 7th U.S. Army on 15th and 16th along whole front east of Saarbrucken while recent unconfirmed report states 4 mile gains made on 30 mile stretch of front following enemy withdrawals. Further north 3rd U.S. Army continuing to attack south and S.E. on 20 mile front, forward elements advancing south along eastern bank of Saar River to within 3 miles Heslach, while north of this Moselle bridgehead widened with additional columns of bridgehead our troops reported to have reached Rhine at Rappard. Little news of 4th U.S. Armoured Division threat to Bad Munster but known two bridges over River Rhein captured intact with northern column of thrust reaching Koblenz and northern column to Stromberg, Central Sector: Remagen bridgehead further enlarged by advances of over 1 mile each flank. Honsingen was captured on the 16th.


6. RUHR. Central Sector: 15th/16th (night). Japanese made determined attack and captured main airfield Munkino but our tanks cleared airstrip by 12 hours following day. South of Mandsay our troops crossed Ruhr at points 7 miles west and 10 miles N.W. Kyauke while further north road and rail junction 10 miles south of Mandsay cut. Northern Sector: Chinese troops entered Halpaw against light opposition.

AIR

7. WESTERN FRONT. 16th/17th (night). Bomber Command despatched 911 aircraft (31 missing); 294 Hunsruck (114 tons), 294 Wurzburg (427 tons), 50 Berlin, 84 sea mining and 107 bomber support and other missions. Bombing of main targets concentrated. 17th. 1237 U.S. escorted heavy bombers (15 bombers outstanding, 10 fighters) attacked through cloud four oil plants (2144 tons) four armament factories (1185 tons) and two railway centres (510 tons) in Central and N.W. Germany. 161 escorted Lancasters dropped 297 tons through cloud on two benzol plants in Ruhr. 400 (Air) bombers 766 dropped 1194 tons communications and other targets battle areas with unobserved results communications and other targets battle areas with unobserved results communications and other targets battle areas with unobserved results communications and other targets battle areas with unobserved results communications and other targets battle areas with unobserved results communications and other targets battle areas with unobserved results communications and other targets battle areas with unobserved results communications and other targets battle areas with unobserved results communications and other targets battle areas with unobserved results communications and other targets battle areas with unobserved results communications and other targets battle areas with unobserved results communications and other targets battle areas with unobserved results communications and other 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GROUP

Present: Mr. D. W. Bell
       Mr. Easton
       Mr. White
       Mr. Luxford
       Mr. C. T. Bell
       Mr. Fahl
       Mr. Slogh
       Mr. Kass
       Mr. Dubois
       Mr. Goe
       Mr. Russell
       Mr. Lynch
       Mr. Bartelt
       Mrs. Atots

March 12, 1945
9:10  a.m.

H.M.Jr: I had a very good forty-five minutes with Walter George and he ended up by saying, "I will say a good word for Bretton Woods."

Mr. LEARD: Good!

H.M.Jr: And you people have to protest me on what I am saying— that Baruch had not said one word to him about Bretton Woods although I had asked him to see him and he talked entirely about reparations, and when I said, "Well, did he say that reparations come first?"— he said, well it told him he thought it was important, but he didn't tell him it should come before Bretton Woods. I said he most likely wouldn't. Baruch didn't want me to talk to George. He wanted me to wait until he had another chance.

Before I go any further, welcome, Eddy Bartelt.

MR. BARTLET: Thank you sir.

H.M.Jr: We'll take that nice fresh look off your face.

(Laughter)
MRS. KEMPT: All we can do is give them memos.

Mr. WHITE: White, you happened to be innocent for once. (Laughter) Just relax, Bill, you keep out of this.

Mr. WHITE: I thought you were pointing to me.

Mr. LUXORD: You're doing all right.

Mr. WHITE: Keep out of it. (Laughter)

Mr. D.W. HELL: He's guilty.

Mr. WHITE: If your conscience bothers you, well--

Now, the other thing he mentioned--I will set off Bretton woods in a minute--I asked about my policy down there and the man he seems to look to is a man by the name of Frank Heely with rich and Company, and Frank Heely is very pro-Bretton woods, as we say in Georgia.

Mr. WHITE: Isn't he a member of the Federal Reserve Bank?

Mr. D.W. HELL: He is the Director of the Federal Reserve Bank down there.

Mr. WHITE: A little later in the day I will have a little conference and we will talk, but he is connected with rich and Company.

Mr. D.W. HELL: That's a department store, I think. He owns most of it, he said.

Mr. WHITE: So he seems to be--and Walter George would come to a meeting if I went, but he said he didn't think it was necessary, because he said both the Atlanta Journal and the other papers there are for it.

Mr. WHITE: It's the only way George will probably learn much about Bretton woods and become more enthusiastic, besides the excellent effect it will have on the meeting.
MR. B.F.: In connection with these there is one question about Treasury's having all of this information before the Ways and Means Committee. They considered an amendment to the public debt bill directing you to come up in thirty days; giving them a complete story on the financial condition of the Government, including all contingent liabilities of whatever character exist. I told him not to put it in the form of an amendment. If he would like to have us come up within thirty days and give them a complete picture, we would be too delighted to do it. So they are looking forward to that and they said, 'At the time we want to serve notice on you that we want to ask a lot of questions on Long-Lease, we would like to have you have all the answers.'

H.M.Jr.: Well--

MR. B.F.: I think it is something the Ways and Means Committee should do every quarter.

H.M.Jr.: Would you try out that recommendation we have to the President centralizing the control of--

MR. B.F.: Yes.

H.M.Jr.: ...of Government lending?

MR. B.F.: I have a suspicion that the original is in the hands of Harold Smith now.

H.M.Jr.: Now those who have to go on the Hill--

MR. WHITE: I have to settle something as to what is to be done, so I would like to be excused as soon as possible.

You loyal called up, and I told him you were out of town I thought. I didn't say I thought, I told him you were.

H.M.Jr.: Who?

MR. WHITE: You. I thought you had gone away. When he comes back I'll--(Laughter)
Wayne Taylor was prepared to testify. We told him we would like to have him. He has a statement, and so forth. I received word from every Saturday that if we want him to testify, it had better be Monday or Tuesday because he won't be available thereafter. He said, "I hope me I'll understand," so we are going to try to get--see if he can testify tomorrow, and if it is your thought we ought to ask Wallace first--

H.M.Ja: I thought you would, because you told me two or three times about Wayne Taylor that you were going to ask Wallace, so I said to Wallace at lunch, "I know the boys talked to you about Taylor testifying, and he seemed to know what I was talking about, so it seemed to be all right.

He's in the same frame of mind as you were this morning.

H.M.WHTS: All right.

H.M.Ja: So I talked to him.

H.M.WHTS: Okay. Did you hear the debate between Taft and Acheson?

H.M.Ja: I didn't, but Mrs. Morenthead did.

H.M.WHTS: What did she say?

H.M.Ja: Her reaction was that she didn't think that we got quite the best of it.

H.M.WHTS: That's what I heard.

H.M.Ja: She thought that Taft raised a number of doubts. There was one particular thing she said she heard you answer, on why the Fund would be frittered away the first year, and she said Acheson didn't answer. She said you gave a very good answer to that, but he didn't answer that. She thought Taft was tough and went right after him and that Taft kept saying all the time, "Oh, you can't put words in my mouth," but the net result was it left a lot of doubts, not in her mind, but--

H.M.WHTS: ...in the layman's.

H.M.Ja: Am I correct?

H.M.WHTS: I agree fully with that.

H.M.Ja: It's too late for me, but this question that the money would be frittered away within one year--

H.M.WHTS: They didn't get down to Taft's level in slugging him.

H.M.Ja: Does that check?

H.M.WHTS: Yes, and Taft is on the American Forum of the air tomorrow against Lodge with others. I am afraid that we had better debate as little as possible with Taft, unless whoever is debating with him is willing to use Taft's tactics because he is an effective ruthless condemning speaker and he apparently gets away with it, so we ought to shy against debating with him in public.

H.M.Ja: Can't somebody slip notes to Lodge?

H.M.WHTS: He will talk to them in advance about how we have to handle Taft.

H.M.Ja: That particular thing better be taken care of so the whole Fund won't be disposed of the first year.

H.M.WHTS: If they want a Treasury man on it, they can still put somebody on against him.

H.M.Ja: Something tells me you are overruled.

H.M.WHTS: I expected to be, but I expected this before.
MR. LUXFORD: I don't think a Treasury man is a man to hit him, and that's what was wrong with Acheson. A Government man can't hit a Senator like Sart. Someone like Gregory who isn't in the Government-

H.N.Jr.: Mrs. Morgenthau said the Congressman from California wasn't too good either.

MR. LUXFORD: Not on that point.

MR. WHITE: Well, it's too late now.

H.N.Jr.: What else?

MR. WHITE: That's all.

H.N.Jr.: Luxford?

MR. LUXFORD: I have nothing.

H.N.Jr.: Luxford, please make a note. This afternoon I would like a nice letter to Bill Clayton thanking him for Saturday's performance, which I think was excellent.

MR. WHITE: Mr. Feltus had arranged that.

H.N.Jr.: I know.

MR. WHITE: And we have word that Green may have difficulty in coming out for us because he feels that we are partial, or I am partial to the CIO. I can't imagine where he got that idea. He is surrounded by some people who don't think that he ought to come out for it. I don't know what success we will have with him. Dean Acheson spoke to George Meany. Meany thinks it would be a great mistake if the A.F. of L comes out against Bretton Woods, and thinks they should come out for it.

H.N.Jr.: Do you know Pearl?

MR. GASTON: Phil Pearl? I know him very well.

H.N.Jr.: Will you have a talk with him?

MR. GASTON: Yes.

MR. WHITE: The person apparently influencing Green the most, as we got it--I have no way of knowing whether it is true--is Miss Throne.

MR. GASTON: Yes, she was over here once or twice on taxes. Any, you've seen her.

H.N.: Oh! Harry, did you hear the International Committee under Well took it up and seemed favorable?

MR. WHITE: All the people down the line were favorable.

H.N.: Including Matthew Well.

MR. WHITE: I didn't know Well, but the technical people came out for it.

H.N.Jr.: Is that all?

MR. WHITE: Yes.

H.N.Jr.: The other thing George told me is Fred Kent, who wrote the banker's report brought a typewritten copy to George's hotel in advance.

MR. WHITE: Fred I. Kent.

MR. GASTON: Bankers Trust, isn't it?

H.N.Jr.: He was foreign exchange man in the last war. He was loaned to Fed in that period.

H.N.Jr.: Are you going to take care of Carl Gecke?

MR. WHITE: Yes.

H.N.Jr.: All right.
MR. C. S. BELL: I had two or three deferment cases, and that is about all this morning. Here is Friedman, Irving Friedman. He is with Monetary Research.

H.M. JR.: How old is he?

MR. C. S. BELL: Thirty years old. He is over the line. Ted Wilson wouldn't go along with it, but Mr. Gaston and I feel it is justified. He is on the key list.

H.M. JR.: Who does he work for?

MR. C. S. BELL: Under Mr. Ooe.

MR. D. W. BELL: He was on China, wasn't he?

MR. C. S. BELL: Far East and the Orient.

MR. OOE: He would be in an awful state on China if he went. He has handled that for three years.

H.M. JR.: He is not on the key list?

MR. C. S. BELL: No, but you approved him back in January for deferment when he was twenty-nine. He is over the line now.

H.M. JR.: Before much longer everybody will be over the line.

MR. C. S. BELL: We are going to have to recheck the key list, Mr. Secretary. He have had organizational changes throughout, and what I want to do now is submit a new key list.

H.M. JR.: I think you should. (Secretary signs deferment of Irving S. Friedman)

I'll go along on this.

MR. C. S. BELL: There is a plate printer. He is thirty-three years old. (Secretary signs deferment request of Frederick H. Swoboda.)

H.M. JR.: I still say we ought to get some of the boys out of Atlanta and put them to work. All the good engravers are in Atlanta.

MR. C. S. BELL: Here is one from the Bureau of Internal Revenue. I didn't go along with that, but Mr. Wilson and Mr. Gaston did. J. Edgar Hoover had all of his special agents deferred.

H.M. JR.: What J. Edgar Hoover does doesn't necessarily mean I have to do.

MR. GASTON: How old is that man?

H.M. JR.: Thirty-two.

MR. C. S. BELL: I kind of felt they could have trained in all this time someone else to take his place. Really what they are supposed to do is train someone else.

H.M. JR.: Mr. Gaston approved it?

MR. C. S. BELL: And Mr. Wilson.

MR. GASTON: I think those trained investigators who are over thirty—I just can't see any reason for letting them go. We are terribly short of men who know something.

MR. C. S. BELL: Only this reason, Mr. Secretary. They have used up all the men twenty-nine. They have to go in the next group—thirty to thirty-three. We are just starting in that now.

H.M. JR.: Who has to go?

MR. C. S. BELL: Thirty to thirty-three, into the Army.

H.M. JR.: They haven't yet.

MR. C. S. BELL: They are going into it right now.
That is the thirty to thirty-three group.

H.W.: That is the ruling?

Mr. C.S. BELL: It isn't yet. In a sense the thirty to thirty-three almost takes place of the old eighteen to twenty-nine group.

H.W.: I hadn't seen that.

Mr. C.S. BELL: That is the general understanding with the draft boards.

H.W.: Is it a fact?

Mr. C.S. BELL: No. Nothing has been published on it, but we checked the draft boards and when they go over thirty to thirty-three, then it is, because their lists are exhausted for those under thirty.

Now, we have deferred that class in the past.

H.W.: Well, I think that until we change that--after all I changed my sights to nobody under thirty.

(Secretary signs letter to Mr. Roland A. Folk.)

H.W.: You will have to go to General Hershey and find out.

Mr. GATTON: I think we need those men as badly as we need plate printers, and we can't get them.

Mr. C.S. BELL: A career man resigned in New Orleans.

(Secretary signs letter to Mr. Victor L. Gicquel dated March 18, 1940.)

H.W.: I would go to Hershey and find out.

Mr. C.S. BELL: We are trying to work that policy with Selective Service now. They don't have it all formulated. It will be soon.

Mr. Goldbaum of the Washington Labor Canteen wants to hold dances on your south patio throughout the summer on Sunday nights. I'd like your permission to turn all of the dances down but the Stage Door Canteen one night a week, Saturday, on the grounds that it might be disturbing to the White House to develop this area into a Coney Island throughout the summer.

We have had many requests from the Army, Navy, and labor organizations.

H.W.: You feel you can't handle the situation?

Mr. C.S. BELL: It will get out of hand, sir. We have had some difficulty. This is a very managed organization, the Stage Door Canteen. They do what we tell them to do. All of their girls have been checked by the FBI. There is no chance of secrets being exchanged when they dance with the boys, and we are a little hesitant to let other organizations come in.
H.W.JR: I will tell you what I would kind of like you to do. I would like you to talk it over with Mrs. Doyle. You know, I went around, I think it was, to thirteen different places on a Sunday night in Washington, and there was one place—and she will know it—a great big red brick building only for Negroes. I think it was a Negro Y.M.C.A. I am not sure, but there was one place we went—you ask her—which was only for Negroes, and it was beautifully handled. Now, the possibility of letting them have it one night a week—

MR. C. S. BELL: You might get that same organization. We have some colored requests. They don't specify colored, they want a combination.

H.W.JR: This is entirely colored.

MR. C. S. BELL: Yes, sir.

H.W.JR: She will know. I haven't got the list, but it was entirely Negro. It was a big brick building.

MR. C. S. BELL: I will check.

H.W.JR: I think it is the Young Men's Christian Association; I am not sure, but it is only for Negroes, see?

MR. PEEL: You won't get into trouble on segregation on Government property, will you? That is always a very touchy thing.

H.W.JR: Well, we have got it with the Stage Door Canteen.

MR. PEEL: I know, but—

MR. C. S. BELL: No, sir. We have colored servicemen coming to this dance of ours on Saturday nights, and we never have any difficulty.

H.W.JR: Talk it over with Mrs. Doyle.

MR. C. S. BELL: There is a lot in what John says on that.

MR. PEEL: They say you are Jim Crowing, or something out here.

H.W.JR: Then let's leave it alone.

MR. PEEL: That is what always happens. It is very unfortunate, but—

H.W.JR: Let's leave it alone.

MR. C. S. BELL: That is all I have.

H.W.JR: Daniel?

MR. D. W. BELL: There is a meeting of the Byrd Committee tomorrow to continue on with the manpower problem in the Government, and Civil Service will be heard. Would you like to have me attend, or is there another meeting?

H.W.JR: Would you please? No, there is no other meeting?

MR. D. W. BELL: You sent me a note as to the reparation question on the last war.

H.W.JR: Yes.

MR. D. W. BELL: The question on reparations as to who handled it during the last war—it was handled by the Reparations Committee set up by the Versailles Treaty. I can get you a complete report.

H.W.JR: Who was on for the U. S. Government?

MR. D. W. BELL: No one on Reparations.

H.W.JR: Nobody representing the Treasury?
MR. D. W. HELL: We had an observer for a while, but didn't ratify the treaty. We had no claims, except the Army of Occupation, but we did have an observer, and later on there got to be so much criticism in Congress that we even withdrew the observer.

But at the Peace Conference we had Norman Davis, who was then Assistant Secretary of the Treasury. He went over as financial adviser to the President, and also Mr. Rathbone, who was Assistant Secretary of the Treasury, was there as a Treasury representative. But after the Commission was set up we were not officially represented, but we had an observer. I will give you a complete memo of the people that--

MR. HAAS: Parker Gilbert became Adjutant General.

MR. D. W. HELL: He was not a representative of the Treasury in a sense.

H.M.JR: What else?

MR. D. W. HELL: That is all.

H.M.JR: Joseph?

MR. DuROUS: I have nothing, except that Frank and I would like to talk to you for a smile on this German question.

H.M.JR: Well, I want to see Mrs. Klots and the stenotypewoman, so if you people will wait outside, I will see you right after that. I will see you this morning.

MR. D. W. HELL: Are you seeing Wedemeyer? Richards was over Friday to talk about another settlement with China.

H.M.JR: He will be here. You come in. I am going to talk to him about this.

MR. D. W. HELL: Well, he said he had quite a long talk, and he was asking him how they should deal with the Chinese in these settlements, and he said it should be fair, but it would be awfully tough. But if they got the idea that they were putting something over on you, well, they sort of lose respect for you. He said he thought you would have to be tough on this next one.

H.M.JR: I had a few minutes with Wedemeyer over at the War Department the other day, and he said he took no interest in the thing at all. He said he raised largely on Adler.

MR. COE: Mr. Secretary, if you remember, Hurley said Wedemeyer took no interest in it, but our view was Wedemeyer would be much more helpful to us in negotiating this problem than Hurley. The Army knows what it is doing, and knows what you want.

H.M.JR: You be here, too, at eleven o'clock.

MR. D. W. HELL: Eleven today?

H.M.JR: Yes.

Now, how far did we get? To Joe? Fussell?

MR. FUSSELL: I have nothing.

H.M.JR: Eddie?

MR. BARTLET: Mr. Secretary, I would like to report that payments of sixteen million 1943 Internal Revenue refund cases were completed on March 10. You may recall that the Bureau turned over to our Division of Disbursement about the 30th of January five and one-half million of these cases, and payments on those were completed in about five weeks. We think the Division of Disbursement did a pretty good job, and thought you might like to write them a letter of commendation.

H.M.JR: That is the thing we decided to do sight unseen.
MR. BARTELT: Yes. They did this by borrowing personnel from other agencies.

H.M. JR: It was completed by when?

MR. BARTELT: March 10.

(Secretary signs letter to Mr. G. F. Allen, dated March 19, 1945.)

H.M. JR: Just before income tax day. Was the stuff mailed?

MR. BARTELT: Yes.

MR. D. W. SELK: They did a good job, put in twenty-five thousand dollars of overtime and borrowed people from other departments who worked overtime to the extent of thirty-seven hundred dollars.

H.M. JR: What else?

MR. BARTELT: That is all, sir.

H.M. JR: John.

MR. PEHLE: The Navy Committee is putting out a report on surplus property, and we are going over it in advance. It is reasonably favorable to us, but it is critical of certain things. It is very critical of the Board--the Surplus Property Board.

H.M. JR: General Greenbaum had lunch with me yesterday, and he started in on New York and you were handling it, and I happened to have your weekly report, so I showed him how the Army keeps withdrawing stuff just as soon as they give it to us, and that seemed to put a new light on the thing.

He seemed to think we were dumping stuff—that we weren't moving, and I said, 'Maybe we don't get it to you fellows.'

You had a paragraph on warehouses, and I showed him that. I said I didn't know whether we were waiting on them or they were waiting on us. Why can't you get together?

So he reminded me that New York was going to get more and more troublesome as time went on, and I said I realized it, and did he have some idea of somebody we could slip it to, Henry Wallace or somebody like that? So you might keep it in mind.

MR. PEHLE: This isn't anything that can be slipped to anybody any more.

H.M. JR: Well, I don't know.

MR. PEHLE: Not that I would be willing to have it go to anybody, but--

H.M. JR: You have contacts on the Hill.

MR. PEHLE: There will be a series of difficulties with the Hill, there is no doubt about that. It is a very difficult assignment, and there are always rumors. Things we are criticized for are not true at all, like the question of failing to deliver checks on time.

H.M. JR: Who does your press contact over there?

MR. PEHLE: That needs great improvement. We are in touch with Mr. Fussell on it.

H.M. JR: He hasn't anything to do, so--

MR. PEHLE: We are trying to locate a new man.

H.M. JR: Is that right, Fussell?

MR. FUSSELL: Yes.
MR. PHELLE: So far our press has been reasonably good.

H.W. JR: Have a talk with Pussell. I am joking, but he is an accordion and can expand. He is another one of these fellows who comes in with lots of pink and enthusiasm.

MR. PHELLE: Right. I haven't anything else.

H.W. JR: Frank, this is a letter that came to me literally. There are three envelopes, each one marked "top secret." Don't circulate it. See whether the thing is correct or not. Literally it was enclosed in three envelopes. Are you through, John?

MR. PHELLE: Yes.

MR. COE: I have nothing, sir.

MR. HAAS: I have nothing. I received your note.

H.W. JR: Yes, I didn't know they stopped sending ninety percent of the food to England. You find out, will you?

MR. HAAS: Immediately, isn't it?

H.W. JR: Immediately. That's the result of Judge Rosenman's going over there to see that the civilian population gets more.

MR. COE: I think that's a proposed allocation.
MR. BLOUGH: That's all he's got to do.

MRS. KLOTZ: How can we follow them up on Sunday?

MR. JR: I wanted it Sunday, for supper.

MR. BLOUGH: We got it, too.

MRS. KLOTZ: I thought that was a day of rest.

MR. JR: It is, but not when these fellows ask me to talk to Mr. Davis Sunday night.

MRS. KLOTZ: They ought to have their own section follow up on it. That's what they have for.

MR. W. BELL: They didn't know it. Their own section didn't know. See, what happened is Roy went back and went into a series of meetings and forgot it completely.

MRS. KLOTZ: Oh.

MR. BLOUGH: It won't happen again.

MR. JR: Well, there were two the same day. As a matter of fact, I called you Saturday night.

MRS. KLOTZ: I'm glad I was out.

MR. W. BELL: Did you get any results?

MR. JR: I mentioned it to him and he said: it seemed a little surprising and didn't pay much attention to it and he said he would talk to you about it.

MR. W. BELL: I am supposed to call him back today.

MR. JR: He wanted to know why we postponed it until after Congress adjourned, and you didn't tell me—

MR. W. BELL: It was lack of complete data.

MR. JR: That wasn't in the memo.

MR. BLOUGH: I said we were continuing studying and that's why it was postponed.

MR. JR: I don't think he wanted—

MR. BLOUGH: You wanted it limited to one page.

MR. JR: There have been a number of cases and I am going to work something out. Something is going to happen anyway.

MR. BLOUGH: I don't have anything else.

MR. LYNN: I have nothing, Mr. Secretary.

MR. JR: What's the matter with Joe? St. Patrick's Day? They were very mean to you and made you stay here and all the other Irishmen went up and had a good time.

MR. LYNN: I'm an unofficial Irishman, Mr. Secretary.

MR. GASTON: You are not in the inner circle.

MR. JR: Unofficial, North of Ireland.

MR. LYNN: I am not carrying the banner currently.

MR. JR: Mr. Gaston usually goes up there and carries it.

MR. GASTON: I was up there.

MR. JR: What kind of Irishman are you?

MR. W. BELL: He's able to get back.

MR. GASTON: I'm a St. Patrick's Day Irishman.

MR. JR: He's the kind that can walk back. A good time was had by all.
MR. GASTON: Yes, a good time.

H.W.Jr.: I never get invited to those affairs. why don't we do something for the Irish in the War Refugee Board?

Mr. FEHLE: They take care of themselves, Mr. Secretary.

H.W.Jr.: Herbert?

MR. GASTON: I don't have anything.

H.W.Jr.: All right.

March 19, 1945
11 am

Present:

Mr. Coe
Mr. Glasier
Mr. Du Bois

(Mr. Coe presented his draft of suggestion for Mr. Lubin to give to the President as instructions for Lubin to go to Moscow.)

Mr. Coe: We didn't want this Separations Commission to be a stalling device. We did not want the Lubin group to meet and stall and get buried in statistics and start wondering whether the French were properly treated and meanwhile nothing would be moving from Germany.

(Mr. du Bois presented his draft of suggestion for Mr. Lubin to give to the President as instructions for Lubin to go to Moscow.)

Mr. du Bois: I wrote up a little different one. I wonder if you agree with Point III. What else?

Secretary Morganstern: I agree to III. What else?

Mr. du Bois: Point C. It is a little more specific. The idea is the Russians have asked delivery of goods in the future. Instead of taking manufactured goods, if they are going to decide on some reparations in the future, let it be in the form of raw materials. Then you are not building up German industry in order to build up reparations.
Secretary: Apparently, I asked
the State Department for a correct copy of the London
Economist article which appeared in Saturday night's
State on reparations and they said it would come in.
I asked for the full text, this morning, out of Stettin-
ius' office. Make a note to Mr. Coe. It may come to
you.

You started to tell me about personnel.

Mr. Coe: State is giving him Lutrasinger, a senior
economist, and I gather he has already agreed. He's a
good civil servant, flexible in his views.

Secretary: Apparently, is he better than that
fellow, Dupree?

Mr. Du Pool: From our point of view, George is
not that sort of fellow.

Mr. Coe: James Rodger is on the political
side. He is head of the German Division or Central
European Division in the Office of European affairs.

Secretary: Apparently. (To also Conantey. Make
a note and tell Mrs. Moltz that when I go to see the
President, I want to take that name.)

Mr. Coe: He is talking about another man, Abbrem-
 ovitch, whom Joe thinks doubtfully of. Lublin seemed to
take in Sols' going as a certainty.

Mr. Du Pool: Did you get the impression it was
pretty definitely settled?

Mr. Coe: I just take it for granted.

Mr. Coe: He mentioned a National Income man
Wallace Emanuel, and two or three other men. Leontief
I definitely objected to. He's a white Russian and
has given various agencies a good deal of trouble. Nothing
much to be said for him.
German economic situation, otherwise its production will sink so low that there will be no chance of getting anything out of it. That's his, also State's point of view.

**Jr.** I think I will have to talk to him about hendsen myself and simply say if he wants treasury backing on this thing and wants us to look after his interests here we are prepared to do it, but if he expects us to do it and work with him, we can't work with hendsen. I will tell him that in just so many words.

**Mr. Wins:** The difficulty is Lubin talks awfully good policy when it comes to questions of what he's actually going to do and these personnel suggestions of his certainly are not consistent with the way he talks.

**Mr. Coe:** I think that's the gist of it.

**Jr.** What I had better get -- I hope to see the President tomorrow, and I am going to show him this latest draft and I think we ought to have supporting documents. I will see you fellows again at 3:15, and if White is available, have him in.

**Mr. Huns:** On the short document on reparations, do you want us to give that to Lubin?

**Jr.** I am leaving at one o'clock tomorrow. It would be good if I had some excuse to see him and say, Look, Lub, this is the thing. You are making a mistake about hendsen.

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LIMITATION OF THE U.S. HEMICET OF THE REPARATIONS COMMISSION

In deciding, with your colleagues, upon the practice and procedures to implement the Reparations protocol of the Berlin Conference, you will be guided by the following principles:

1. The Government is chiefly interested in reparations as a means of preventing Germany from waging another world war.

2. Therefore, we favor reparations to the United Nations in the form of restitution of industrial plant and equipment, especially of the metallurgical, chemical and electrical industries which are so important in the German war economy.

3. We are opposed to any reparations of a form which will require rebuilding of German industries with imported goods or which will require the United Nations to take widespread, detailed control and responsibility for the efficient running of the German economic and financial system.

4. We will compose our own claims according to the same standards acceptable to other United Nations.

5. We do not want delays in computing claims or agreeing to the division of reparations to prevent the movement of goods and equipment from Germany for reparations, restitution or war purposes.
March 19, 1945

From Dr. Louis.

His draft of suggestion for Lubin to give to the President as instructions for Lubin to go to Moscow.


draft

REPARATIONS

In implementing the Reparations Protocol agreed upon at Yalta, you should be guided by the following general principles as representing the American viewpoint in this matter:

I. The basic principle, which is controlling under all circumstances, is that reparations should be collected in such a way as to contribute to the maximum extent to carrying out our policy to eliminate Germany's war potential and make Germany economically weak.

II. Reparations should aid in rehabilitating, strengthening, and developing industries in the devastated countries of Europe as part of a broad program of reconstruction for those countries.

III. With respect to a minimum standard of living for the Germans, it should be borne in mind that the peoples in the devastated countries of Europe have priority and no policy should be adopted to maintain the German standard of living above that of any other country of Europe.

In accordance with these principles, you should press for a program embodying the following specific objectives:

A. To the maximum extent possible, reparations should be taken from the national wealth of Germany existing at the time of collapse, including the removal of industrial machinery, equipment and plants, particularly the metallurgical, chemical and electrical industries; the removal of existing stocks of raw materials and consumers goods; and the confiscation of all German assets abroad.

B. A formula should be devised designed to permit such removals to start as soon as possible and to be completed in the shortest possible period of time. These removals should not be delayed merely because no final decision has been arrived at as to what the ultimate German reparations burden should be.

C. To the extent that reparations are collected in the form of deliveries of goods over a period of years, such goods should be of such a nature and in such amounts as not to require the Allies to take any steps designed to maintain, strengthen or develop the German economy. Thus emphasis should be placed on natural resources, such as coal, metallic ores, potash and petroleum.
3/15/45

Secretary Morgenthau (Urgent)

Mr. Coe.

This is for your 2/15 meeting with Stettinius et al.

German Subcommittee Proposal

There should be one major subcommittee set up immediately to advise on German policy documents and coordinate for the cabinet group the documents which go into or come from the various Inter-Allied Commissions, such as the Moscow Reparations Commission, European Advisory Commission, Control Council, etc. This group should be headed by someone of the level of Mr. Dunn or Mr. McCloy. It should refer to the top committee all major policy matters. It should undertake to see that the U.S. documents put into those commissions are properly cleared and agree with Crismer Conference policy and basic U.S. policy.
March 18, 1945

Memorandum for the Files

I had luncheon today with Lubell, Assistant to Baruch, during which we discussed the problem of the treatment of Germany and in particular the question of reparations.

During this conversation Lubell made the following points:

(1) As far as he could tell Baruch was in general agreement with Secretary Morgenthau on the treatment of Germany, and as far as he could gather the President was also in agreement.

(2) There were forces in the State Department which were obviously greatly opposed to the Treasury viewpoint.

(3) The reparations protocol is being interpreted as being inconsistent with the Treasury program. Lubell, however, agreed that the reparations document could be interpreted in such a way as to be perfectly consistent with such program.

(4) Lubell had seen the reparations document and said that on Saturday, March 17, he was going to the State Department to examine the records of the Yalta Conference.

(5) He indicated that if the British and Americans could get together on the treatment of Germany it would then be easier to bring the Russians around.

(6) I questioned him as to what he meant by bringing the Russians around. I pointed out that if he was talking about getting the British and Americans to agree on the program to which he said Baruch was in favor of, it was not my understanding that the Russians would have to be "brought around" on this.

Lubell replied that he had gathered that the Russians were not willing to go as far as the United States, although he had not seen enough to be sure of this point of view. I pointed out to Lubell that there were various documents floating around, particularly O.S.S. documents, purporting to represent the Russian point of view without any basis whatsoever.

Lubell requested that if possible we should make available to him information on the following points:

(a) The industries we desired to see eliminated in Germany and the industries we would permit.

(b) An estimate of the amount of reparations that we might expect to get from Germany in kind over a period of years and also if possible an estimate of the value of equipment which might be taken out of Germany immediately.

(c) Figures on industrial and agricultural employment in Germany prior to the war and an estimate of the industrial and agricultural employment in Germany under the Kogenthal Plan.

(d) A memorandum showing why Europe is not dependent on Germany.

(e) Some indication of the amount of industries and farm land in Germany divided in accordance with the occupation zones.

(f) Some indication of the viewpoint of specific individuals in London on the German question.

Josiah E. DuBois, Jr.
March 19, 1945
11:00 A.M.

Operator: Mr. Lubin is out of town until this afternoon. His secretary is on the wire.

MMJr: I'll have to talk to her.

Operator: All right, Mrs. Page.

MMJr: Hello.

Mrs. Page: Hello.

MMJr: Mrs. Page.

P: Yes.

MMJr: This is Morgan. Speaking. I suggested the possibility of Mr. Lubin coming over to my office tomorrow when Mr. Mc Coy was coming. You may know about it. Mr. McCoy sort of felt that if we all got together the State Department might feel that we were getting up on it. Hello?

P: Yes.

MMJr: Makes you laugh, doesn't it?

P: Yes. (laughs)

MMJr: So he is worried about it. So you tell Mr. Lubin we'll continue to work with him and give him everything we've got, but I can't control anything but the Treasury.

P: All right. Fine, I'll tell him that.

MMJr: Tell him I'm sorry, but that was the message that I got from McCoy.

P: All right, I'll pass it along to him.

MMJr: Tell him I'm sorry.

P: Thank you very much.
March 19, 1945
2:17 p.m.

W.E. McMorris: Hello, Mr. McMorris. I had a very satisfactory talk with Senator George, and I would say that he is about 90 per cent for Dr. Wise. In fact, when he left he said, "I'm going to say something nice about Dr. Wise." Now he thought it would be nice if I talked down there, but he didn't think it was really necessary. Hello?

W.E. McMorris, Jr.: Yes, well, I don't say it is necessary myself. I just say we would like to have you down here.

W.E. McMorris: Yeah. Well, I'll tell you. He said this, and I want to ask you about it. He said he was in touch with Frank Nash. Hello?

Me: Hello.

W.E. McMorris: And I said, "Mr. Nash?" How he's -- what is he, the chairman of your Board?

Me: Yes.

W.E. McMorris: -- and he seemed to think that Mr. Nash was very much for Dr. Wise.

Me: Well, he is now -- he's talked about it here. Now, Mr. Nash hasn't gone far enough into it himself to understand a whole lot about it --

W.E. McMorris: Well, here's what I've got in mind and I'm going to have to write a couple of letters. I hope to get off quietly for a little rest of the night of the 26th, see? Hello?

Me: Yes.

W.E. McMorris: And I want to talk some more to our people. I'd like to come to Atlanta, but I just can't see my plans more than a week in advance. See?

Me: Yes, I understand that.

W.E. McMorris: And before I go away on the 26th, I will give you another ring.

Me: All right.

W.E. McMorris: Now the Senator thought that something like the Chamber of Commerce, or the Junior Chamber of Commerce might be better than the League of Women Voters, although he said the League of Women Voters had a lot of influence down there.

Me: Well, of course, I'm sure that there wouldn't be any trouble of getting the Chamber of Commerce and the Junior Chamber of Commerce to collaborate on the meeting.

W.E. McMorris: With the League of Women Voters?

Me: That's right.

W.E. McMorris: I'm partial to the League of Women Voters because they have done a swell job for us.

Me: Well, I am too, because my wife happens to be one of the directors.

W.E. McMorris: Wonderful. Well, towards Friday or Saturday I will call you again.

Me: That will be fine.

W.E. McMorris: And --

Me: I know how you are pressed for time and everything with the hearings going on and everything, but I just thought if you could find time to stop down here, why we'd be glad to have you.

W.E. McMorris: Now, another thing the Senator said, evidently Mr. Nash has quite a bit of influence with him. You'd know that better than --

Me: Yes, I know it.

W.E. McMorris: So then I would.

Me: Yes.

W.E. McMorris: We will be down there himself as late as the 12th of April. Hello?

Me: Yes.

W.E. McMorris: Down at Vienna I think, as you call it. And I said if I come, I would only come if he would come, and he said he would come himself.

Me: Yes.
March 19, 1945
3:15 p.m.

APPOINTMENTS

Present: Mr. White
Mr. Dubois
Mr. Glasser
Mr. Joe
Mrs. Klotz

H.M.Jr.: Sit down. How did Acheson do this morning?

Mr. WHITE: Very well, extremely well.

H.M.Jr.: Shall I call him up?

Mr. WHITE: Yes. Do you want any of the details? I wasn’t there.

H.M.Jr.: Who was there?

Mr. WHITE: Luxford and Bernstein were there.

H.M.Jr.: What is this?

Mr. COE: This is the document from you to Stettinius regarding the draft directive.

H.M.Jr.: Yes, I am going to use it when I see the President. (Secretary reads draft of Memorandum for the Secretary of State.)

This is the thing I would like to give you, which is in the opening paragraph, if you people are going to agree, and that is I am not going to use it in the language here. I am going to talk, but I would like to say in the opening paragraph: “I am assuming that a decision has been reached on the dismemberment of Germany, and if my assumption is correct, then it just doesn’t make sense that directives, or whatever you want to call them, have been drawn up which proceed to reconstitute the German empire during the occupational period, looking forward knowing that eventually
Germany is going to be dismembered." In other words, why first rebuild the empire if you know you are going to dismember it? Now, if this assumption is correct, then this directive, and I take it that the people in the State Department know whether there is or is not going to be dismemberment, but I am assuming there is, then this directive they have drawn up is absolutely—well, I was going to use the word vicious, but I can't use that, see, but I would like to argue with you on this.

Mr. WHITE: Unless you know it is going to be dismembered, that is a dangerous attack to make. It may be better to say—unless you know it is, but if you don't know that that step has been taken, maybe it might be better to say, "Inasmuch as no decision has been made, whether or not dismemberment is to take place."

H.M.Jr.: Supposing I am on pretty safe ground?

Mr. COE: Then, that's the thing.

Mr. DuBois: There is some evidence to that effect in the letter Taylor sent us.

H.M.Jr.: Don't question me, but—

Mr. WHITE: Take that assumption.

H.M.Jr.: But supposing I am on pretty safe ground?

Mr. WHITE: Then what follows is absolutely logical.

H.M.Jr.: Then I am also on pretty safe ground to say that I know these two sons-of-guns who wrote this thing knew there is a pretty good chance that Germany was going to be dismembered. Now—

Mr. WHITE: Then, even if you know that they were, I still think it would be better to say, "So long as there is a chance that it will be"—putting it that way rather than the other, then I think you are quite right, so long as there is a chance.

H.M.Jr.: You see then anyway—I mean, I didn't get the language, but I want to get this thought over to you people.

Mr. WHITE: Sure, if there is going to be any dismemberment.

H.M.Jr.: Then these two people, why in the face of this knowledge they proceeded to set this thing up to reconstitute the German empire with strong central control—

Mr. Glasser: That's sabotage.

Mr. WHITE: That includes also the coal mines and the German Reich—

H.M.Jr.: German Reich?

Mr. WHITE: It means the same thing but sounds a little better.

H.M.Jr.: But I wasn't trying to use language—don't let's stumble on words; it's a very fundamental idea. I hoped to have had lunch with the Russian Ambassador. (Laughter) Am I saying anything?

Mr. DEI: No objection.

H.M.Jr.: Have I said anything?

Mr. WHITE: I haven't heard it.

H.M.Jr.: Okay. And these fellows I happen to know, know and we weren't told the truth. I am told that Middleberger saw the minutes of Yalta before he drafted this thing.

Mr. Glasser: Mr. Secretary—

H.M.Jr.: Now, just a second. The other thing I want to do is this, and I have an appointment with the President tomorrow. I asked Stettinlus—I was dumb. You spoke
to me you know and said, 'Try to get--' wasn't it you who told me about this fellow going over there and I wouldn't do--it was stupid. Well, I am overtired and I did a very stupid thing. I called Stettinus and asked him whether I could see these things. 'If you are going to show them to a man like this, Baruch's man, Lubell, why will you not show them to your kind?' I mean, I am overtired. I have been tired for two or three days now. I said I wasn't going to do it and he turned me down and said I should go to the President, so I am turning the stupid thing--making an opportunity of it, and I am going to show this to the President tomorrow and transmit it to Stettinus through the President. I am going to capitalize on it and write an explanatory letter to Stettinus and say, 'You sent me to the President, and I have gone to the President.' He said, 'You go and ask the President. The thing is locked up in the safe. I can't give it to you.' I said, 'The Secretary of the Treasury can't see it, but Mr. Lubell can see it.' I mean, I know I did a stupid thing. I told you I didn't want to do it, you know.

Mr. DuBois: I am not saying--I don't think it was necessarily stupid. It is amusing to me that Lubell can see it and Stettinus tells you that you can't, which is inconsistent. Incidentally, Mr. Secretary, I don't want to raise too many doubts on Stettinus' dealings with you, but he told you before--the day before--that all they were doing was talking to Lubell, and not giving him any documents. Lubell told me he gave him the repentations document and told him to come over and look at the records. So, Stettinus isn't dealing with you above-board.

H.M.Jr: Well, he is my white-haired hope, so I have to hang on. But anyway, I would like some advice now, having told you my approach to the President, and I want to give this to him direct and--put this thing in when you get it.

Mr. White: Well, I think--

H.M.Jr: The President knows--

Mr. DuBois: Will this be a memo to the President now?

H.M.Jr: No, I am going to leave it just this way. My thought is just this way, but if the President wants to send it over to Stettinus--I talked to him and he said he couldn't tell me what it was. His hands are tied. So, I want to show it to you and ask if this is all right in view of what happened at Yalta, and I don't know what happened at Yalta, so I am showing it to you, Mr. President. I think it is damn clever, if you ask me.

Mr. White: That's kind of an open battle with Stettinus. I am not saying it is bad.

H.M.Jr: Stettinus told me to go to the President.

Mr. White: To find out what was done, and said you should go tomorrow and tell him and give him this memo.

H.M.Jr: Stettinus turned me down and said, 'You have got to go to the President,' so I don't know--maybe if my opening sentence is incorrect, the whole thing is no good.

Mr. DuBois: Of course this memo is one hundred percent sound.

H.M.Jr: I know that. The President already knows all about this because I know who has approached him. So he has been completely informed, and the people who approached him are wholly on my side. As far as Stettinus is concerned, I am going to write him a letter and simply say, 'Dear Ed: You wouldn't tell me and you told me to go to the President, so I took this memo to the President, because he is the only person who can tell me what happened at Yalta. So, I took the memo to him to find out what's what.' Ed is scared to death on this thing because he is absolutely wrong.

Mr. DuBois: If you are going to the President, I suggest, for consideration, instead of doing it that way, to have this memo for the President and a letter to Stettinus saying that in light of what he has told you.
to do, you have delivered this memo to the President, and here is a copy of it, and let the President have it.

Mr. WHITE: I think Stettinarius has to realize this--I am just speaking aloud--that either you treat you as a person and give you what he has available or you go to your Chief, and here is a clear illustration. Now, I do think that this will anger Stettinarius, but I say--

H.M.J.R: So what? There is too much at stake to worry.

Mr. WHITE: I think their relations with you and their willingness to cooperate with you spring chiefly out of fear. I mean, if, for example, for some reason or other the President would decide with them and say, This is some of Henry's affair, you wouldn't get past the front door on any of these things. So, you are taking the bulls by the horns and fighting the issue.

H.M.J.R: Do you mind making it singular?

Mr. WHITE: The bull by the horns?

H.M.J.R: You said--

Mr. WHITE: Bulls by the horns. To-ma-toes, to-ma-toes.

H.M.J.R: Just so long as you get it correct.

Mr. WHITE: That's what I think because--in other words, I think that if you are in a position where they feel they can't fool around with you, and withhold, and doublecross you--there is a constant series of blocking and manipulating.

H.M.J.R: Look, Harry, this is clever. I only thought of it here. The thing is addressed--if you will look up the thing, the President of the United States asked me to cooperate with Stettinarius to carry out and supplement Yalta, so this thing should be addressed to Stettinarius and not the President. I am certainly going over there and look to the
H.M.Jr.: On the assumption of this dismemberment.

Mr. COE: But also on the--

Mr. DUBOIS: This is one hundred percent sound even without that assumption.

H.M.Jr.: Yes, but you see it gives me--these people knowing whether there is or isn't dismemberment--it makes it difficult to fly in the face of that.

Mr. DUBOIS: It strikes at your case.

H.M.Jr.: And they know there are going to be difficulties in dismemberment. Let's assume there is going to be dismemberment. They know that, and in spite of that they don't give up the fight, and I want to put it to the President, "I am simply upholding your words, knowing there is going to be dismemberment, and everybody is going to try to double-cross you." That's what I want to say. It makes me so mad, I think the President should fire Jimmy Dunn and two or three other fellows.

Mr. DUBOIS: There is no question about that.

H.M.Jr.: It is one of the most vicious things I ever heard of. That's why I want to bring it in this dismemberment business.

Mr. WHITE: By bringing in dismemberment it should be brought in among other things.

H.M.Jr.: I have to bring it in because that is why I have to justify to Stettinius that I went to the President.

Mr. DUBOIS: We stuck this in on the last page--dismemberment.

H.M.Jr.: I want to say, "You told me," to the President.

Mr. WHITE: Did you ask him that specific question?
MR. DuBOIS: You could even say it differently. You could say, "The attached memo I have read to the Secretary of State. It is sound even though there wasn't a decision on dismemberment, and if there actually is a decision on dismemberment, then it is not only sound, but in effect it is a vicious thing what they have done." That's the idea.

H.M.JR: That should go on one page. Now look, boys, what I want to take to the President is that memo when we exploded that so-called handbook, and say, "Look Mr. President, I brought you that and you used that at the time-" and what I gave him were the pertinent facts which were in the handbook which he used as a basis for a message to Stimson.

MR. WHITE: You might do the same thing and take some of the phrases out of this.

H.M.JR: Remember, I took that and he used it as a basis, and it was that which Drew Pearson got hold of and published. Remember, I said here are some of the bad things?

MR. WHITE: That's right, and you might take some of the things here. Of course, that is what this does, but it does it in a more voluminous fashion. It's got to be done on a--

MR. COE: I was trying to get at the same thing, whether essentially what you need isn't a one-page memo which will tell the President that again they are producing documents which run counter to his policies, as you know them.

MR. WHITE: And add toward the end, "Further, if the question of dismemberment has not been decided on, or the decision is still open, then the document is not only a violation of something which is in accord with your policy, but it becomes a vicious obstacle."

MR. DuBOIS: An attempt to sabotage.

H.M.JR: I have thrown there at you--I think Frank's suggestion that we give the President a one-page thing is good, see? I want you to take a look at the thing Harry gave me when he came back, on which we appealed the handbook, which did the trick. I don't know--this is too voluminous, see? Now--

MR. WHITE: This should be--I am questioning the document that should go to the Secretary of State.

H.M.JR: I am not arguing about that, but how to present it to the President. If you give it on one page, the President might say, "Henry, I want more of it," and I can say, "Here, Mr. President, here is more."

MR. WHITE: Is Stettinius in town?

H.M.JR: No. Let me just see--has he ever presented 1067 to Winant?

MR. DuBOIS: No, Winant has never presented it to EAC.

H.M.JR: EAC?

MR. COE: European Advisory Committee.

MR. WHITE: Are you sure it wasn't sent over sometime?

MR. COE: We heard that from Taylor.

MR. DuBOIS: We got it that they didn't present it to EAC because their argument was inconsistent with yours. Even before your letter, somebody showed them a document over there, the document that Henderson showed to us, and on the basis of that even, this stopped presenting it to EAC. They have just stopped that thing cold, Harry, right here. They never moved on it.

H.M.JR: I have fifteen minutes. Let me take time to read it because the last thing--the conclusion is much too crude. I mean, that is awfully crude language.
H.M.JR: I don't like page six at all. It's too--this whole page six. The draft directive of March 10 should, of course, be withdrawn in toto. You can soften it up, Harry. It's my opinion that--

MR. WHITE: Yes.

H.M.JR: Page six--you can say the same thing in different words.

MR. WHITE: Yes, I am reading it now.

H.M.JR: Let me read the other.

Well, as to B on page three, I have been advised you have got to—that they thought that we should build up German industry in order that they can pay reparations, see? I have been absolutely assured on that point, but quite the contrary, they want the thing in kind. I mean, I asked, do you want to send over dynamos and electric generating machinery to build generating plants to furnish electricity to build stuff we can furnish you with, and they said absolutely no. They will take it in kind.

MR. WHITE: When you say in kind what you mean is they will take what there is.

H.M.JR: What there is, and there is plenty. But I have been definitely assured on this thing. I get around and I have had another very good pipeline besides this one. I have two. I'll check with them. I think that some way, Harry, if you could have some startling sentences showing the new directive, how it completely opposite it is from 1067, see?

MR. WHITE: I didn't think you needed that for the statement.

H.M.JR: I am talking of the President. Just a few things to--

MR. WHITE: All you need is two.

H.M.JR: Just a few things to wet his curiosity in the conclusion. I have to do something like this, Frank, something like this has to be said.

MR. COS: Yes.

H.M.JR: May I respectfully suggest that a mistake has been made, or something—it is my firm belief that the knowledge at my disposal that 1067 as it stands not only expresses the President's wishes as to how Germany should be treated, but also it is completely carrying out the spirit of Yalta, see? Now, I think you ought to go back to the letter where the President asks me to help implement Yalta.

MR. COS: We haven't that. We'll get it, though.

H.M.JR: What do you mean you haven't got it?

MR. COS: I don't believe you turned that over to me.

H.M.JR: I think you are wrong. That's where they caught me and I think we can quote from that.

MR. WHITE: You are wholly right. You have made your case strong, and the rest of it—what you want in the conclusion is a sentence as to how it fits in with what has been a specific request, and it is my belief, and so forth.

H.M.JR: I think, referring to the President's letter asking me to assist him to implement, I feel, boom, boom. Now, so that they can't say, "What right has Morgenthau got?" The President asked me to assist at this. Okay, I'm going to assist. That should be on page six.

MR. COS: We can do that.

H.M.JR: This is a memo I might send Joe DuBois, page six, or he might send me. (Laughter)
Mr. WHITE: Only one thing occurs to me, and that is if Stettinius is not here, I am wondering whether you go over, you don't just telephone to whoever is Acting Secretary of State, and say, 'This is what I am going to do,' and do it.

H.M.JR.: I don't know.

Mr. DuBOIS: I wouldn't do that.

H.M.JR.: Grew doesn't know. In the first place--all right, I am going to do what you suggest, but Grew is in Boston and Achaseon is Acting Secretary until Tuesday night.

Mr. DuBOIS: Don't leave yourself open.

Mr. COE: Achaseon knows nothing about it.

H.M.JR.: And Grew has to go to school, too. He knows nothing about it. My excuse, which I will put in writing, is he referred me to the President and I went to the President, and I want to say, 'Dear Ed: In view of the fact you wouldn't give me any information and referred me to the President, I want to the President as you suggested and showed him this document to make sure there weren't some secret information which I was flying in the face of. Therefore, I went to the President as you suggested.'

Mr. WHITE: Not that 'You wouldn't give me any information,' but, "You wouldn't give me information with respect to vital--"

(Miss Chauncey enters conference temporarily.)
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MR. WHITE: Why don't you give it to him while he is here and let him read it?

H.M.JR.: I guess that's right.

MR. O.S.: Don't let it get away from here.

H.M.JR.: I think you are right. Give him a copy and everybody over there will get a copy.

MR. WHITE: The first thing he would do is make copies.

H.M.JR.: I am not going to tell him I am going to see the President.

MR. WHITE: He will agree wholeheartedly with what you have here, I think.

H.M.JR.: I told him, "You know it was Jimmy Dunn who gave this thing to Stettinus in the first place." He said, "Jimmy Dunn--well, I can't believe that. I have lived with Jimmy Dunn for years." I said, "I don't know how long you have lived with him. I only have Stettinus' word for it."

MR. WHITE: The history of the episode of this thing would be unbelievable.

H.M.JR.: Oh, things come out. The War Department had this thing as far back as a week ago, Monday.

MR. WHITE: The War Department had this information?

H.M.JR.: Monday a week ago they had it, but McCoy only got excited with me. I think it was Thursday.

MR. WHITE: If there would be an opportunity in talking to the President to--I suppose you are implying it--but to say that apparently there is a deliberate attempt to sabotage your program somewhere down the line and this is the second time you have caught it--I mean, if you can get that in, then he might take a definite

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step about saying he wants you in on it. Make that clear, and from then on--and it will teach the other fellows a lesson. The next time they won't do it.

(The Secretary holds a telephone conversation with Mr. McCoy, as follows:)

Regraded Unclassified
HNJr: I haven't heard from your secretary --

John: About tomorrow.

HNJr: Yeah.

HNJr: Well, I was trying to get hold of Roswell to find out whether he was coming over here tomorrow for the usual talk he has with the Secretary once a week, and I hadn't been able to reach him.

HNJr: Oh.

HNJr: But even though he doesn't come, probably he won't come because Stimson is out of town.

HNJr: Oh.

HNJr: I can be there at nine o'clock anyway.

HNJr: Good.

HNJr: I'll be there at any event at nine o'clock.

HNJr: How our document is ready.

HNJr: Oh, good.

HNJr: And I'll show it to you.

HNJr: Good, fine.

HNJr: Have you got it?

HNJr: And I'll show you what we've got. We'll have it ready by tonight. It's got something but they are making changes on it now.

HNJr: Well, my boys are making a few changes too.

HNJr: Yeah.

HNJr: They are putting a little diplomatic language in it.

HNJr: (laughs) Well, we'll have something in the morning.

Me: Fine, then we'll ---

HNJr: I think you've got a -- I understand you're going to talk to the Chief. I think it is awfully important to.

HNJr: I'm going to talk to the Chief.

HNJr: That's what I heard.

HNJr: Were did you get that from?

HNJr: Somebody -- I guess it was my secretary, wasn't it?

HNJr: Well, I said I had an appointment with the President.

HNJr: Oh, that was it. Yes.

HNJr: Yeah.

HNJr: Well, that's what I mean.

HNJr: Yeah.

HNJr: You're going to talk to him about this, aren't you?

HNJr: Well, -- we'll see.

HNJr: Okay, all right. Well, I'll be there in the morning.

HNJr: The answer to you is "yes."

HNJr: All right (laughs)

HNJr: God damn it.

HNJr: We should you know.

HNJr: What?

HNJr: We shouldn't let this get by. The more I think about this thing the more outrageous it becomes in my mind.

HNJr: The more I learn, the more I -- I'd go further, I think it is absolutely vicious.
Mo: Well, I do too.
HHJo: And the position I'm taking all comes up to one thing.
Mo: Yes.
HHJo: Leave 1067 as it is.
Mo: Well, the more I hear of it, the more it's atained — the more I think it's a sound document.
HHJo: At least that's our approach.
Mo: Yeah.
HHJo: We've got a brief here which all leads up to, to leave 1067 —
Mo: It is?
HHJo: Yes.
Mo: Well, I'd be very interested to read it.
HHJo: Now, that's our whole approach.
Mo: All right. Right, O.K.
HHJo: Bye
Mo: Bye.
(Laughter)

H.M.Jr: Boys, I think I am slipping.

Mr. Coe: I think these fellows are pretty fast in putting one and one together, or two and two together.

H.M.Jr: No, I’ll tell you what I did. I have to see him at nine o’clock because I am going to see the President. That’s all right. We have some very powerful allies on our side. The President told Stimson he had never seen this thing. You know that. Stimson went to him and asked him about this thing. Sure, the President completely disowned it. The President said, ‘I can’t remember if I signed it. I have no idea what I signed.”

Mr. White: This is the same pattern we went on before. Before they tried to slip something through without getting any okay from the President. Now again they are trying to slip something past him.

H.M.Jr: I’ll say to Stettinius he has the decency to admit he is so tired—

Mr. White: This is not the document that relates to administrative detail within the department.

H.M.Jr: This is the new thing.

Mr. Coe: We will hand Lubin a draft on reparations.

H.M.Jr: I have three minutes. Have you seen this, Harry? (indicating memo on reparations, attached.)

Mr. White: Yes.

(Mrs. Klotz enters conference.)

H.M.Jr: What’s this about recurring reparations should be as small as possible?

Mr. White: Well, it was my thought that the total recurring reparations should play the smaller role. It was the agreement of the boys that it should play the get—this is the reparations each year—the more you have from whatever exists there, if there is going to be any kind of total reparation as I gather there is, there are a number of reasons for that. I think that is amount and extend it over years instead of making it very large.

H.M.Jr: This is very good. There is just one thing here which I think you could add. Under two and developing industries in the devastated countries of Europe as part of a broad program of reconstruction for these countries, if you could say something like, “To assist them to regain their export market.”

Mr. White: That’s right.

H.M.Jr: Do you agree, Harry?

Mr. White: Yes, it is very important in the case of England.

H.M.Jr: Yes, it is very important in the case of England.

Mr. White: See, with that suggestion—

Mr. DuBois: Do you think we might want to wait?

Mr. White: “To assist them and England”—because England is not devastated, “to assist them and England to regain their export market.”

Mr. DuBois: Do you think before we give that to Lubin we might not wait until you have seen the President?

H.M.Jr: Yes, Lubin is in no great sweat.
Regraded Unclassified

At dinner, I just heard that it was going to be very difficult to get the F.D.R. to see the Secretary of the State Department. He is supposed to be here at three. I asked the State Department whether he would see me and they said yes. I am to go to the State Department at three. I am also supposed to see the Secretary of the State Department, the Secretary of the Treasury, and the Secretary of the Navy. I am not sure if I will be able to see them all. It is possible that I will not be able to see all of them.

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the Allies to take any steps designed to maintain, strengthen, or develop the German economy or to develop a dependence of other countries on Germany after reparations cease.

Thus recurring reparations should be:

1. As small as possible, in relation to the reparations under A.

2. Primarily in the form of natural resources, such as coal, metallic ores, timber and potash.

3. In as small annual amounts as possible.

4. Over as long a period of years as possible.

5. Arranged to taper off toward the latter part of the reparations period.

D. We are opposed to any reparations program which, for its achievement would require the United Nations to take widespread, detailed and continued control and responsibility for the efficient running of the German economic and financial system.

FAX-PRESS:

Present: Mr. D. W. Bell
Mr. Gaston
Mr. White
Mr. Sheaffer
Mr. Hough
Mr. Fussell
Miss Channey
Mrs. Klotz

R.W.Jr: Mr. Fussell, do you have anything?

R.W.Jr: Mr. Sheaffer?

Mr. Sheaffer: Just maturities.

R.W.Jr: I am waiting on Ben Bell. (Laughter)

Mr. Fussell: I think they have all seen the CED report and will ask questions about it.

Mr. White: That is all right. You haven't seen it today.

Mr. D. W. Bell: It hasn't been released. It was just released at four o'clock.

R.W.Jr: We have no real news for the boys.

Mr. White: John Crider may ask you some further questions about it. He has precisely the right interpretation of it, as I read the CED report. It is complete endorsement of the Fund and Bank.

Mr. D. W. Bell: We isn't cut there. It might be a good thing to call them off today and let them go to CED.
H.N.Jr: Are there many out there?

Mr. D. W. Bell: Eight or ten.

Mr. Whitm: Could the Secretary say that the group who constituted the CPO Committee are splendid forward-looking businessmen and he is interested in seeing the kind of report they put out because he knows it will be constructive?

Mr. D. W. Bell: Knowing they are coming out for it--

Mr. Sheppher: We will have a press conference report from them eventually.

Mr. D. W. Bell: Are you going to tell them you will have maturities this week?

H.N.Jr: No, the telephone still works.

Mr. D. W. Bell: It will be this week. The market is waiting on you, and you are waiting on the market, so someone has to outwait the other.
March 19, 1945
4:12 P.M.

Miss Tully: Hello.
Operator: Miss Tully, Mr. Secretary.
Miss Tully: Hello, Mr. Secretary, how are you, Stan?
Mr. Secretary: Grace, I'm awfully busy, I can't takeJulian out to tea.
Tilly: (Laughter) You can't go steppin'. Ah, I'm surprised.
Mr. Secretary: You'll have to get some other bird.
Tilly: (Laughter) That really is a shame.
Mr. Secretary: Yeah.
Tilly: Mr. Secretary, the President has a letter from General Pershing that came from our old friend, Louis Nagel. Do you remember Louis Nagel, the headman of the Navy warship who worked for you one time?
Mr. Secretary: Very well. Tilly.
Tilly: Well, he's now in Chicago with the Herald-American, and he sends the President a telegram and he says, 'With reference to your proclamation of May 20th, I Am An American Day, we hope in Chicago contribute our part in gigantic Soldier's Field, with which you are well-acquainted. As you know, the nation generally considers the Associated Press caption of the Mariner raising the Old Glory at Mt. Suribachi, the greatest picture of the War to date.'
Mr. Secretary: Yeah.
Tilly: 'Since the 7th War Loan Drive will be on in May, and because we believe it will be one of the most striking things we in Chicago could do an "I Am An American Day", I would ask that you urge the men who enlisted that flag returned home to participate in the Soldier Field program, and to make bond-selling appearances.'
HMFR: Yep.

T: All right, fine, because I know that when you launch your War Bond Drives, that you make your own arrangements, and I know you have had some, because you have had them over here at the White House. I know that you do that very often, but I didn't want to --- but the President didn't know whether you had other plans, or whether you would be interested in having them, and I don't know that he actually approved, but he told me to check, and I'm just letting you know to get your reaction.

HMFR: What I think we ought to do is this: we're opening it on --- I think it's May 16th.

T: Yeah.

HMFR: What is the day Louis has?

T: He just says "will be on in May", he doesn't give any date.

HMFR: Well --- we asked for --

T: Well, for May 16th, for the "If An American Boy". That's when they would want them out in Chicago at Soldier's Field.

HMFR: Well, and I think that if the President would order them out back---

T: Yeah.

HMFR: I asked the President would he again help us open the Drive, and he said he would.

T: Yeah.

HMFR: And I think that those boys ought to make their first appearance with the President.

T: Yeah.

HMFR: On the 13th --- evening ---

T: Huh?
Yeah.

T: All right, Sir.

HMJr: Grace, I asked Hasset whether you could have the first appointment with the President tomorrow—

T: Yes.

HMJr: He said I was down for an appointment.

T: Yes.

HMJr: But, you might kind check it.

T: All right, sir.

HMJr: Because, I told him I was leaving on one O’clock train—

T: Tomorrow.

HMJr: Yes, and last time I had a ten minutes to 12 appointment, and I got in at ten minutes to one.

T: I’ll have — that’s the way they have been running here. He didn’t come over until 10 minutes to one today, and he had an appointment for 12. (laughs)

HMJr: Oh, I would — if I could get in — you might, just, you know.

T: Yeah.

HMJr: You have ways.

T: And make it the first appointment so that you can get away for your train. All right, sir. I will follow through.

HMJr: And this is — I’m delighted.

T: Right, Sir.

HMJr: Thank you.

T: All right, Mr. Secretary, goodby.
Al: (Cont) questioned me a large part of the morning. But I can't think that he was not really being difficult - it would be out of the way, and not subject to debate on the floor.

MMJr: Sometimes when you catch your breath this week, Senator Walter George was in to see me and he has the same question as also about these loans - too many blank checks all over town.

A: Yes.

MMJr: If you are up there sometime this week and could drop in on him, I think it would be very useful.

A: Well, I've got to go to California tomorrow night.

MMJr: Oh, that's right. Well, when you come back.

A: Yeah.

MMJr: He's for Bratton Woods.

A: He is.

MMJr: He's all right, but the thing that's bothering him is all the apologists that, as he puts it, can draw blank checks. Hello?

A: Yes, sir.

MMJr: So sometime when you come back, if you have a - if you are up there, I think it would be helpful if you would drop in.

A: First chance I will, and I'll have a talk with him.

MMJr: And he's all right on Bratton Woods.

A: Oh, well, that's--

MMJr: He has just got this overall worry.

A: Well, we'll try to calm him down. You didn't hear that every breath I bed with Bob East on Saturday night, did you?

MMJr: No, I didn't hear it. I went to bed early.
NM3r: I sent it over, I think it was Friday night. I don't know who was acting on Saturday. Another --
A: I was but it didn't come to me.
NM3r: Questions are there -- they are selling out in Spain.
A: Oh, yes.
NM3r: We asked the State Department to advise us. I'm not pushing you, I can wait.
A: (Laughs) That's a joke
NM3r: I think so too.
A: All right.
NM3r: I sent it over Friday, 'cause I thought -- you told me you would only be here Monday.
A: Yes.
NM3r: I tried to get it in ahead of your being acting, so as not to worry you.
A: (laughs)
NM3r: Well, I can't tell you how much we appreciate all you're doing to help us, Dean.
A: Well, thank you very much, Henry. I'm delighted to do it.
NM3r: You're a tower of strength.
A: Well, I'll keep going as long as I have any strength.
NM3r: Thank you.
A: Goodbye
NM3r: Goodbye.
P: O.K.
HM: And if I have anything I'll give you a ring.
P: All right. Thanks very much, Henry.
HM: Thank you.
P: Goodbye.

Herbert Gaston
Secretary Morgenthau

General Greenbaum had lunch with me yesterday, and it seems the Army is making preparations, in case when and if we have V-R Day, what they should do in informing the public at home. They are making various plans. I suggested that he contact you so that you in turn could tell other people, particularly War Bonds, what the plans are.
NEW YORK MIRROR
DAILY AND SUNDAY

Mar. 19, 1945

235 EAST 42nd STREET
NEW YORK 17, N. Y.
MURRAY HILL 2-1000

Dear Mr. Morgenthau:

Replying to your wire of March 17th, it will not be possible for me to make it. Many thanks for your kind invitation.

regards

Walter Winchell

Walter Winchell

MAR 19 1945

By dear Mr. Secretary:

Thank you for your letter of March 14, 1945 regarding the return to the United States of the four Treasury representatives recently liberated from the Japanese in Manila.

I appreciate your kind cooperation in this matter.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

The Honorable
Henry L. Stimson,
Secretary of War.

ISF/efs 3/17/45
The Honorable
The Secretary of the Treasury
Dear Mr. Secretary:

I have your letter of 9 March 1945 concerning four Treasury representatives recently liberated from the Japanese in Manila.

A radio has been dispatched to the Commander in Chief, Southwest Pacific Area, forwarding your message and advising him that you desire the expeditious return of these four men to the United States.

Sincerely yours,

Henry L. Stimson
Secretary of War
March 19, 1945

Memorandum for Mr. Coe:

Secretary Morgenthau would like to see the four Treasury representatives recently liberated in Manila if and when they come to Washington.

A. M. Chauncey

John Pehle
Secretary Morgenthau

General Greenbaum had lunch with me yesterday, and he is worried about Surplus Property. I would appreciate it if you would call on him at an early date, and then see me afterwards. General Greenbaum wants to be helpful in working out the joint Army-Treasury Surplus Property problems.

[signature]
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

TO
Secretary Morgenthau

FROM
J. W. Fehle

FOR YOUR INFORMATION

Mr. A. U. Fox assumed his duties as Director of Surplus Property on Wednesday, March 14, and it would seem appropriate that I submit to you at this time a resume of significant organizational and personnel developments since December 1.

I am very pleased with the manner in which Fox is taking hold. He is a fine addition to the Treasury family.

On December 1, Mr. William W. Parsons, formerly of the Bureau of the Budget, became the Procurement Division's Executive Officer. Under his direction, the Executive Office, now coordinate with the Offices of Procurement and Surplus Property, is becoming increasingly efficient and is rendering outstanding service to the Division in budget, personnel, fiscal, administrative service and kindred matters.

Lawrence S. Lessner, formerly Special Assistant to the General Counsel and Assistant Executive Director of the War Refugee Board, has been designated by Joe O'Connell as Chief Counsel for the Procurement Division in the middle of January. Six additional lawyers have been added to the staff, and the Legal Division under Lessner's able leadership and direction is making a real contribution in the planning of future operations as well as in the day-to-day current operations of both the Office of Procurement and the Office of Surplus Property.

Colonel Frank L. Seymour, formerly city manager of several cities in the mid-west and later with the Bureau of the Budget, was recently designated as the Division's Regional Director for New York, New Jersey, and Pennsylvania. He has already taken the reins, and indications of improvement in the New York Regional Office are already apparent.

Research in the Office of Surplus Property has been brought up to staff level, and Dr. N. G. Silvermaster now contributes the views of a trained economist to the consideration of merchandising, procedural and other matters, both current and in the planning stage.

Twelve committees have been appointed to consider and formulate proposed policies to be followed in the disposal of surplus property. These committees consist of members of the merchandising, legal, research, and executive staffs and a number of these have already submitted tentative reports. The organization of these committees and the institution of regular staff meetings have brought about a degree of integration in the work of the personnel handling surplus property disposal that had heretofore not been deemed feasible. Further progress toward integration has been accomplished by bringing the eight commodity groups, heretofore reporting directly and independently to the Deputy Director in charge of merchandising, under four commodity chiefs, each of whom is responsible for the work of two groups. This consolidation has been exceptionally successful, and I am confident that the assumption by Mr. Fox of the directorship will further accelerate the integration of our surplus disposal activities.

A meeting of regional directors and regional surplus property deputy directors has been scheduled in Washington for the early part of next month. We expect at that time to explore not only common merchandising problems, but also ways and means of further coordinating the activities of the regional offices and the central office. A major step in that direction was recently taken by the promulgation of standard conditions of sale and a standard procedure for the solicitation of bids. To a large extent, the publication of the Surplus Reporter, which now goes to over 200,000 prospective bidders, has tended to make our program a national program with local variations, which requires close collaboration between the regional offices, and between them and the central office.

The answering of congressional mail dealing with surplus property matters has been centralized under the direction of Mr. Jack Bennett, formerly Chief of Licensing in Foreign Funde Control. In the past, congressional mail appears to
have been much neglected. The generally sympathetic and understanding tone of the majority of the letters written to the Division by Congreessmen and Senators today indicates that we have brought about an improvement in our relations with Congress. Such improvement is no doubt due in measure to the care now being given to congressional mail as well as to the favorable impression made by members of the staff at recent Congressional hearings on the surplus disposal program and the appropriation bill.

Strenuous efforts are being made to staff the new Office of Complaints and Investigations. A large number of applicants have been interviewed, but as might have been expected, very few men of the caliber we are seeking are available. We have, however, selected half a dozen applicants for prompt appointment. I am attaching a copy of a memorandum recently prepared by this office outlining the measures that have been taken by the Treasury to keep the disposal of surplus property clean.

MENORANDUM

March 3, 1945

The Treasury Department is highly conscious of the great responsibility which has been placed upon it as one of the agencies for the disposal of surplus property. We realize the possibility that unless the program is surrounded with proper safeguards, abuses may develop. The history of the disposal program after the last war has given us fair warning that we must not only be on the alert to see that those handling the program do so honestly, but that we must also take care so that all classes of prospective purchasers are treated equitably. It is hoped that by taking the proper steps, we can be assured that American business and the American people as a whole will receive the greatest benefit from the disposition of surplus property instead of having the disposal program result in a public scandal or be the means whereby a small group of speculators is enriched. There is set forth below a summary statement of some of the measures that we have already taken in an effort to reach these goals.

A. Wide Publicity of Property Available for Disposition

Probably the most important step that any disposal agency can take in order to assure fair distribution of the property under its control is to give wide publicity to the availability of property for sale. The Treasury Department has developed a Surplus Reporter system which is issued each month by all of its regional offices. The Surplus Reporters are issued in eight separate sections, each section covering broad classes of property. At present the Reporters are distributed to a mailing list of more than 250,000. We are constantly expanding not only the mailing list, but the number of items listed in the Surplus Reporter and as we gain more experience and learn of other outlets for the property to be sold, this program will be further expanded. In addition, the availability of certain commodities for disposal is announced by means of letters, telegrams, circular letters, direct mail pieces, handbills and the like. A copy of one of our recent Surplus Reporters and one of the circulars issued are annexed hereto and marked Exhibit 1.
B. Sales Procedures

During the early stages of the Treasury Department's surplus property program, various methods of sale were adopted, including negotiated sales, informal bids, formal bids and the like. Within the last few weeks we have decided to adopt a simplified bid procedure which is to be used in practically every disposition since negotiated sales and informal bidding may be subject to abuse. We will also in appropriate cases sell goods at fixed prices. Of course, exceptions to such general procedures may have to be made in sales of lots of property of small value or where it is determined after consideration of all factors by a policy-making group in Washington that sales should be made by negotiation, or otherwise.

Since publicity will assure fairness and honesty, the procedure established provides for the opening of bids at a pre-announced time and place. Unsuccessful bidders will be allowed to learn of the identity of the successful bidder and the price at which the award was made. In addition, standing committees have been established in each regional office, consisting of executives, who are charged with the responsibility of insuring that all bids be given fair consideration and that all awards be made in such a manner consistent with the overall policies established by the Department. Exhibit 2 consists of the order establishing the bidding procedure and a press release thereon.

C. Publicity as to Sales

Not only is the public allowed free access to information concerning successful bids, but their interest is being further stimulated through the issuance of a monthly press release which sets forth the details of each sale amounting to more than $5,000. (See Exhibit 3.) In addition, there is posted on the bulletin board in each regional office a list of all sales over $500. The statement as to each sale will give the name and address of the buyer, the property involved, the total sale price and the names, addresses and bids of the unsuccessful bidders. Details of sales under $500 are also made public to persons asking for inspection and regional offices are required to post a notice to this effect. Regional offices have given wide publicity to these new requirements. (See Exhibit 4.) The publicity as to property available for sale and the details

of consummated sales, particularly the identities of the successful bidders, will be of great aid in enlisting the support of the public in uncovering fraud.

D. Policies with Respect to Personnel

1. We have attempted to exercise extreme care in the selection of our personnel, realizing that in a program of this nature there will be many opportunities for dishonesty or favoritism. Although we have been obliged to take on substantial numbers of new employees as our operations have expanded, we have been fortunate in many instances in securing persons who have already proved their fidelity and integrity in other parts of the Treasury Department or in other Government agencies and departments. Recruits from industry and other fields outside of the Government have been subjected to thorough character investigations by trained investigators.

2. There has been outstanding since 1938 an order of the Secretary of the Treasury prohibiting any employee from purchasing, repurchasing, acting in any connection with (other than official), or even attending a sale of, surplus property. (See Exhibit 6.)

3. To emphasize our intention to avoid even the appearance of favoritism or fraud in treating with the public, special instructions have been issued to all personnel of the Procurement Division covering the following points: (See Exhibit 5.)

(a) All employees are strictly prohibited from accepting gratuities or favors of slight value, directly or indirectly from persons doing business with the Department.

(b) All business of the Division must be conducted on Government premises unless specifically otherwise authorized.

(c) Each employee is required to report on past or present personal or business connections with persons or firms dealing with the Division. In any case where an employee has such connection,
arrangements are made for other persons to handle the work involved.

4. Despite all precautions that we have already taken, there is no doubt that abuses will develop. It is our determination, however, to uncover and root out any abuse before too great damage can be done. We have therefore set up within the Procurement Division an Office of Investigations and Complaints. This Office, with the assistance of the staff of the established Treasury Enforcement Agencies, will have the responsibility of hearing complaints and of thoroughly investigating the slightest suggestion of wrong-doing or abuse. They will constantly make spot checks of sales in order to determine whether procedures have been followed or records falsified. (See Exhibit 7.) It is also our intention whenever the interest of the public is involved to publicize immediately the discovery of any substantial irregularities. An example thereof is the press release dated January 30, 1945, (Exhibit 8) issued immediately after the discovery of an irregularity which had taken place in the Chicago Regional Office. It is hoped that such publicity will not only discourage a breach of trust by other employees but will also further impress upon those members of the public who might be inclined to trust our employees that we have the firm intention of operating "within the goldfish bowl".
THE SECRETARY OF COMMERCE
WASHINGTON 25

March 19, 1945

Hon. Henry Morgenthau, Jr.,
The Secretary of the Treasury,
Washington, D. C.

Dear Henry:

I shall certainly eliminate all reference to compulsory savings.

Mr. Blough, like all of your other men with whom I have talked, is most understanding, and I am sure that we shall work out something that is mutually satisfactory in every way.

With very best regards, I am

Sincerely yours,

J. W. Fehl
DISPOSAL OF SURPLUS CONSUMER GOODS BY THE TREASURY DEPARTMENT

INTERIM REPORT OF THE SURPLUS WAR PROPERTY SUBCOMMITTEE OF THE SPECIAL COMMITTEE TO STUDY PROBLEMS OF AMERICAN SMALL BUSINESS

UNITED STATES SENATE
SEVENTY-EIGHTH CONGRESS
SECOND SESSION

Pursuant to

S. Res. 28

(Extending S. Res. 28—78th Congress)

A RESOLUTION TO APPOINT A SPECIAL COMMITTEE TO STUDY AND SURVEY PROBLEMS OF AMERICAN SMALL BUSINESS ENTERPRISES

FEBRUARY 27, 1943

Printed for the use of the Committee To Study Problems of American Small Business

UNITED STATES
GOVERNMENT PRINTING OFFICE
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LETTER OF TRANSMITTAL

February 27, 1945.

Hon. James E. Murray,
Chairman, Special Committee to Study Problems of America's Small Business, United States Senate,
Washington, D.C.

Dear Mr. Chairman:

Pursuant to your instructions to study the surplus property question, your subcommittee herewith presents its third report.

This report deals with the disposal of goods assigned to the Office of Surplus Property of the Treasury Department, with the disposal activities of that agency and with the activities of other agencies as they affect the functioning of the Treasury Department. The findings and recommendations of this report refer principally to the disposition of surplus consumer goods although, strictly speaking, not all of the surplus assigned to the Treasury Department for disposal are in that class.

The report is presented in three parts: (1) A summary of findings and recommendations; (2) the report itself; (3) appendices on several subjects which could not be treated in full detail in the report.

Sincerely yours,

Tom Stewart,
Chairman, Subcommittee on Surplus War Property.
In the disposal of presently unmarketable goods, the businessman who is willing to take a considerable risk with the chance of realizing considerable profits will serve a useful public function whether or not one chooses to designate him as a speculator.

Shortly after your subcommittee had completed the major part of its investigation and just before its hearings, Mr. A. W. Pebb replaced Mr. E. J. Olrich as head of Treasury Disposal. Mr. Olrich had publicly assailed the Surplus Property Act and its objectives. Mr. Pebb, on the other hand, stated his accord with the objectives of the Surplus Property Act, and the agency has made rapid progress in implementing many provisions of the act since he took office. Many of your subcommittee’s recommendations are being put into effect and the agency is overcoming administrative difficulties which seemed insurmountable to his predecessor.

Your subcommittee finds that a full acceptance of the objectives of the act will enable the Surplus Property Board and the Treasury Department to overcome many administrative difficulties in formulating regulations to assure preferred treatment to local governmental units, in return in establishing their own businesses, and to small business in accordance with the act.

The Surplus Property Board must overcome some obstacles without some estimate of the probable volume of future surpluses which depends upon the cooperation of the armed services who now own the bulk of potential surpluses. The major obstacle to rapid disposal lies not in the act’s imperfections, although some points may eventually need amending; it is rather the antagonism which finds itself hampered by statements of public objectives and lamentations over the difficulties before it has been tried.

Congress will recognize the need for a flexible approach to surplus disposal and additional experience is needed before well considered amendments can be recommended. In its investigations of disposal of consumer goods by the Treasury Department, no proof of the present need for amendments to the Surplus Property Act has been offered to your subcommittee.
DISPOSAL OF SURPLUS CONSUMER GOODS BY THE TREASURY DEPARTMENT

I. INTRODUCTION

Herewith your subcommittee offers its third report. To make clear our intention, it may be profitable to recall briefly the nature of our previous reports. In July 1944, we submitted a preliminary survey of the whole surplus-property problem, finding as well as we could envisage it at that time. There we sought to define the problem in its various phases and suggest tentative answers.

On the foundation of our study, informed by the history of surplus-property disposal following World War I and the accumulated discussion of the question by men both in and out of Government, we drafted a surplus-property bill, S. 2003, which constituted the basis of our second report. This bill, after extensive revision by the Congress, became the substance of Public Law 437, the Surplus Property Act. Though enacted on October 3 of last year, it has not yet become a fully effective instrument of direction in surplus-property management and disposal due to the time required for the selection and activation of an administrative lead, the Surplus Property Board, and regulatory implementation of the law by that body.

PURPOSE OF THIS REPORT

Previously we have dealt with surplus property comprehensively and in general terms. This report is concerned solely with those goods assigned for disposal to the Office of Surplus Property of the Treasury Department. The Surplus Property Administration, appointed by the President under Executive Order 9425, assigned the Treasury Department the job of disposing of all consumer goods except foods which are handled by the War Foods Administration. In addition, the Treasury Department was assigned the disposal of such capital goods as trucks, light machinery, and raw materials for further fabrication. The disposal assignments of the Treasury Department have not been changed significantly thus far by the Surplus Property Board operating under the Surplus Property Act.

The inquiry on which this report is based involved other agencies insofar as their activities affected disposal by the Treasury Department. However, the findings and recommendations of this report refer principally to the disposition of surplus consumer goods and with the disposal activities of the agency which distributes them, the Treasury Department.

DISPOSAL OF SURPLUS CONSUMER GOODS

The magnitude of Treasury's disposal problem

In our first report, we presented an estimate of the aggregate value of war property in consumer surplus, on the basis of cost-plus-government. This totaled $103,200,000. The classes of goods to be disposed of by the Treasury agency cannot be separated on a priori basis into broad categories set forth in this estimate. In general, however, that portion of the following groups of property that remains in or is returned to this country after the war will become Treasury's disposal responsibility:

Military (Army only):
- Clothing, shoes, etc.: 500,000,000
- Radio equipment: 3,000,000,000
- Field equipment: 2,200,000,000
- Finished products: 1,000,000,000
- Total finished products: 18,000,000,000

What part of the 141 billion total will remain or be returned is problematic. Following World War I, almost 60 percent of our war surplus remained in this country. There are, however, apparent reasons for expecting the domestic surplus to be proportionately less after this war. Some estimates guess that it will be under 20 percent. In that case, the aggregate to be disposed of by Treasury would range somewhere between seven and eight billion dollars.

This estimate will suggest the magnitude of the disposal problem facing the Treasury Department; however, it does not reveal its complexity. The goods received by the Treasury Department will present the infinite variety of the equipment for a modern army and navy, whose cost to the Government will bear little relation to what may be realized on it in commercial markets. This disposal task, in size and complexity, in its demands for imaginative judgment, dwarfs any ever undertaken by a private merchandizer.

PURPOSE OF THIS REPORT

In January 1945, the Surplus Property Board, appointed under the Surplus Property Act of 1944, assumed office. Until that time, the Treasury Department operated under the Surplus Property Administration, created by Executive Order 9425 in February 1944, and continued to receive and dispose of surplus property under the terms of that order. Your subcommittee felt that a survey of the experience of that organization during 1944 should prove instructive to Congress and to the newly appointed Surplus Property Board.

In general, your subcommittee's inquiry into the operations of the Treasury agency was directed toward discovering the speed with which goods in short supply were being moved into markets, the extent to which regular channels of trade were being utilized to that end, the adequacy of advertising and merchandising methods, and the nature of the agency's planning for post-war disposal.
The scope of Treasury's disposal problem, as your subcommittee has found it, may be summarized in the following way. This agency is involved in the immediate need to move goods rapidly into well-distributed commercial markets to relieve civilian shortages and reduce its future disposal problem. Simultaneously it has the task of establishing its organization and developing its disposal system and plans in the way best calculated to make it adequate for the disposition of huge post-war surpluses in accord with the objectives of the Surplus Property Act. To dispose of much of its property at all, it must discover new and adaptations, or speculative markets, for exclusively military goods.

At the time of our recent hearings, Treasury had disposed of but $204,000,000 worth of property for disposal. Comparison with the estimated post-war aggregate of $4,000,000,000, to become its responsibility, illuminates the need for bold and imaginative planning. Of the $450,000,000 worth of property received, $250,000,000 is said to be in goods of no civilian use, which suggests the size of the agency's marketing job.

Moreover, a large proportion of the goods received to date has been second-hand, which limits its marketability. A recent sampling, on five important classes of property in four regions, showed that 50 percent of it was used.

Hence, Treasury must dispose of two types of goods regarded quantitatively, and three types, regarded qualitatively, all of which appear to require differing disposal policies or practices. In the first instance it has goods in short supply and goods in long supply. In the second, it has goods of civilian use, non-civilian goods, and used goods. While there are existing long supplies, they are inadmissible when compared to prospective supplies and the problem of long supply is mainly one of planning for the future. Sales policies must necessarily vary for goods in short supply and goods in long supply. Under the present conditions a large portion of the goods to be sold by Treasury have been in short supply. In spite of this, the figures on the rate of movement of broad classes of surplus property afford little reason for clinging to the sales procedures employed by this agency during 1944.

For the 5-month period, ended May 31, 1944, the sales of $204,000,000, or about two-thirds of the $450,000,000, were made to individuals. Even when the figures include sales of goods in short supply, the figures should be noted that the monthly sales were increased steadily, but as we did the inventories on hand at the end of each month. The majority of the 75 classes of property covered by these figures including such classes as leather and leather goods, shoes, wool base materials, electrical machinery, and apparatus, agricultural machinery and implements, plumbing and heating equipment, lighting fixtures and motor vehicles, and textiles are unquestionably in great demand.

To be sure, the goods included under these categories may not be equally marketable even though the classes of goods concerned are in short supply. For example, surplus camouflage nets are presumably included under textiles. However, such nets would do little to satisfy the huge public demand for textiles and the Treasury Department might well experience a great deal of difficulty in disposing of them.
hearing on the concern's activities before the Senate War Investigating Committee.

The shoes were sold to the Royal Co. of Hackensack, N. J., whose president testified that his bid was made orally to a Treasury Department official; this offer was accepted 2 days later upon direction of the Washington office.

The Royal Co. is a well-established firm which has been in the general merchandising and commercial financing business for many years. The president of the Royal Co. testified that the company had not sold any shoes at wholesale in the 15 years prior to the purchase of this lot. It is evident, therefore, that this was a speculative purchase for the Royal Co. which lay outside of its ordinary line of business.

Moreover, it is clear the Royal Co. had little need for the type of credit which might be required by small concerns in the normal trade channels. It was also in the commercial financing business as a factor of accounts receivable.

The cost of these shoes to the Government was $3.12 per pair. The bid of the Royal Co. was $2.90 per pair. Sale by the Royal Co. to individual retailers was at an Office of Price Administration established price of $3.25 per pair and retailers were reported as selling them at $3.25 per pair. The offer of the Royal Co. was substantially above that of the only definite offer from the large companies in the normal channels of trade to whom the shoes were offered.

In defense of this sale, Mr. Virgil Rader, director of the New York regional disposal office of the Treasury Department expressed a view widely held by top Treasury disposal officials when he said:

"Our belief is that a man who is willing to pay ten times for an item when the normal channels of trade refuse to trade is not a speculator. He could not be very speculative if he is paying ten times profit.

This echoed a similar opinion publicly expressed by Mr. E. L. Oldham, former head of Treasury disposal. There is no evidence that the Royal Co. is receiving an excessive profit on this transaction.

On the other hand, this case, as well as a number of others investigated by the committee, refutes the notion that speculative purchases are automatically excluded by a high-price policy.

Such large-lot disposal to speculators might conceivably be defended on the ground that it was necessary to move goods to the consumer with the greatest possible speed. In this connection, it is worth noting that although the shoes became available in July, and the sale of 75,000 pairs to the Royal Co. was consummated in August, only 10,000 pairs had been distributed to retailers by December 14 when the committee hearings were held.

One administrative difficulty which stood in the way of rapid movement of these shoes to the consumer was the delay in establishing a legal selling price. The Royal Co. representative testified that it took 2 months to secure a sales price from the Office of Price Administration.

Another difficulty which occurred in a number of other cases was the improper description of the goods in the declaration of surplus by the agency originally owning the shoes. The Royal Co. informed your subcommittee that many of the shoes purchased were not leather as they had been told and as the Treasury Department had been led to believe by the surplus declaration, but were canvas and worth considerably less than the amount paid for them. At the time of the subcommittee hearings the Treasury Department had no way of making up such losses to the purchaser. While no basis for firm generalization, the disposal of 75,000 pairs of shoes to the Royal Co. nevertheless serves to spotlight the changes which must be accomplished by the regulations of the Board and by the new head of Treasury disposal.

Disposal to Small Retailers

Your subcommittee is, of course, particularly concerned with the equitable treatment of small business in the disposal of surplus, an interest shared by the entire Congress as expressed in the several provisions protecting small business in the Surplus Property Act of 1944.

In a number of cases investigated the procedure employed by Treasury were such as to bar the effective participation of small business in disposal. The hundreds of thousands of enterprises in the distributive trades must be counted on to move the surplus goods owned by the Government to the consumer. Accordingly, the congressional emphasis on the use of small business in surplus disposal is simply a statement of sound business policy.

The sources of the job of war production required the mobilization of the manufacturing facilities of thousands of small businesses; the job of surplus disposal requires the mobilization of the distributive facilities of hundreds of thousands of small businesses.

This is not to say, of course, that all sales must be made directly to the corner stores of the Nation to assure the fulfillment of the small business objectives of the act. The Treasury Department must determine for each individual transaction whether such goods can best be sold through the manufacturers, the wholesalers, or by direct sale to individual retailers. In each case this is a difficult decision to make and congressional committees and the public will do well to realize in evaluating this aspect of the agency's work. However, the procedure derived must assure small businesses in the manufacturing, wholesale, or retail level of trade equal opportunity to participate in the purchase of surplus goods.

Small Lot Disposal

Small business cannot expect to participate widely in the purchase of surplus goods unless such goods are available in small lots. Certainly disposed of in lots of 25,000 pairs of shoes sold to the Royal Co. effectually bars all small business wholesalers. Except in the instance of special sales places, such as that employed for automotive equipment, most of the sales reviewed by this subcommittee represented large lots of goods. In one case approximately a quarter of a million dollars worth of shoes were sold to the General Shoe Corporation of Nashville, in another, $15,000 worth of shoes were sold to the Fisk Sales Co., of Hartford, Conn. A lot of soap was sold at $83,000 to J. M. Leake, of Savannah. The common explanation for the size of these lots was that they were easier to move than smaller lots could have been.

More than the size of the lots themselves, the attitudes expressed at the hearing by Regional Director H. E. Harmon, Jr., of Atlanta,
and Deputy Director Virgil J. Rader, of New York, located breaking
up the quantities of goods as declared by buying agencies, evidenced
the lack of any effective support within the agency for the policy of
small-lot offerings at that time. A directive to Treasury disposal
officials, dated December 13, 1944, instructing them to sell goods in
small lots even though some additional expense may be involved in
direct evidence of a determination to change past attitudes. Your subcommit-
mittee agrees that this is a necessary development in policy. While
assembly of small lots may involve some additional expense to the
Government, it may also result in a higher average return to the
Smaller lots are consistently sold much higher in
their offer in the case of bids on 180,000 of a particular item for which
the Treasury Department submitted figures during the hearings.
Your subcommittee suggests that Treasury disposal officials and
the Surplus Property Board might examine the experience of the
Canadian surplus-disposal organization in respect to small-lot sales.

WIDESPREAD ADVERTISING AND SYSTEMATIC NOTIFICATION OF SALE

Small business has to know that surpluses are available for sale
before they can buy. There was no formal advertising of the sale of
70,000 pairs of shoes to the Royal Co. and only a rumour and informal
notification by letter, telephone, or personal contact to potential
purchasers. Unfortunately, this seems to have been typical of many
nondisposal actions during this period. The most persistent complaint
received by your subcommittee and the Smaller War Plants Corpora-
tion involved the lack of adequate notice. The National scour &
Shoe Manufacturers Association reported to your subcommittee
that it had never received notice of the availability of surplus goods.
The reports on sales made by the agency itself and reports made to us by
some exporters indicate that failure of an offering to the successful bidders indicated frequently that notice of an offering
of a lot of goods was made by telephone and to a limited number.
The direct mail notification of potential customers is the principal
means of publicity which has been employed thus far by
the Treasury. At the outset, Treasury's disposal division was ham-
barded by the fact that the letter is informal, and when
the Office reports that the total number of envelopes covered is
just over 70,000. Several disposal actions involving the sale of goods
in short supply were not advertised through this mailing list. Certainly, in
the vast majority of cases all interested should be notified of the
availability of surplus goods in short supply.

The Treasury Department began in November 1944 the
practice of mailing a list of commodities offered by each region once a month for each of the eight classifications
in which surpluses are divided for merchandising purposes.
In each region, all of the salable lots of goods in the particular commod-
ty classification which are to be offered for general sale are listed
with the exception of a list of goods offered for general sale in other
regions which are available in quantities sufficient to justify distribu-
tion in more than one region. The goods listed go on sale 2 weeks after
the date of issuance of the Surplus Report. For each lot of goods included,
the Surplus Report lists the item number, the quantity available, the
common designation of the item, its condition (new, used, etc.), a brief
description, and the sales method (e. g., informal bid, fixed price, etc.)
to be employed in disposing.

Not all goods disposed of by the Treasury Department are adver-
tised in the Surplus Reporter. However, the Treasury Department
informs your subcommittee that the Surplus Reporter lists virtually
all items in which the average small business in any particular trade
would be interested.

Assuming the accuracy of their estimate of its coverage, the Surplus
Reporter represents a definite advance over previous publicity methods
of the disposal agency. The small businessman cannot afford the
services of a Washington representative to tell him about available
surpluses. Properly operated, the Surplus Reporter should make
information on surpluses available to the individual businessman in
a regular and systematic form.

The Treasury Department cited, as well, extensive publicity which
it had received through newspapers and trade papers by the issuance
of releases. Such publicity is certainly useful but it is bound to be
inaccurate in its coverage and was certainly not employed with any
success in several of the cases covered in the subcommittee's
investigation.

The Treasury Department has not employed paid advertising to
any extent. In the connection, the experience of the War
Department, which handled most consumer goods disposal after
World War I, is worth noting. Until about the end of 1919 the War
Department continued to advertise to newspapers and trade journals. While those efforts were continued,
it was found profitable to use paid advertising and the expenditures
for this purpose increased from $300,000 to $725,000 in 1920.

At the present time the Treasury Department is operating in a
sales market in which all goods for which there is civilian demand
are sold so rapidly that any listing of surplus property is likely to become
out of date quickly. After the war this market will be converted into a
bidders market for most items. At that time it may become feasible
and your subcommittee feels that it would be desirable to issue a more
adequate report, similar to the conventional trade catalog, listing the
types of goods available for sale.

CONFORMING TO CUSTOMARY TRADE PRACTICE

Inadequate publicity has not been the only barrier faced by the
small businesses of the usual trade channels in buying from Treasury
disposal. For its part, agency, faced with the greatest merchan-
dising job in history, has found, and will find, difficulty in func-
tioning in the manner in which most merchandising organizations are
accustomed to deal. Treasury has no control over the kind or quan-
tity of goods which it receives for disposal, and it can be sure only
that the usual merchandising problem will be commonplace in its
experience. Nevertheless, it is essential that it conform as nearly as
possible to customary trade practices.

The agency and circulation of the Surplus Reporter are discussed fully in appendix B.
possible to customary trade practices in the sale of those goods for which there is demand in the normal trade channels.

DELIBERATING THE GOODS AS ADVERTISED

Frequently the Treasury Department has had difficulty in delivering the goods as advertised because the original declaration of surplus supplied to it by the owning agency did not contain adequate information. As a result, goods contained in the warehouses of the owning agencies would not coincide with the descriptions and representations. In some instances quality and quantity of goods available for sale in the Army depots have been changed by Army personnel even after the declaration of surplus and the inspection. Your subcommittee learned of tracks from which tires and other parts had been removed even after the vehicles had been sold by Treasury. Both the representatives of the Treasury Department and of the owning agencies report that this difficulty is being overcome by a steady improvement in the working relationship. In addition, the Treasury Department has instituted its own inspection service which has helped to furnish a better description of goods to the baying public.

DISPLY AND SAMPLES

The agency has also found it difficult to arrange for the display of surplus goods to interested buyers. Goods have been warehoused by the owning agency with primary reference to storage rather than display. Property has been located in widely scattered warehouses and the shifting times of war have made it necessary to move goods frequently. The agency has also been reluctant to furnish samples to interested buyers and a number of complaints have been received by your subcommittee on this point. This is particularly essential for those small businesses which cannot afford to make lengthy trips for warehouse inspection of the goods.

ERATURE FOR MISREPRESENTATION OF GOODS

These difficulties have led the agency to adopt an "as is, where is" sales policy. This may have been the only feasible policy, but it is nevertheless contrary to the usual practice in regular trade and is not calculated to encourage regular-trade buyers. Moreover, the disposal agency has not set up adequate machinery for compensating customers who have sustained losses through misrepresentation of the goods offered. The complaint of the Royal Co. that the shoes it purchased did not conform to the sample and that no adequate price had been paid by Treasury was typical of several complaints received by your subcommittee. In response to this Treasury representative testified that they were without authority to make adjustments and could only suggest that the impossible customer file a claim with the General Accounting Office.

However, the Surplus Property Board has, under date of February 1, 1945, issued a temporary order authorizing the Treasury Department to (a) set up an account from the proceeds of dispossession for refunds to purchasers. The fund, to total $750,000, will be allocated in part to the 12 regional offices in the continental United States. Your

SUBCOMMITTEE HAS INFORMED THAT A CENTRAL CLAIMS APPEAL COMMITTEE HAS BEEN IN THE PROCESS OF ORGANIZATION FOR SOME WEEKS AND IS READY TO FUNCTION.

GRANTING LOCAL COMMERCIAL CREDIT

Another regular trade practice to which the Treasury Department might well conform is the granting of credit. The sale of goods on credit is authorized by the Surplus Property Act; the thousands of small wholesalers and retailers are mentioned to receiving credit in their normal operations. The granting of such normal trade credit to individuals who would regularly receive it in private transactions should be a usual part of the agency's dealings. New enterprises which have not yet established a firm credit rating might secure commercial credit backing from their own banks or from the Smaller War Plants Corporation as authorized by subsection (h), section 15, of the Surplus Property Act of 1944.

At the time of our December hearings, the Treasury Department had made no move toward arranging trade credit for its customers. However, the most recent inquiries of subcommittee staff members have brought word that the Surplus Property Board is preparing regulations on the subject of credit generally and that trade credit is to be included.

Whatever credit policy the Board's regulations may reflect, your subcommittee is convinced that the extension of trade credit to its customers by Treasury offers no comparable difficulties. This Government has provided very liberal and varied credit to producers for the war program; trade credit to purchasers of surplus goods should involve no more hazards and little, if any, more labor. Its importance to small-business buyers of regular trade is unquestioned.

PRICING PROCEDURES

An essential part of the adoption of regular trade practices for goods in short supply is the establishment of a sound and equitable pricing policy. An indecent pricing policy is certainly undesirable, and a uniform method of pricing would be inadequate for disposing of a great variety of surplus goods under widely varying circumstances. However, for a large portion of the community of customary civilian use moving into regular channels of trade, some uniformity of pricing method across essential to the pursuit of the small business objectives of the act. This need will grow with the increase in the supply of surplus goods.

If the agency is to make full use of the potential baring capacity of the regular trade community and if small businesses are to have a fair opportunity to buy, it is essential that they be offered goods at prices accessible to them within the competitive range of their particular distributive level. In other words, the wholesalers cannot compete with the retailer nor can the manufacturer compete with the wholesaler on price.

Moreover, where it is otherwise feasible, prices adjusted to the various distributive levels would present greater conformity to customary trade practices than sales by bidding. Setting surplus goods at a uniform price for the distributive level in which they are
DISPOSAL OF SURPLUS CONSUMER GOODS

Mr. E. L. Ottes, former head of the Treasury Department's surplus division, stated that the policy of the agency was to select the goods which would provide the greatest possible return to the consumer and to the Government. The policy was designed to maximize the value of the surplus goods to the consumer and to the Government. The surplus goods were sold on the open market, and the proceeds were used to finance the operations of the Government.

The surplus goods included a wide variety of items, such as clothing, furniture, household goods, and industrial equipment. The surplus goods were sold at prices lower than retail, and the proceeds were used to finance the operations of the Government.

The surplus goods were sold through public auctions, and the proceeds were used to finance the operations of the Government. The surplus goods were sold at prices lower than retail, and the proceeds were used to finance the operations of the Government.

III. PROCEDURES IN THE DISPOSAL OF GOODS OTHER THAN THOSE IN SHORT SUPPLY

By no means all of the goods sold by the Treasury Department during this period were available to that agency in substantial lots of similar items which were in widespread consumer demand. To a very large extent, the agency has received thus far the largest and most important of the surplus goods. The surplus goods were sold on the open market, and the proceeds were used to finance the operations of the Government.

For example, the Treasury Department has had to dispose of many miscellaneous lots of used goods left behind in the moving of a military establishment. In many instances, these have been disposed of by auction sale, a method that was found to be highly suitable for such purposes after World War I. The disposal of such small mixed lots of goods continued to be a part of the function of Treasury sales, and it will probably do so in the future. The Treasury Department has also handled this type of goods. In some instances, even an auction sale was unprofitable. In the case of miscellaneous and advertising, such methods may continue to be necessary.

GOODS REQUIRING ALTERATION OR RECONDITIONING

In other cases, the Treasury Department is called upon to receive large quantities of goods requiring alteration or repair prior to sale. For example, the agency might receive a large quantity of surplus films which are wholesome but which cannot be used by an exhibition in its original condition. In such instances, the original manufacturer may be in the best position to hand his goods to the Government and the goods may be resold at a price which will be fixed by the Government. However, any such alteration or reconditioning must be on the original manufacturing lines and the Government.

1. The services to be performed by the original manufacturer may be frequently carried out by some of his employees who are skilled in such work.

2. The conversion or alteration of goods by the manufacturer may be performed on a contractual basis for a fee without a transfer of title to the goods which can be sold through other channels later. Disposal to the manufacturer should be determined on the merits of each particular case without being elevated to the level of a fixed policy with peculiar virtues all its own.

3. Other goods received by the Treasury Department for disposal require such extensive further manufacture that they are substantially industrial raw materials. For example, the agency received a quantity of tinfoil attachments which were converted by a manufacturer into children's savings. Some such materials are found profitable use for much of the surplus goods. Every effort should be made to find a user who will take advantage of the latter of fabrication which has already entered into the goods.

No agency charged with the disposal of such a multiplicity of items could follow common policies and procedures for the disposal of all. Many means will be required to find private buyers for presently unmarketable goods; the energy and initiative of thousands of American manufacturers and distributors will have to be mobilized for this task.

EMPLOYING THE ENTERPRISE OF BUSINESS

In the disposal of such goods, the businessman who is willing to take a reasonable risk in the chance of realizing considerable profits will serve a useful public function. This may involve disposal to speculators, if one chooses to so designate them, but if any event, the Treasury Department can all afford to inquire too exhaustively into the business antecedents of one who can create a market where none existed before. However, this should not be used as an excuse for the adoption of policies which bar the participation of the normal trade channels where they and only they can do the mass job of disposal of these goods for which there is consumer demand.

In the words of Maury Maverick, Chairman of the Smaller War Plants Corporation:

"I do not believe that the reconstruction of any of the agencies of the surplus property of the Department of War and the War Industries Board is necessary. The surplus property is a vast field of business waiting for the business enterprise to come into it and run the surplus property on a business basis for the public welfare. The surplus property is a vast field of business waiting for the business enterprise to come into it and run the surplus property on a business basis for the public welfare. The surplus property is a vast field of business waiting for the business enterprise to come into it and run the surplus property on a business basis for the public welfare."
prove profitable both to the agency and to the American consuming public. Therefore, we recommend that Treasury undertake an adequate research program for this purpose, if possible, through existing agencies.

Despite the fullest employment of these means, it will prove impossible to find a market for much of the goods received by the Department within a reasonable length of time. No amount of ingenuity or research can find civilian use for surplus 38-inch guns. A considerable part of our billions of dollars of surplus will have to be disposed of. The disposal of goods which are of no civilian use and which are valuable only as scrap will present major problems. This is why the disposal of surplus consumer goods presents a major problem of control when the disposal of surplus consumer goods is considered.

IV. THE SURPLUS PROPERITY ACT AND FUTURE DISPOSAL

Uncertainty concerning the objectives of the agency was a factor responsible for many of the procedural shortcomings of Treasury disposal during 1944. Policy was in the process of formulation in the agency and in Congress during much of the period of operations under the Surplus War Property Administrator. Consequently, there were understandable delays and a lack of emphasis placed on speed of disposal without primary regard to other objectives. However, after November 1944, the Treasury Department received, roughly $125,000,000 worth of goods and disposed of $90,000,000 worth. There is a question, therefore, whether this emphasis on speed of disposal actually achieved its limited objective.

Lack of any general agreement on objectives and policies, too often the highest price obtainable becomes the determining factor in the selection of the producer of a particular lot of goods. As Mr. E. J. Orzech, Chief of the Research Division, so pertinently pointed out, pricing policies should be seen as means of implementing accepted objectives.

A NEW ATTITUDE TOWARD THE SURPLUS PROPERTY ACT

Shortly before he left office as head of Treasury disposal and after the passage of the Surplus Property Act, Mr. E. J. Orzech assessed the act and its objectives. He stated that only in the last several months have all the objectives of the act been recognized by the Treasury responsible for disposing of the surplus. The act is not a charitable institution, and the reimbursement costs are high. The surplus has been disposed of with an emphasis on speed, but in the future, the emphasis should be on the disposal of all surplus and the reimbursement costs. The act itself is not a charitable institution, and the reimbursement costs are high.

In his testimony before the committee, Mr. Orzech said:

I find myself in complete accord with the underlying philosophy of the act—paramount importance to the nation's economic welfare. The surplus property, after all, is a by-product of war, and the efforts to dispose of it must be guided by the need to protect the nation's economic welfare.

In the past several months, the emphasis has been placed on speed, but in the future, the emphasis should be on the disposal of all surplus and the reimbursement costs. The act itself is not a charitable institution, and the reimbursement costs are high.

In conclusion, the disposal of surplus consumer goods must be guided by the following considerations:

1. The Board and the disposal agencies should be able to acquire only a limited number of control agencies which would combine the requirements of goods and the thousands of individual operations and storage facilities. We hope that our disposal program will be an important part of the solution to the problem of surplus consumer goods and that it will be a major factor in the solution of the problem. We hope that our disposal program will be an important part of the solution to the problem of surplus consumer goods and that it will be a major factor in the solution of the problem.
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**Disposal of Surplus Consumer Goods**

Property Board for the establishment and maintenance of such central purchasing agencies;

2. The Board might require by regulation that the priority granted State and local government units be exercised only through such centralized agencies;

3. In the interest of the general disposal objectives, the Board might well place a time limit upon the exercise of such priorities.

4. If there were a limited number of such agencies, the Board might be advised by the Treasury Department with its list of available surplus to the States and local governments and other tax-supported entities that could substantially furnish an outlet for a large portion of the surplus property available. Viewed in this way, the priority provision would appear to be an insuperable obstacle to rapid disposal and could be a means of ensuring a thorough testing of this particular market.

### Preference in Disposal to Veterans

At the time the surplus property law was enacted, there was no mechanism established to affect an orderly demobilization of veterans such as that provided in the Reconstruction and Rehabilitation Act, nor to afford them the benefits accorded in the G. I. bill. It was therefore impossible to specify at all concretely the nature of the preference to be accorded veterans in the disposal of surplus. There can be no doubt that Congress was supported by the people in a desire that the veterans entering business or farming be accorded a genuine preference consistent with the goals of orderly disposal and national prosperity.

The regulations governing priority of G. I. business and agricultural loans have not been issued until recently. It would appear that almost no organized means have been established to guide the veteran in establishing his own farm, business, or profession. Until such measures are in effect, it will be difficult for the Surplus Property Board and the Treasury Department to set up regulations which will give veterans the genuine preference which Congress intended. A feasible program of surplus disposal to veterans entering their own enterprises can only be formulated by working in closest cooperation with the agencies responsible for the veterans' welfare. It is now generally to discharge their own disposal responsibilities, the Surplus Property Board and Treasury disposal may have to good to the Federal veterans' agencies into more rapid action. All other considerations aside, the possibilities of building a surplus-disposal market among the millions of returning servicemen who wish to establish their own business or farm should be sufficient to stimulate all administrative ingenuity.

### Preventing Discrimination Against Small Business

The Surplus Property Board and the Treasury Department should experience little difficulty in rendering their priorities with the preference accorded small business in the law. The measures necessary to move surplus to the consumer rapidly are those which would also render unnecessary any obstructive use of the small business preference. Small business might be encouraged by improved advertising, ready access to usual commercial credit, and the other measures recommended in this report will build relations with the biggest outlets for surplus goods in short supply. These mass outlets for goods in short supply are the normal trade channels which are dominated numerically by small businesses. The priority granted the Smaller War Plants Corporation for the purchase of goods for resale to small business should not be exercised unless the measures designed to aid small business equal opportunity are not put into effect. Mr. David L. Podell, general counsel of the Smaller War Plants Corporation, in his testimony said:

"The Smaller War Plants Corporation has neither the desire nor the intention to go into the surplus-disposal business as such. It is our hope and expectation that we can work out satisfactory mechanisms that will avoid the necessity of making any kind of formal organization to handle the surplus and that will expedite the disposal process after discussion with the disposal agencies."

Thus, while the Treasury Department should not fail to the economical intervention of the Smaller War Plants Corporation, they may expect to benefit by the S. W. P. C.'s close connection with thousands of small businesses and its widespread field offices. No effort was made until recently to establish such cooperative arrangements. The S. W. P. C. officials report that the necessary cooperation is being established since Mr. Feible assumed office. We may therefore expect that the Treasury administrative task such as ample notice to S. W. P. C. of available surpluses, will soon be efficiently established.

### Operating the Job Ahead

The measures of these policies to be followed in the disposal of surplus consumer goods depend upon the knowledge of the nature and quantity of goods to be declared surplus. Unless the Treasury officials have some notion of the number of shares which they will have to sell and when they will get them, they must labor under difficulties which no private marketing organization experiences. Without this knowledge they can have no accurate way of knowing whether goods will be in long or short supply and no basis for making a decision other than a tentative short-run claim as to the means of disposing of it.

Up to the present time the Treasury Department has had no effective means with the swing agencies which would enable them to determine the extent of surplus. In view of this difficulty, the recent efforts have been channeling studies of particular commodities, involving the extent of likely potential surplus, and the probable market situations for the particular commodities.

Dr. Gregory Schimmert, Director of the Research Division, cited the case of surgical instruments where they had found that the surplus might represent as much as 2 years of normal production. A study is now being made for the development of disposal plans to meet such a situation. A plan involving foreign disposal, as well as domestic requirements. However, at the present time such studies are developed as Dr. Wellington indicated, on a piecemeal basis.

Immediate intensive study of the probable volume of surpluses should be instituted between the disposal and swing agencies. Since the consumption of goods in the course of the war and the demand for goods are constantly fluctuating, such a study would have to be a continuing one, and the estimate derived from it would be subject to constant revision. However, these variations need not render the study useless.
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Such a study might indicate that the probable surplus of a given commodity represented 5 years' normal production. The shifting fortunes of war might increase the actual surplus to an amount equivalent to 10 years' normal production. The statistical error of such estimates would be enormous; the practical difference in terms of a marketing procedure would probably be slight. In many instances, it should be possible to determine in advance whether goods would be in short or long supply with sufficient accuracy to be worth while for the advance formulation of marketing policies.

In addition, the function of such a cooperative study should include the installation of sound,.LinkedList:inventory methods to reduce the probable volume of surpluses in the hands of the armed services to the lowest figure consistent with successful conduct of the war and the national security.

SHOULD THE SURPLUS PROPERTY ACT BE AMENDED SOON?

In the drafting of legislation for the disposal of public property, Congress has, on many occasions, given expression to broad public objectives. Thus, after the Civil War, Congress provided means for returning veterans to secure farms for themselves from the public domain. In the Reclamation Act, Congress provided that only family-size farms should receive the benefits of Government-financed reclamation projects.

In providing preferential treatment for small businesses, small farmers and returning veterans, in the Surplus Property Act of 1944, Congress merely manifested its awareness of some of the pressing present-day problems. Perhaps these provisions may tax the ingenuity of administrators. But this is, in itself, no reason for rejecting the objectives sought or the procedures and injunctions designed to achieve them. The wisdom of such a course can be questioned only when it is clearly demonstrated that these aims conflict with other major public objectives such as the general balance of the economy and full employment in the post-war years.

The major obstacles to rapid disposal are not the act's imperfections, though some points eventually may need amending; nor the priorities which properly worked out may seem in hindsight to have been avenues pointing to major outlets for disposal. The biggest obstacle to a rapid solution of the pressing problems facing the Board is the overall attitude that finds itself hamstrung by a statement of public objectives and hence the law's unworkability before it has been tried.

The primary responsibility of all concerned is to gain additional experience before suggesting amendments. Otherwise, they may have to answer the complaint that they did not have the answers at hand when the going got rough.

In the opinion of your subcommittee, the Surplus Property Board and the Treasury Department will find it possible to adopt their procedures to meet these objectives. We feel sure that they may act in the certain knowledge that your subcommittee will recognize the need for a flexible approach to the solution of their administrative problems. They may be sure, too, that, when amendments are proven necessary, your subcommittee will press for their rapid adoption.

In its investigation of the disposal of consumer goods by the subcommittee, the Surplus Property Board has been proved to be an example of how a

APPENDIXES

APPENDIX A

NATURE OF INVESTIGATION

The disposal agency's reports on the movement of surplus goods into and out of its hands since May 1944, a sampling of sales and the testimony of numerous witnesses from this and other Government agencies and from the commercial community, formed the basis of the subcommittee's survey and public hearings from December 12 to 15.

The reports showed acquisition, appraised, classification, disposition, and inventory registration of property for the period May 31 to October 31, supplemented the primary evidence for staff analysis of the character and the quality of goods becoming surplus and the record of their disposition. Dispositions that were by sales, were further pursued through reports on sales on all lots of goods in excess of $10,000 in average value, between the dates of July 1 and October 31 of last year in the regions of New York, Atlanta, Fort Worth, Cincinnati, and Seattle, and the District of Columbia. These are 6 of the 11 field offices maintained by the Treasury Department. Information on the number of the sales reported was amplified through additional reports, through conferences, and through testimony in open hearing.

In conferences and at public hearing, officers of the agency discussed organization, objectives, and policies and their implementation, methods, practices, and problems. Representatives of the principal operating agencies from which surplus property is received (the Army and the Navy) discussed their working relations with the Treasury Department. Representatives of the Smaller War Plants Corporation discussed their disposal experience and their important assignment in behalf of small business under the new act. Surplus property price fixing received discussion from the Chief of the Office of Price Administration's Enforcement Division.

APPENDIX B

THE SURPLUS REPORTER

The Surplus Reporter or system of property reporting, as explained to the subcommittee at the hearings and in subsequent conferences, is as follows. Each regional director lists these items of the goods coming under his jurisdiction which he is unable to dispose of. The list is then submitted to the Treasury Department, which a few of the subcommittees are divided into eight classifications in which consumer goods are divided for dispensation purposes, are reported once a month. These reports are
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then reviewed by a central committee composed of the commodity
division heads and others, who determine whether the goods listed
shall be offered in one, two, three, or in all of the other regions. Then
Surplus Reporters are made up for each region, one for each of the
eight commodity classifications, listing all the items that are to be
offered in the region in question. The regional reporters are then dis-
tributed by each regional office, chiefly by mail, to a list of buyers in-
terested in the type of commodities represented.

The Reporter lists for each lot of goods, the item number, the quan-
tity, the common designation of the item, its condition, a brief de-
scription and the sales methods to be employed in disposal. The pub-
lication also lists a date (usually about 8 weeks distant) in advance
of which none of the listed property will be placed on sale.

One obvious limitation of this device is its incompleteness. Just
what proportion of the total property in any one region is carried
in the Reporter is uncertain. Director M. F. Shoemaker of the Wash-
ington, D. C. region, estimates that for the last four issues of the
Reporter approximately 45 percent of the salable goods were listed.
In view of the fact that automotive units sold through a special plan
are not listed in the Reporter, and that recent surveys have indicated
that approximately 20 percent of surplus property, exclusive of those
special classes, is used goods, it would appear on the basis of Mr.
Shoemaker's estimate, that goods salable to regular trade within a region
receive reasonably full publicity. It is not a practice among regional
salaries in advertising used goods in the Reporter. Those, we are
told, are usually sold at auction or by other forms of bidding. Public-
ity being handled largely through circular letter to classified mailing
lists.

In this connection, it must be pointed out that there is exceptional
property over which the central office exercises control from the date
of the declaration as surplus. Its exceptional character may be based
on quantity, the nature of the property, or the degree of demand for
it. At all events, it is "forbidden" until the central office has worked out
an appropriate plan of sale. Such a plan may aim at giving the goods
interregional distribution or may require their sale to a limited cat-
ery of buyers, i.e., the original manufacturers.

The Surplus Reporter represents a definite advance over previous
publicity methods of the disposal agency. It should, under full
circumstances, increase particularly the information available to small
business. Among its imperfections is that of multiplicity. To be fully
informed of what is listed throughout the country, one may have to
collect and review all separate reports for each month. Of course, in
practice this should not occur often for most buyers are interested
only in a limited selection of commodities. But even for the average
buyer, the number complicates his work. Furthermore, if his offerings
may at any time before date of sale be withdrawn from the central
office or federal agencies, he is unable to sell to a State agency. This
implies an element of unreliability in the reports and is dis-
ouraging to private trade. Too, there is no specification as to the
distributive levels or levels at which any lot of goods is to be offered.

Prospective buyers who negotiate with a regional office only to learn
that the commodities they seek are not being offered at their level of
trade will doubtless be annoyed even if they are not discouraged from

making further efforts to buy. In their desire to avoid this annoy-
ance to buyers, regional directors are liable to restrict somewhat
the distribution of the Reporter. The publication is sent, too, in
the amount of information presented and the buyers must follow up
their interest through correspondence with the regional office before
they can learn whether the goods are actually what they seek.

At present, the gathering of information for the Reporter and its
publication and distribution requires several weeks. Indeed, the
interval between receipt of the declaration of surplus property and the
time at which it becomes available for sale now occupies about
2 weeks. Mr. Erskine has advised the subcommittee. Initially,
3 weeks are required for investigating and inspecting the declared
property; 1 to 2 weeks for reporting that portion which is listed
for wider advertisement, approximately 10 days consumed in pre-
paring the Reporter for publication and a 3-day interval is allowed
for circulation before initiating sales. This, of course, would
enforce slow movement of any goods in acute demand. However,
the central office has other reserves for moving them to market
more rapidly. For example, goods not reported can be sold within
21 days and goods for which the Washington office assumes control
perhaps can be moved with even greater dispatch. It seems desirable
that the distributive levels in which particular items are offered be
designated in the Reporter if some feasible plan can be worked out.
However, your subcommittee is of the opinion that the Surplus
Reporter in its present form is not the ultimate answer for cataloging
surplus consumer goods. We hazard the conjecture that a more
adequate report conforming more nearly to the conventional trade
catalog may be developed when larger and more complete stocks of
surplus goods come into the hands of Treasury for disposal. The
form of the cataloging method is a matter that will warrant con-
tinued study and experimentation by the agency and in the con-
nection we suggest that the officials in charge might profitably consult
with classified advertising directory compilers of private business.

Some of these firms have had long and wide experience preparing
large directories. Indeed, one such firm, we are advised, prepared a
catalog following the last war for the agency then commissioner
disposal of surplus property. At best, the Surplus Reporter must
be considered a creative of the sellers market and a staple of
transition.

APPENDIX C

OBJECTIVES OF THE SURPLUS PROPERTY ACT (PUBLIC LAW 417)

The objectives of the Surplus Property Act have been the subject
of considerable discussion since its adoption. The statement has been
repeated frequently that the objectives are contradictory, or parado-

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As a contribution to the study of these objectives, they have been regrouped below. An examination of this regrouping indicates that there is little that is contradictory between them, and much that is repetitious. Furthermore, many of these objectives apply more directly to the disposal of land, plants, equipment, and industrial raw materials to the consumer goods handled by the Treasury Department. Foreign disposal is not handled by the Treasury Department.

SECTION 2. OBJECTIVES OF THE SUPPLIER PROTECTION ACT GROUPED BY SERVICE MERRIT

(A) are to the prosecution of the war

(1) To conserve the most effective use of such property for war purposes and the common defense.

(2) Reconversion without major dislocations in the domestic economy.

(a) To facilitate the transition of enterprises from wartime to peacetime production and of individuals from wartime to peacetime employment.

(b) To conserve and further post-war employment opportunities.

(c) To encourage production of war materials and to stimulate the establishment of new independent enterprises.

(d) To achieve the peaceful and full utilization of surplus property at fair prices to the consumer through disposal as soon as to the protection of free markets and competitive prices from distribution resulting from unsold products.

(e) To protect the property in such a manner as to prevent the free market or competitive price from distribution resulting from unsold products.

(f) To promote production, employment of labor, and utilization of the productive capacity and the natural and agricultural resources of the country.

(3) Encouragement of trade and independent enterprises.

(4) Objectives under (A), (B), and (C) contribute to that

(a) To give maximum aid in the establishment of a prosperous nation of free, independent, private enterprise, the development of the maximum of independent operators in trade, industry, and agriculture, and to eliminate full employment.

(b) To discourage monopolistic practices and to encourage and preserve the competitive position of all enterprises.

(c) To establish a broad system of new independent enterprises.

(d) To achieve the peaceful and full utilization of surplus property at fair prices to the consumer through disposal as soon as possible.

(e) To foster the sale and distribution of surplus commodities to consumers at fair prices.

(f) To effect broad and equitable distribution of surplus property.

(g) To cause the sale of surplus property in such quantities and in such form as will discourage disposal in prices of for occupation purposes.

(h) To establish normal channels of trade and commerce in the extent consistent with the purpose of this Act, and to obtain the greatest number of new independent enterprises.

(i) To prevent producers from selling their products at a price that is in excess of their cost of production.

(j)…”

APPENDIX D

INVENTORIES AND ESTIMATE OF FUTURE SUPPLIES

The disposal of surplus consumer goods in accordance with the objectives of the Act requires accurate knowledge of type, amount, and volume of goods to be declared surplus in advance of the receipt of such goods by the disposal agency. This is essential to establish disposal procedures which will avoid dislocations to the economy, encourage small business, and allow rapid distribution to the consumer. Involved is the prompt declaration of surplus by the owning agencies, accurate description of goods and, to the extent possible, inventories of goods not yet surplus which will permit the estimate of the volume of future supplies.

Because of the importance of this problem for the development of sound disposal, the excellent summary presented by your Subcommittee's hearings by Gregory Silvermaster, Chief of the Research Division, United States Tariff Commission, Office of Surplus Property, Treasury Department, is reprinted here:

One of the most troublesome problems which was faced by disposal officials under the Act was the determination of the type of goods that could be disposed of. For many years after the war, the Army and Navy were reluctant to declare properties surplus. In some cases, they did not even want to deal with them. To the extent that the supply of the surplus trade is斋 difficult for the Army and Navy to determine what was surplus to their needs, to establish disposal procedures which will accurately and economically determine what surplus goods are available.

From this source of difficulty, several additional problems arose. The disposal

approach was developed to the idea that a significant number of goods would become available.

Thus, it was determined that the surplus should be made available.

Problems in selling the surplus under these conditions are obvious and must be dealt with at this time. This source of difficulty was not solved by the complete satisfaction of the disposal officials. The surplus was not declared surplus, and the surplus goods were not made available to the disposal agency. The surplus was not sold at the surplus price, and the surplus goods were not made available to the disposal agency. The surplus was not sold at a price that would allow the disposal agency to make a profit.

In order to solve this problem, it was necessary to establish disposal procedures which would allow the disposal agency to make a profit. These procedures would involve the sale of surplus goods at prices that would allow the disposal agency to make a profit. These procedures would involve the sale of surplus goods at prices that would allow the disposal agency to make a profit.
Another aspect of the problem, however, may cause some difficulty in the
future. It will be necessary for the disposal agencies to have some reliable estimate
of the size of the aggregate surplus it will have to dispose of, so accounting
for the value, the amount, the description, and the location of each of the products
involved. The act does not require, however, that owning agencies provide the
Board or the disposal agencies with information about material which it has not
already declared as surplus to its needs, if it contends that such information is not
consistent with national security.

It is especially important that the owning agencies do not provide this information within a
reasonable time after the war, the disposal agencies will be unable to develop an
intelligent program for surplus property disposal which will conform to the political,
social, and economic objectives provided in the act, and which will be in the na-
tional interest. We are confident, however, that the owning agencies are well
aware of this aspect of the problem and will act, as after the last war, devote prop-
erty as surplus to a permanent and lasting function.
Material supplies continue to tighten

While discussion of reconversion problems is again coming to the fore as hopes rise for an early end of the war in Europe, the actual materials supply situation continues to tighten, and the immediate outlook for civilian goods output has become less promising. Heavy military demands have necessitated cuts in allocations of materials for a steadily widening list of civilian goods. In addition to previous cuts in civilian allocations of such items as metals and textiles, it was revealed by the WPB last week that the reduction in supplies of upper leather for civilian shoes in the second quarter of this year would be so severe that fabric footwear for both men and women might become commonplace before the end of the year.

Indicative of the marked change in the materials outlook since last fall, the WPB recently set up a new Conservation and Salvage Division after having abolished a previous Conservation Division last November when the supply outlook seemed favorable. One of the functions of the new division will be to recommend limitation orders, and it is reported that the Division is starting a survey to determine the extent to which substitute materials can be used in civilian building in order to save scarce materials for military needs. Certain relaxations in materials use which were put into effect last fall, particularly in the plumbing and heating trades, are expected to be rescinded.

Steel production dropped substantially in February

The advent of warmer weather and the passing of the recent floods, which did not seriously disrupt all activities, have improved the operating outlook in the steel industry, although manpower shortages and the heavy backlog of orders continue to present a formidable challenge. Release of actual production figures for February reveals that steel ingot production during the month averaged only 97% of capacity and was 350,000 tons, or 9.9 percent of capacity and was 350,000 tons, or 9.9 percent of capacity, below the February output last year. During the first full week in March operations rose to 95.9 percent of capacity but a recession to 94.5 percent of capacity occurred last week. (See Chart 1.)

Although the transportation situation has improved, some mills in the Pittsburgh district were still slowed...
last week by a lack of freight cars. River traffic in the area was reported to be virtually normal and barge movement of coal increased sharply. Aided by the Coast Guard's new big ice breaker, Mackinaw, operations on the Great Lakes are now expected to get under way on April 1 despite some points than last season.

Civilian Food Supplies Tighten

The increasing shortages in civilian supplies has also been manifest by a tightening of food rationing in recent months. Heavy military demands and growing relief needs, combined with decreased production of certain foods, have led to a squeeze on civilian supplies of some important foods such as meats, butter, and other fats and oils, and sugar. The decline in hog slaughtering under Federal inspection in recent months has been even greater than expected on the basis of the sharp decline in the 1944 pig crop. Hog slaughter in February was 55 percent below that of last year. Cold storage stocks of meat on March 1 were the lowest on record, and WPA officials predict that meat production will continue to decline in the next few months.

The shortage of meats brought an announcement over the week-end that the allocation of meats for civilians in the April-June quarter will be 20 percent less than in the quarter just ending. The allocation of meats for lend-lease has also been greatly reduced, but an increased amount will go to the armed forces. A new distribution plan is to be worked out to spread the reduced amount of meats fairly as possible.

Meanwhile, the reduced hog slaughtering has decreased pork production, one of the principal sources of domestic meat supplies. Butter production has been falling consistently below year-earlier levels since the beginning of last year. Moreover, due to increased requirements and depleted stocks, the Government set-aside of butter was increased from 35 percent in March to 40 percent in April and 55 percent in May, according to a WPA announcement last week. (In April last year only 10 percent was set aside for the Government.) While sugar supplies from foreign and domestic sources are not substantially changed from those of a year ago, reduced stocks and heavy military and relief demands have necessitated a tightening in rationing.

Export control committee established

Confronted by the increasing Army and European relief demands upon the limited food supplies, War Mobilization Director Byrnes announced at the beginning of last week the formation of a new export control committee to ensure that our large foreign shipments do not interfere with the fulfillment of essential domestic needs. The committee is headed by FPA Administrator Leo Crowley and is composed of representatives of the Army, Navy, War Shipping Administration, State Department, WPB and NFA. Under the new set-up no Government agency may enter into formal or informal commitments for the export of supplies other than for essential military purposes, such as direct military lend-lease and supplies in the wake of battle, without first receiving the approval of this export committee. Although the establishment of the export committee appears to have been precipitated by the shortage of foods, its authority will cover practically all export items except direct military materials.

The export control committee will not supplant the Requirements Committee of the WPB and the Food Requirements Committee of the NFA, which will continue to assume responsibility for the allocations of industrial equipment, raw materials and foods. However, recommendations from these sources will be examined by the export control committee in relation to our own civilian economy.

Preliminary cutback estimates

Mr. Fox of the WPB has just informed us on a confidential basis that new estimates of cutbacks after the German defeat are almost completed. The preliminary figures now indicate that cutbacks in our-all munitions production will amount to between 15 and 20 percent within the first six months after the German defeat, and will then gradually rise to a total of not more than 35 percent by the end of twelve months. Similar figures were referred to in the press this morning, but apparently were not released officially. Further details will be made available to us sometimes this week after the preliminary work has been completed.

For some time, the WPB has had little to say publicly concerning reversion conversion plans, Chairman Krug asserted last week, however, that the WPB has been working hard on this problem and that those developed last summer.
On the basis of present indications the shipbuilding industry appears likely to be one of the first major industries to be confronted with reconversion problems. Vice Admiral Viokey of the Maritime Commission said last week that the merchant shipbuilding program would be completed by the end of this year. Employment in Commission shipyards has already declined substantially under year-earlier levels, and now totals 521,000. Many of the shipyards on the West Coast are being converted into repair installations, and a large number of workers will be needed for ship repair operations. However, a WPB official recently indicated that merchant marine and Navy ship repair programs will absorb only about one-half of the workers expected to be laid off by the shipyards.

Stock trading declines sharply
Following the sharp decline of the previous week, stock prices strengthened last week, but trading activity on the New York Stock Exchange dropped nearly 90 percent. (See Chart 2.) At the close on Saturday the Dow-Jones industrial stock average was about 1 percent higher than a week earlier, although still nearly 3 points below the March 7 high.

Largely as a result of a sharp advance in Atlantic Coast Line, the railroad average moved up to a new high for the year during the week. The rise in Atlantic Coast Line followed announcement that the road would sell a portion of its holdings of Louisville and Nashville common stock and use the proceeds to redeem the remaining $20 million in collateral trust bond issue. The stock, amounting to 166,971 shares, was offered by Morgan Stanley and Company as a secondary distribution on Friday, and was reported to have been quickly over-subscribed. The Dow-Jones average of second-grade railroad bonds rose fractionally above the previous 1945 high in the latter part of the week.

Spot markets continue firm
Firmness in spot prices continued to be the dominant feature in the commodity markets last week. Despite a rather sharp reaction on Thursday, futures prices showed a rising trend, partly under the influence of the strong spot market, and the Dow-Jones futures index made a net gain of 0.5 percent. Spot prices for most commodities continued at ceiling levels and the BLS index of 26 basic commodities was up a trifle.

During the past month basic commodity prices have shown little movement, with most prices firm at the CPB ceilings. Only one commodity in the basic index has shown any noticeable change, as the price of which rose 3 percent (see Chart 1, lower section) -- and even this commodity has been steady during the past few weeks.

The BLS general index of wholesale prices has continued the gradually rising trend which was resumed last September, and in the week ended March 10 was up 0.1 percent to reach a new wartime peak. (Refer to Chart 1, upper section.) Substantially higher prices for livestock and meats, together with a slight increase in grain prices, were responsible for the latest rise in the index. The index now stands at 109.1 percent of the 1926 average, which is 1.8 percent higher than a year ago and is 40.1 percent above the pre-war August 1939 average.

Cold storage stocks lower
Indicative of declining food stocks, cold storage space occupancy has declined considerably in recent months, in sharp contrast to the tight situation prevailing last year. Freezer occupancy on March 1 was 69 percent of capacity, which is 4 points lower than a month earlier and is 2 points below that of a year ago. Cooler occupancy on March 1 was 66 percent of capacity, down 2 points from the month before and 6 points below the same date of 1944.

Stocks of most commodities showed an out-of-storage movement during February, in line with the normal seasonal trend, although the decline in pork and lard stocks was contra-seasonal. Stocks of eggs and beef increased. In comparison with a year ago, stocks of most commodities are sharply lower, with meats, butter, shell eggs, and lard showing decreases ranging from 53 to 81 percent. (See Table 2.)

Apple stocks continue at high levels
Although storage stocks of apples declined substantially during February, the out-of-storage movement was at about an average rate, and stocks on March 1 were still at unusually high levels. Stocks on that date totaled 18,655,000 bushels, which is more than 4 million bushels (29 percent) larger than the 1940-41 average for that date. (See Chart 2.)
The above-average stocks, however, are concentrated in the eastern states. Stocks in Virginia, for example, were 53 percent above the 1939-40 average, and stocks in New York were 38 percent above the average, whereas in the state of Washington stocks were 5 percent below average. In view of the apple purchase program for eastern states which the WPA announced early in March, it is possible that when the storage figures are released for April, stocks in eastern states may show a greater than seasonal decline.

Crop prospects better than average

Crop prospects at the beginning of the 1945 season appear better than average in most states, with only limited areas seriously handicapped by weather conditions, according to the March 1 crop report of the Department of Agriculture. Moisture reserves are adequate in most states, although Florida and some Mountain and Pacific Coast states need rain. Wheat and other grains planted last fall have apparently come through the winter with inoccumential damage and are generally in good to very good condition. Fruit trees started growth earlier than usual in the South and are exposed to the danger of a late frost.

While weather conditions are favorable, the reduced labor supply is causing concern throughout the country, and farmers in some sections are reporting difficulty in securing needed repair parts for machinery. The Department of Agriculture estimated that farm employment on March 1 amounted to about 6,400,000 persons, which is 150,000 less than a year ago and the lowest for the month during the 21 years of records. The number of family workers, 6,000,000, was almost as last year, but the number of hired hands, 1,200,000, was 8,5 percent less. Reports from some regions mention the drafting of an increasing number of farm boys.

Farm real estate prices continue to rise

The wartime rise in farm real estate prices has continued in recent months, according to confidential data of the Department of Agriculture, but the rise has been somewhat less than in the same period a year earlier. The index of farm real estate values rose 5 percent in the four months ending March 1, as compared with nearly 7 percent in the earlier period. At 100 of the 1939-40 average, the index is 90 percent above the pre-1942-43 average level of March 1939. The total number of voluntary transfers, after reaching a peak in the first few months of last year, has declined moderately, but is still at abnormally high levels. Cash sales have comprised a gradually increasing proportion of the total, amounting to 55 percent of all voluntary sales in 1944 as compared with 58 percent in 1943.

Although the average down payment on mortgaged-financed sales may have increased slightly, according to information from the Department of Agriculture, the mortgage debt and the debt per acre have probably increased with the rise in the selling price. A slight increase in speculative activity appears to be indicated, judging from a survey of 100 selected counties, which shows that sales of farms held two years or less amounted to 12 percent of the total in 1944 as compared with 10 percent in 1943. In the last half of 1944, farms held two years or less constituted 13 percent of sales in the surveyed counties.

The 50 percent rise in farm land values during this war has been somewhat less than during the comparable period of World War I, when land values soared 65 percent above their pre-war level. (See Chart 1.) However, it should be noted that the peak reached in this latter period was more than one year after the war had ended. In relation to prices of farm products, farm land values in this war have also shown a smaller rise than during the first World War. While farm land values have risen 15 percent less, farm prices have shown the same percentage rise as in World War I, 124 percent. (See Chart 1.)

Department store sales show wide gains

Following last month's heavy sales, which pushed the FBS adjusted index of department store sales to a new high of 211 (1939-40=100), sales thus far in March have shown further gains under the stimulus of active pre-Easter buying. During the week ended March 10, the sales gain over year-earlier levels widened to 28 percent from 15 percent in the previous week. (See Chart 1.) Due to the fact that Easter occurs one week earlier this year, part of the sales gain, estimated at 4 percent for the month as a whole, is attributed to the earlier occurrence of Easter. Nevertheless, current indications point toward a record dollar volume of sales during the current Easter shopping season. Near the end of last week, the Wall Street Journal concluded on the basis of a survey of 12 metropolitan centers, that sales all over the country are showing their biggest pre-Easter sales on record.
Table I

Cold storage stocks of selected items March 1, 1945 compared with February 1, 1945 and March 1, 1944.

<table>
<thead>
<tr>
<th>Item</th>
<th>Percentage change March 1, 1945 over February 1, 1945 (1944)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frozen fruit and vegetables:</td>
<td></td>
</tr>
<tr>
<td>Fruit</td>
<td>-10 + 17</td>
</tr>
<tr>
<td>Vegetables</td>
<td>-15 - 19</td>
</tr>
<tr>
<td>Meats and lard:</td>
<td></td>
</tr>
<tr>
<td>Beef</td>
<td>+14 - 93</td>
</tr>
<tr>
<td>Pork</td>
<td>+14 - 83</td>
</tr>
<tr>
<td>All meats</td>
<td>+14 - 83</td>
</tr>
<tr>
<td>Lard and rendered pork fat</td>
<td>-16 - 81</td>
</tr>
<tr>
<td>Dairy and poultry products:</td>
<td></td>
</tr>
<tr>
<td>Butter</td>
<td>-20 - 71</td>
</tr>
<tr>
<td>Cheese</td>
<td>-15 - 86</td>
</tr>
<tr>
<td>Eggs, total</td>
<td>-17 - 74</td>
</tr>
<tr>
<td>Shell</td>
<td>+14 + 13</td>
</tr>
<tr>
<td>Frozen</td>
<td>+2 + 17</td>
</tr>
<tr>
<td>Dried</td>
<td>+3 + 17</td>
</tr>
<tr>
<td>Frozen poultry</td>
<td>-15 - 17</td>
</tr>
</tbody>
</table>

Source: War Food Administration.

Chart 1

STEEL INGOT PRODUCTION

Percent of Capacity

Tonnage

Office of the Secretary of the Treasury
Division of Research and Service

Source: American Iron and Steel Institute

C-332-4
Chart 2

STOCK PRICES, DOW-JONES AVERAGES

Daily

- 30 Industrial Stocks
- 20 Railroads
- 15 Utilities

Volume of Trading

Dollars

Chart 3

WHOLESALE COMMODITY PRICES

PERCENT

WEEKLY

1944

1926=100

1945

107

106

105

104

103

102

101

100

JAN

MAR

MAY

JULY

SEPT

NOV

JAN

MAR

MAY

JAN

107

106

105

104

103

102

101

100

SELECTED BASIC COMMODITIES

Percentage Change April 9, 1943 to Feb. 16, and Mar. 16, 1945

PERCENT

+70

+60

+50

+40

+30

+20

+10

0

-10

-20

-30

-40

-50

-60

-70

-80

-90

-100

Chart 3

Source of the Secretary of the Treasury

Regraded Unclassified
FARM PRICES, 1939 TO DATE COMPARED WITH 1914 TO 1921
July 1914 = 100 World War Period: Aug. 1939 = 100 Present Period

DEPARTMENT STORE SALES
1935-39 = 100, Unadjusted

Weekly

Source: Department of Agriculture
Commissioner Nunn
Secretary Morgenthau

I wish you would look into the question as to whether we can or cannot discontinue the breaking of liquor bottles.

I would like an answer not later than this afternoon. Please send it directly by messenger to Fitzgerald so that I can get it.

Copy to Mr. O'Connell

March 19, 1945.

RECOMMENDATION FOR THE SECRETARY:

You ask, in your memorandum of March 19, whether we can or cannot discontinue the breaking of liquor bottles.

Early in 1944, the Treasury Department sponsored legislation designed to control the use and resale of liquor bottles, which legislation was enacted into law on June 16, 1944. (See section 2671, Internal Revenue Code.) Regulations 11 were immediately issued to carry this statute into effect. Section 173.2 of these regulations provided:

"Possession of used containers.--The possession of used liquor bottles or other authorized marked containers by any person other than the person who supplied the contents thereof is prohibited. This shall not prevent the owner or occupant of any premises upon which such bottles or containers may lawfully be erected from assembling the same in reasonable quantities upon such premises for the purpose of destruction."

At the request of industry members and realizing that the destruction of liquor bottles might affect the war economy, on August 23, 1943, these regulations were amended (50 F.S.R. 2503) to permit either such assembling for destruction, or assembling for delivery for resale to the bottler or importer entitled to package spirits in such bottles.

Section 173.2 now reads as follows:

"Possession of used containers.--The possession of used liquor bottles or other authorized marked containers by any person other than the person who supplied the contents thereof, or the bottler or the importer as authorized under section 173.1, is prohibited; PROVIDED, THAT this shall not prevent
Memorandum for the Secretary.

Page two.

"the owner or occupant of any premises upon which such bottles or containers may lawfully be emptied from assembling the same upon such premises (a) for the purpose of destruction or (b) for delivery to a bottler or importer who maintains a storage place for used liquor bottles authorized under Section 179.35."

Therefore, as the person assembling used bottles has the option of destroying them or returning them to the bottler or importer for reuse, the breaking of liquor bottles is not mandatory.

(Signed) Joseph B. Naran, Jr.
Commissioner.

Mr. White
Mr. O'Connell
Mr. Luxford
Secretary Morgenthau

8/19/45

In talking with Ned Brown, he told me something that I didn't know before, and I think you people should know it if you don't; namely, that Randolph Burgess is going around and talking to other countries, like Holland and he mentioned some others, and getting them to tell him that as far as they are concerned they would just as soon have the Bank and the Fund together, and that it wouldn't make any difference, and if it were put up to them for ratification they would ratify it if the Bank and the Fund were one. Now I imagine that this is something that Burgess is going to pull later on, and we ought to be prepared to answer him and, if necessary, talk to some of these countries who have representatives over here, and put them on the spot and get them to stop undermining us.

Please talk to me about this.
FEB 19 1945

Dear Major McLean:

It was very kind of you to entertain us at lunch yesterday, and I especially appreciate the opportunity you gave us to discuss "Bretton Woods" with you and your other guests.

I particularly want you and Howard Stockhill to know how much we, here at the Treasury, appreciate the splendid leadership that your organization has given in the Newspaper Boy War Stamp Sales Program. It is not only helping assure needed extra funds for financing the war, but it is also doing a lot for the future of the half-million boys that are participating actively in the program throughout the nation.

Thanking you for your hospitality, I am,

Sincerely,

(Signed) H. Morgenstern, Jr.

Major Robert McLean
President
The Philadelphia Bulletin
Philadelphia, Pennsylvania

MAR 19 1945

Dear Mr. Neffsiger:

I would like to thank you and your association for the opportunity you gave us to get across the story of our Bretton Woods conferences to so many people in the Northwest.

Will you please extend our thanks to your president, Mr. Sprague, as well as to the other officers and members of your association.

Sincerely,

(Signed) H. Morgenstern, Jr.

Mr. W. D. Neffsiger
Vice President
Minneapolis Civic & Commerce Assn.
609 Second Avenue
Minneapolis, Minnesota

SOLtraf
Dear Mr. Cowles:

I want you to know how very much I appreciate the hospitality that you and the other members of your organization extended to our group while we were in Minneapolis.

I feel that a great deal of good was accomplished at your breakfast in our informal discussions on the Bretton Woods conferences.

Thank you for the splendid support your newspapers are giving the program.

Sincerely,

(Signed) H. Mayerman, Jr.

Mr. John Cowles
President
Minneapolis Star Journal & Tribune
Minneapolis, Minnesota

March 19, 1945

Dear Will,

I want to compliment you on your excellent support for Bretton Woods on the Metropolitan Opera broadcast.

Support of this character means a lot at this time.

Sincerely,

(Signed) Harry

Honorable William L. Clayton,
Assistant Secretary of State,
Washington, D. C.

AFL-IUAD - 3/19/45
March 19, 1945

Dear Nathan:

Many thanks for sending me a copy of Frank Kingdom's broadcast. This is one of the very best that has been made in behalf of station wood and I wish you would tell him how pleased we are with this broadcast.

Thank you for bringing this to my attention.

Yours sincerely,

(Signed) Henry

Mr. Nathan Strauss, Station NCA, 1857 Broadway, New York 18, New York.
Behind the scenes in Washington, one of the greatest struggles for power in the post-war world is going on. It is the fight which the great international banking houses are making against the World Bank and the International Monetary Fund which are proposed in the Bretton Woods proposals. It is right in line with the fight the big bankers have made against all forms of financial regulation since the New Deal began. The present opposition to the Bretton Woods proposals is operating under cover of the name of the American Bankers Association, but an examination of the names of the members of the actual committees reveals the presence of representatives of the big New York banks engaged in international finance. They fear that the World Bank and Monetary Fund will bring their international operations under too much control from their point of view, and they are fighting them in exactly the same way they fought legislation to regulate banking and stock exchange operations in this country. The Bretton Woods proposals may seem complex and difficult to understand by most of us because they deal with money, but let us not make any mistake. That is not going on before the House Banking Committee which has begun hearings on these proposals is important to each one of us and to the future of the world, for what is being discussed basically is whether international money power shall be in the hands of international bankers alone, or whether it shall be regulated and directed by an international organization in which all the people of the world share.

After the last war we had no controls. What happened was this. Certain big industries in this country sold goods to foreign nations. These industries made money. The big banks sold foreign bonds - German bonds, Argentine bonds, Cuban bonds, bonds of the gulf of Rio de Janeiro - and these banks made money out of selling the bonds. The foreign nations paid for the goods they bought from us with the money they borrowed from us, and the industries and the banks collected profits. But the bonds were never paid. The people who invested in them lost their money. Foreign countries got the goods. Industry investor and banking got their pay-off. The man who lost was the American investor who took his banker's advice and bought the bonds which turned out to be worthless. What is more, the collapse of these bonds was one of the contributing factors in the financial crash. I do not accuse the bankers of bad faith. They naturally want to keep the present way of doing things because that is one source of their income and power. I am simply pointing to facts of experience that indicate that this is not the most efficient way to handle post-war banking, and that we shall find ourselves back in the same vicious set of financial losses and collapse if we do not find a better way. The Bretton Woods agreement shows the road to a better way. It is not too hard to grasp in its main outlines. It suggests that we set up two agencies: an International Bank and an International Monetary Fund. The first agency, the World Bank, will have an operating capital of a little more than $5 billion dollars. Yes, as the richest nation with most of the gold of the world in our possession, would provide $4 billion of the $5, and all other nations would provide in proportion to their ability. This means that all the other peoples would have a share in the capital, and any loan made out of it would come from all of them. They would be real international lending rather than having one country do all the lending and run the risk of having to take all the losses all countries would share.
In making the loans and would take their proportionate part of any loss that might come.

Loans, up to 20% of the Bank's capital resources, could be made to any country; the Bank would also guarantee bonds which any country was empowered to issue, and also loans issued in any country to finance constructive enterprises in another which private lenders might not want to finance. Loans will be investigated by competent conditions, and the nations receiving them will give adequate security for repayment. In other words, the World Bank will operate like any other bank, only its subscribers and clients will be nations instead of individuals. The American Bankers Association first opposed this idea for a World Bank, but they now have withdrawn their opposition to it, and are concentrating on fighting the International Monetary Fund, which they at first approved. I am sure no explanation for this complete right-about-face in their position. On the surface, it looks as though they are out to defeat the whole program of international control of finance, and to put their necks where they bit as long as they bit it elsewhere. But what is the International Monetary Fund which they are not attacking! It also is to have resources of something like 2 billion dollars or of which the United States will subscribe 1 billion. Its primary purpose is to stabilize all international currencies. But this means is that if we agree that a British pound shall be worth four dollars and a half, or a French franc worth 20 cents, we will maintain these relative values - the pound will not be worth four dollars one day and five dollars the next, or the franc be worth 15 cents one day and 20 cents the next. This is essential to maintain stability in world trade. One of the disturbing factors in the past has been that nations have manipulated their currencies in competition for the trade of other nations. When the pound was relatively cheaper than the dollar, British merchants could undersell us, for example, and this has precipitated currency wars, resulting in cheap money, which is the same as inflation with all the results that it brings. Hitler carried this to the extreme, fixing the value of the mark at one figure for travel, another for exports, another for tourists, and so forth. The Fund would stop this. If any nation lacked the gold to keep its currency at its proper level, the Fund would put enough financial support under it to maintain it. Every trader would know all the time exactly what any nation's currency was worth. He could not be short-changed, as some were when they made contracts on the basis of a gold-dollar or a gold-pound, but were paid in paper dollars and paper pounds because the currencies had gone off the gold standard in the meantime. This World Monetary Fund has been attacked from many sides, and is now the chief target of the American Bankers Association. The British opposed it originally. They feared that it meant a return to the gold standard, which they have found in experience to be too rigid, forcing a disproportion between the value of money and goods.

The Fund has been modified to meet this objection. The American Bankers Association now opposes it because they say that its method of lending is "novel and contrary to accepted credit principles." This is true. We have never before tried a plan for lending based on the maintenance of currency values. But this is hardly an argument against trying it. It is a revolutionary idea in banking, but methods now generally accepted were called revolutionary too when they were new. Alexander Hamilton had to fight for...
his life to put across the idea that this nation pay off its loans to foreign creditors before it negotiates for new foreign loans, and one of the chief arguments against his
was that his proposal was unwise and unprecedented. Andrew Jackson's liveliest fight
was against the United States Bank which then controlled our financial destiny, and
his enemies said that he was leading us irresponsibly toward unbridled and dangerous
paths.Andrew Wilson and Carter Glass were denounced by every banking association in
the country when they proposed the Federal Reserve System, which its opponents called
revolting and socialistic. Roosevelt's insurance of bank accounts up to five thousand
dollars was another new scheme resorted to by old-line bankers. The fact of the matter is
that we are inaugurating a new kind of relationship between the nations and we have to
invent a new way of handling their financial dealings with each other. Bretton Woods
is essential if Germany gets is to succeed. One plan that the American Bankers Asso-
ciation is making is that we delay the monetary fund for five years. Things are too
unsettled, they say, to move at once. The answer to that is that the quicker we move in
the more likely we are to prevent chaos, reconstruction, rehabilitation, revival of
world trade, and confidence in currency all have to move together. We cannot have any
of them without all the rest, and to argue that we must have one or the other first is
like getting back to the old debate about the hen and the egg. We want a stable world,
A permanent
One move in that direction is to complete the organization of UN at New York.
Another is to unite all our financial resources to give each country
financial stability so that all others can deal with it, and all world trade be conducted
in a reasonable and firm understanding among nations. Without confidence, we face great
Dear Mr. Hennegan:

I am very much interested in Mr. Pepper's letter and memorandum which you enclosed in your letter to me of March 15. The motion picture industry has raised questions which certainly should be answered and I shall attempt to give you as much help as I can in obtaining their support of the Bretton Woods proposals.

Expanded and unrestricted foreign trade is very important to the motion picture industry. A large part of its income is derived from leasing films abroad, some producers obtaining nearly one-third of their rental income from foreign sources. Since slightly more than half of this revenue comes from Great Britain, the industry is understandably concerned about the British postwar balance of payments picture and the effect that adoption of the Bretton Woods proposals will have on Britain's policies.

Changes in her financial position during the war will undoubtedly result in England having an unfavorable balance of trade immediately after the war. The problems she must solve are difficult, but they can be overcome. It is in the general interest of the United States, and particularly industries such as motion pictures that depend upon a British market, to influence the solution of these problems along lines that will mean expanded world trade and larger foreign markets for American industries.

What Great Britain really needs is an expansion of world trade which will permit her to export enough to pay for her imports. This can be accomplished through cooperation of the United Nations to do away with the restrictive trade practices of the past. The resulting increase in trade will enable England to balance her payments without trying by unfair means to take business away from her neighbors. In the absence of such cooperation, Great Britain will undoubtedly adopt a policy of bilateralism, economic discrimination and economic warfare directed towards obtaining a large share of world trade.

If England is forced to take such a course other countries will have to do likewise, the volume of trade will decline and all of us, including the motion picture industry, will suffer. There will be legitimate reason, under such circumstances, to fear the imposition by Great Britain of restrictions on the transfer of funds earned within her borders, quota limitations on United States pictures sold on the British Isles, and government preference for British-owned companies.

If the Fund and Bank are put into effect and the United Kingdom accepts membership, it will have to remove its exchange controls as quickly as possible, thus assuring freedom in the transfer of earnings by the motion picture industry. It will also mean that the world has chosen the path of cooperation on international economic problems which, I am firmly convinced, will stimulate trade and make possible general trade policies under which English-speaking people everywhere will be able to see and enjoy the pictures they desire, irrespective of where they have been produced.

The Bretton Woods proposals will not solve all of the world's trade problems since they cover only the monetary and investment fields. They will outlaw the restrictive monetary practices of the 1930's and in this way will be of direct benefit to the motion picture industry, and they will also lead the way to the cooperative solution of other trade problems. I believe, however, that it is equally important to keep in mind the difficulties that will confront the movie people if the Fund and Bank are rejected. We can be absolutely certain that without these institutions there will be unfair and discriminatory measures taken by many countries that will greatly reduce the income from abroad of the motion picture industry.
I have tried to indicate to you how the 
Bruton Woods proposals will affect British problems 
and British policies, particularly with respect to 
the fears expressed by some of the people in Hollywood. 
If you and Mr. Pepper are interested in the details of 
the Fund and Bank Agreements, I think you will find the 
enclosed pamphlet helpful.

I am also enclosing Mr. Pepper's letter and 
memorandum.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Mr. Robert E. Hannegan
Chairman
Democratic National Committee
Mayflower Hotel
Washington, D. C.
DEVELOPMENTAL COMMITTEE
HAYFLEIS HOTEL
WASHINGTON

ROBERT E. HANOVER
Chairman

March 15, 1948

Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury
Treasury Department
Washington, D.C.

Dear Mr. Secretary:

I am enclosing a letter just received from George Pepper, Executive Secretary, Hollywood Democratic Committee, Hollywood, California, together with the memorandum he mentions.

I shall appreciate it if you will give me information regarding the question raised that I may pass on to Mr. Pepper, together with return of the correspondence.

Sincerely yours,

Encl.
March 15, 1945

Mr. Robert Hannegan
Mayflower Hotel
Washington, D.C.

Dear Mr. Hannegan:

Enclosed is a memorandum drawn up as a result of our contacting certain leading people in the motion picture industry toward gaining their full support for the Breton Woods agreements. While there is no question that as individuals the majority in the motion picture industry favor these agreements, nevertheless the problem posed by the enclosed memorandum must be discussed frankly before we can expect their public and full support.

In our opinion the problem raised is a fair question which should be dealt with immediately because it represents and typifies the questions American business must and should have answered at the very time it is asked to support Breton Woods.

For this reason we urge that you take this up with Mr. Morgenthau and any other source you think necessary, toward the end of enabling us to answer this most legitimate request to the satisfaction of the industry as a whole. It is particularly important at this time to gain that support because of the pending fight in Congress.

Sincerely,

HOLLYWOOD DEMOCRATIC COMMITTEE

GP151

EXECUTIVE SECRETARY

Regraded Unclassified
The motion picture industry faces a serious problem in connection with the sale of American motion pictures in Great Britain. The problem arises from the shortage of foreign exchange and the necessity for restricting imports, any sensitivity for which they cannot show a comparable export.

American motion picture companies face restrictions on the number of films earned in Great Britain. They face quota limitations on the number of pictures which may be sold in Great Britain, plans to measure American film consumption in Great Britain, and the establishment of the British market. A motion picture company can earn in the British market.

In addition, there is the prospect of legislation for government control of the motion picture industry in Great Britain which would mean strong preferential treatment for British-owned companies. Since most of these problems grow out of the British need for dollar exchange, it is fair to assume that the British needs plan, if put into effect, might eliminate many of the difficulties which American motion picture companies would otherwise face.

For this reason it is suggested that the best way to interest the American motion picture industry in supporting the British needs plan is to begin with a discussion of the British problem with the purpose of demonstrating how a plan like treatment may operate to the long-term advantage of the American companies.
Strictly Confidential
Letter IV

American Embassy
Chungking
February 22, 1945

Dear Mr. White:

Having been here almost exactly a month, I have had enough time to get
the main contours of the situation and to evaluate them with a fair amount
of dispassionateness. Therefore I propose to review the picture in some
detail with reference to American policy in China in general and to Treasury
policy in particular.

1. **Political Conditions**.

There is of course only one burning issue in the political sphere.
Will the Generalissimo agree to the termination of one-party government
(or, what comes to the same thing, his personal dictatorship) and to the
formation of a real coalition Government? So far, no significant progress
has been made in the negotiations, no matter what Hurley may say to the
contrary on his return home. The Kuomintang and the Chinese Communists
are as far apart as ever, and there is no sign of any improvement. It
appears that the current discussions in Chungking have terminated in an
agreement to continue discussions on how to find ways and means to lead to
unity. This is fundamentally a device adopted to save Hurley’s face and
to cover up his failure, as

(a) The Generalissimo does not desire unity and is struggling to
delay a settlement — i.e. a basic settlement — for as long
as possible. Of course, if the internal political situation
deteriorates and the internal pressure on him increases, his
attitude will become more placatory, just as it will become
more intrinsigent if he feels internally stronger. In either case, if he can possibly help it he has no intention of moving toward more democracy.

(b) Chou En-lai is leaving Chungking in the near future and according to most Americans will not return except at the express invitation of the American representatives here. In other words, the Communists will not be represented by any of their top-string men in such discussion as any continue, which is a clear indication of how much they expect from the negotiations at the moment.

There are several points worth noting about the recent negotiations:

1. Hurley's contribution has been a major success and slow for American policy toward China, if we can be said to have a clear-cut China policy. He enjoys the respect and esteem of neither party to the negotiations and has barely managed things. He is very much in T.V.'s pocket, and has allowed T.V. to hoodwink him at every turn. His ignorance of China, his inability to understand either the Generalissimo or the Kuomintang, and his gross stupidity are a sad commentary on the importance we attach to China. Under the most favorable conditions, his was a man-sized job demanding a mature intelligence and character, and very frankly he has neither. He is a stuffed shirt playing at being a great man, and both sides had little difficulty in seeing through him. He won't bear down on the Kuomintang, with which he

other tactics will help. He runs to T.V. for advice, shows him confidential American documents, accepts T.V.'s judgment on Americans (as on John Davises), and continues to trust him in spite of multiplying evidence of his duplicity. In addition to all this, he is an incompetent bungler in the diplomatic sphere and does not understand that the first function of an ambassador is to report faithfully the conditions in the country in which he represents us — witness his order to the Embassy staff not to write any reports unfavorable to the Kuomintang. As already indicated, he is returning home with Bissinger in the near future for consultation, and the Embassy staff is hoping and praying that he won't come back, as he makes their life miserable and their normal functioning impossible. Apparently, he has already had some tiffs with the State Department on a few simple routine matters.

The following story amusingly reflects both T.V.'s duplicity and Hurley's essential frivolousness. After the fire at the Embassy, the Generalissimo told Hurley that he could have any building he asked for. Hurley after a little anointing decided to ask for Kung's residence, one of the best buildings in Chungking. He first approached T.V., who advised him not to ask for it, as Kung was old and in hospital and might be hurt if his residence were transferred to someone else. Instead of suspecting T.V.'s unadorned solicitude for Kung's tender feelings, Hurley accepted T.V.'s explanation at its face value. Two days later Hurley discovered that T.V. had in the meantime installed himself in Kung's residence.
Hurley told me this story himself. Nevertheless, Hurley still runs to T. V. for advice and allows T. V. to function as the interpreter in his interviews with the Generalissimo. You say recall that the American Army used to have Madame Chiang as the intermediary between it and the Generalissimo; T. V. is no better - and no worse - than his sister in this respect.)

I should warn you that Hurley on his return will not only claim to have scored a great personal triumph where he has been a dismal failure. He will then see the Secretary and people who share the Secretary’s outlook to tell them that the Komingtung is no good and that the Chinese Communists are real demons. He does that here too. But his actions have not been the same as the words he uses to people he believes to be liberals. Of course this is a ploy, and he may be more consistent in Washington than he has been here. Yet his instructions to the Embassy staff and the staffs of other Government agencies are the best refutation of such doles talk.

With respect to the attitudes of the different Chinese groups towards him, the Giao in a conversation, of which more anon, with some Komingtung muck mucks referred to Hurley as a dashing fool, while the Communists - Jack Service tells us - invented the contemptuous nickname of “Little Whiskers” for him. Incidentally, one of the Embassy names for his is Col. Whisk.
that with the combination of these favorable contingencies he will be in a position to dictate a settlement on his terms. Until then he wants to put off the kind of settlement which would make sense from the point of view of American short and long-term interests in the Far East. The most he is willing to accept is a settlement which preserves the reality of one-party government while taking the form of democracy.

Of course, he is naive and optimistic in hoping for such a fortunate - that is for him - combination of events. At first sight it is astonishing that he should believe that we shall be glad to build up his air base when he has no intention of using them against the Japanese; that he should think that Russia has no intention of having a finger in the Far Eastern pie, or that the Japanese may retire from their bullish attitude without much of a struggle. The key to his thinking about international affairs is that he has an abiding conviction that we and Russia have a fundamental clash of interests and that this clash, moreover, will come to a head relatively rapidly. Otherwise, his whole conduct both of China’s international and internal relations does not make any sense at all. Why should he, so weak, continue bravely to alienate Russia, who is so strong? He treats Russia much more cavalierly than either we or the British do. This conduct must have some method in its madness, and he knows he is not strong enough himself to falter around with Russia. Therefore the only clue to this policy is the belief that America and Russia cannot get on and will clash sooner or later, and he hopes to be able to fish in this sea of troubled waters. What is more, he would like to muddy the waters a little himself. It is to be hoped that he will learn something from the current meeting of the Big Three. It is to be hoped that he will realize that the President means business in his quest for world security. But too much should not be expected from the Generalissimo’s capacity to learn.

In any case, he is living in a dream world when he thinks that we are going to let the tail of our relations with China wag the dog of our relations with Russia, whatever breed or shape that dog takes.

II. Economic conditions.

There is no point in expecting any change for the better in the economic situation without any prior change for the better in the political situation. In fact, the inflation gives many signs of having reached the stage where it is out of control. While the official data are not yet available, reasonably reliable information indicates that prices have risen over 50% in Chungking and over 100% in Kunming since the beginning of the year. This rate of increase is the highest in the history of the Chinese inflation. Nor can it be explained away as being due to the seasonal factor of the Chinese New Year; the rate of increase at this time of the year last year was incomparably smaller.

If it is true that the inflation has reached the stage where it is beyond control, it becomes idle to talk of combating the inflation by the sale of gold or cotton textiles. Nor will the mild reforms contemplated by T. V. be of perceptible help in such circumstances. At the very best the same fate will overtake them as overtook Tung’s attempted reforms. (Comparing T. V. with Tung is very flattering to T. V.)

It must be emphasized, however, that the conclusion that the inflation is now beyond the stage where it can be controlled is a tentative one, subject to refutation or confirmation by further evidence. In any case,
the important point to bring out is that it is futile to expect any fundamental improvement in the economic position without the political changes which will make real economic and financial reforms possible. It is impossible to wipe out corruption and to introduce administrative efficiency unless the appropriate political climate is established.

III. **Military Conditions.**

As a result of the Japanese offensives last summer, fall, and winter, the best Central Government armies within China have become a shadow of their former selves. We have brought back the two elite divisions from Burma and intend to train and equip up to 36 divisions in Yunnan with supplies coming up the Burma Road. In addition, we have supplied some of the Yunnan provincial troops to a limited extent. How far the training and equipping of the 36 divisions will go is a difficult question to be precise about, depending as it does on our policy in China, the way the Far Eastern war goes and internal political developments in China.

In the meantime, while the 14th Air Force has grown in size and has a much better service of supply than ever before, its utility has diminished with the loss of our air bases in East China and the growth of our military strength in the Central and Western Pacific. The importance of China as a base for B-29 operations has diminished even more, as the problem of supplying Chungking is a tremendous one and we now have much more easily serviced bases. In fact, it appears that our intention is to curtail B-29 China-based operations in the fairly near future.

Hence again, then, the military importance of China, both with respect to Chinese operations against Japan and to our own operations from and in China, is tied up with the internal political situation in China. Without a change in the direction of a coalition Government, it is futile to expect China to play any significant role in the defeat of Japan. As far as the Generalissimo is concerned, we can do all the dirty work, and the less we bother him the better from his point of view. Nevertheless, the potential military contribution of China to defeat of Japan should not be underestimated. Unfortunately this is the general tendency. A coalition Government China could do much to hasten the defeat of Japan and to save American lives by engaging - i.e., actively engaging - Japanese armies on the Asiatic mainland. But only a few people like some of the State Department men here seem to realize this. The reason for this underestimation of China is of course the optimism bred by experience with the Koomintang and such events as the Stilwell episode. It is worth mentioning that Stilwell, in many ways one of the really heroic figures of this war, is the leading protagonist of the school that China could make a significant contribution to the defeat of Japan. But he paid with his job for trying to carry out such a policy, and was succeeded by a Hurley. Redeemer is learning fast. In fact, one of the bases for a reasoned optimism as to the probability of a change in the execution of our China policy is the expectation that the Army may move in the direction of a strategy which will make sense militarily. In that event, the role of our Army in China will become larger than it has ever been before, and this goes for the 14th Air Force too.
- 10 -

Iv. What are the implications of the above analysis for American policy toward China?

There are two basic issues involved, first our strategy for defeating Japan, and second our long-term interests in and policy toward China.

1. The defeat of Japan. Obviously it is in our interest to encourage the defeat of Japan with minimal losses in terms of American lives. While nothing definite is known here, it is believed by most Americans and Chinese in Chungking that Russia will come into the war in the Far East after the defeat of Germany. The question arises as to the extent of our collaboration with Russia if and when she does come in. The problem of China would then acquire an importance transcending the specific contribution China herself can make in the defeat of Japan. The Russians must know not less than we that the Generalissimo is hoping for a clash between us and them. Therefore, how we handle China will undoubtedly affect the Russian attitude toward collaborating with us in defeating Japan.

In the determination of our policy toward China, this factor should certainly be given more importance. The Generalissimo is biding for disunity among the United Nations both in Europe and the Far East. Our policies may be such as to play into his hands, but at least we should be aware of this factor. If Britain finds and Sumner Gook are a guide, our policy is to foster and to strengthen the unity of the United Nations. If that is correct, our China policy is due for a change, not in its general direction but in its execution and application. It should not be allowed to remain the victim of bunglers like Hurley. It should be given teeth. It should be made clear to the Generalissimo that we will play ball with him only if he plays ball with us and that we are not going to let him get away with going through the motions of playing ball. Sure, we should support him — if and only if he really tries to mobilize China's war effort by introducing coalition Government, if and only if he co-ordinates China's war effort with that of the rest of the United Nations instead of concentrating on maintaining the Kuomintang's internal monopoly of power, and making the war with Japan an excuse for extracting assistance from us which is not his intention to use against Japan.

It must be confessed that the present ineptitude and failure of the execution of American policy toward China gives one an acute sense of frustration. To put things briefly, the Central Government survives in its present form only because of American support and Japanese collusion. (I put this proposition to the leading political experts of the Embassy and they agreed forthwith.) It is getting weaker and weaker but will not basically mend its ways as long as it can count on the continuance of present US and Japanese policies, for while internal discontent is mounting, it is mounting at a pace which is too slow to bring about any fundamental change of itself. Moreover the maintenance of present US and Japanese policies acts to discourage the growth of internal discontent, as the prestige of American support is one of the Generalissimo's biggest, if not his biggest, card on the internal scene. If the execution of American policy continues to be left in
the hands of men like Hurley, the chances of China's playing any significant role in the defeat of Japan or in a stable post-war China are pretty remote and the chances of China's becoming an important source of friction among the United Nations correspondingly great.

Of course, there is always the possibility of a change in the execution of American policy toward China; otherwise there would not be much point in remaining here. But as long as Hurley is allowed to squabble and fumble and as long as the Chinese policy and its implications is not taken back home, that possibility is not going to become a probability.

2. Our long-term Far Eastern interests. These demand a strong, stable, and democratic China. Thus, our long-run interests do not conflict with our short-run interests, on the contrary they coincide with and reinforce them. We need such a China both as a counterbalance to a resurgent nationalist Japan and as a focal point for political and economic stability in the Far East. We want to have an expanding trade with China. We want an internally peaceful China. We won't get any of those things if the Generalissimo has his way. And if we continue to give unconditional military, political, and economic support to him, that will be the best way to make civil war inevitable, to ensure the disruption of China, and to ruin the prospects of increased trade with China (except perhaps in armaments). It will also be the best way to lay the groundwork for trouble between us and Russia in the Far East, which is what the Generalissimo is banking on.

The picture has been painted in pretty strong colors. But let it be added, not as strong as those used by the Embassy political experts, who are much more pessimistic both in their evaluation of Hurley and of the Generalissimo. Perhaps that is due to their closer contact with Hurley. Be that as it may, they tend to be over- and under-influenced by subjective factors, which I try to discount, and they do not allow for the changing elements in the situation, or at any rate do not sufficiently allow for them. The end of the war in Europe and the concentration of military interest on the Far East should both serve to increase our interest in and realism with respect to China. That is why the possibility I called attention to has a good chance of becoming a probability.

V. What are the implications for Treasury policy toward China?

Without a change in the present situation, there seems to be no alternative for the Treasury but to adopt or rather to maintain a negative policy toward China.

(a) We should continue to send as little gold as possible to China. For such gold will not be effectively used in combating inflation.

(b) We should be leery of any Chinese proposal to sell Chinese private foreign exchange assets abroad. There is a strong popular demand for this measure, but in present conditions it would be carried out with a maximum of graft and corruption. This is quite apart from the legal and technical difficulties such a measure would inevitably encounter and which might in another situation be the decisive factor.
We should be tough and tenacious in making settlements for V-J. Any expenditures in China. There is no need to have too
delicate a conscience on this matter, as the Chinese minds
us right and left at every opportunity. An important qualification
to this point is that the expert political opinion of the State
Department must always be allowed for in any given discussion.

We should turn down Chinese requests for goods on civilian Lend-
Lease for the ostensible purpose of combating inflation. There
is no escaping the conclusion that the inflation cannot be really
combatted in the present set up. There may be lots of fine talk,
but it is not worth much. (But see the same on this subject in
my last letter for a detailed analysis.)

We should maintain a close and fairly tight watch on Chinese funds
in the U.S. The Chinese are hoping that we will be less tight
in our scrutiny of so-called allied-backed bonds than in our scrutiny
of savings certificates. This gap, if it exists, should be
closed. (See my letter to Friedman)

One or two additional details. It is sad but true that British policy
in China does not welcome the possibility of a rapprochement between
the Kuomintang and the Communist, in spite of President Cranborne's fine statement.
Sir Horace Seymour, the British Ambassador, said to Vandeneyer that if
American policy is successful, "we won't have the kind of China in which
white men can live and do business". Seymour is the kind of "realist"
that contributed to Munich. Actually, if American policy does not succeed,
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE March 19, 1945

TO Secretary Morgenthau
FROM Mr. Cee

Some time ago you asked us to get through our representatives in the field a statement concerning the costs of the war to France. We now have a statement from the Ministry of Finance which is the most complete compilation to date of information on this subject. Most of the figures are provisional and incomplete and, therefore, asks that you consider the report as personal and informal pending completion of an official "yellow book" on the subject.

The report brings out the following significant overall figures:

- Occupation levy in money: 800 billion francs
  (This is about equal to about 16 months' present national income)
- Permanent losses in population: 600,000
- Temporary loss in population: 1,900,000
- Buildings, wholly or partially destroyed: 1,600,000
- Population losing all or part of homes or other real property: 5,000,000
- Property loss (buildings only): 900 billion francs
- Agricultural production in 1940: 75% of normal
- Industrial production: 95% of normal
- Number of usable locomotives: 28,750 in 1939
- Number of usable freight cars: 37,000 in 1939
- Net mortality: 75% increase
- Infant mortality: 200% increase
- Morbidity due to dysentery: 500% increase

A translation of the report is attached.
PROVISIONAL INFORMATION

QUESTION 1

EXPENSES OF WAR HOUSE BY THE STATE
from September 1, 1939, to August 31, 1940
(in millions of francs)

1st) 1939
a) Account of Capital investments
   (military expenses, construction,
    equipment, provisioning, etc...)
   37.6
b) Portion of the general budget for 1939,
   of a military nature
   (balances, current maintenance)
   33. (1)

2nd) 1940
a) Military expenditures
   76.80
b) Portion of the civil expenditures resulting
   from the war (allowances, care of refugees,
   special account for provisioning, etc...)
   12. (1)

This total does not include the expenditure for armament
made before the declaration of war, or paid after the
suspension of hostilities by way of winding up war contracts.

(1) Estimated figure.

(total of expenditures for the same period: 284)

QUESTION 2

ESTIMATE OF THE PROPERTY OF ALL KINDS DESTROYED OR DAMAGED

According to our present information, the number of buildings
of every sort (dwelling houses, farm buildings, industrial, commercial
and public buildings, etc...) totally destroyed or partially damaged, has
been estimated and compared as follows with the damages of the war of
1914-1918:

<table>
<thead>
<tr>
<th>Year 1914-1918</th>
<th>Present War</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
</tr>
<tr>
<td></td>
<td>From September 1940 to June 1940</td>
</tr>
<tr>
<td>Number of buildings</td>
<td>1939-1940</td>
</tr>
<tr>
<td>Totally destroyed</td>
<td>368,000</td>
</tr>
<tr>
<td>Partially destroyed</td>
<td>559,000</td>
</tr>
<tr>
<td>Total</td>
<td>927,000</td>
</tr>
</tbody>
</table>

(1) Campaign in France of May-June 1940.
(2) Aerial bombings of the Allies.
(3) Landing and liberation.
(4) The definition of partial damage is restrictive and excludes minor
damage.

These figures are provisional and approximate, as the enemy has
only recently evacuated Lorraine and Alsace and still holds certain
pockets on the Atlantic.

As may be seen, the destruction of buildings during the present
war, which is twice as many, because of the fact that the principal
allied landings in Europe took place on French territory, are 50%
greater in number than those of 1914-1918. They are certainly much
greater still in volume. In fact, when one counts in number of buildings,
one places a village house on the same footing as a city dwelling. Now
it was especially the rural districts which had suffered in 1914-1918,
while the military operations of 1940 and 1944, principally affected
small towns and the aerial bombings affected important centers.

By counting for each building damaged an average of 5 persons in
the city and 3 in the country, we can estimate that there are in France
at present about 4 million persons who have lost part of their property
and 1 million who have lost everything, that is, a total of 5 million
persons affected, or nearly 1/7 of the present population.
Granting a loss of value in 1939 of from 5 to 40,000 Francs for each building totally destroyed and from 75 to 100,000 Francs for each building partially destroyed, the total damage to buildings suffered by France seems likely to exceed 200 billion Francs in 1939.

The value of the furnishings, tools, and stocks contained in the buildings representing, according to the insurance policies, half the value of the buildings, we should add about 100 billion Francs in 1939 for damage to moveables.

The total of war damages would then reach, in a first estimate, and with the greatest reservation, 300 billion Francs in 1939 (1), that is a year’s national revenue of France before the war.

(1) That is, approximately 900 billion Francs at their present value, if one only takes into consideration the increase in officially quoted prices.

**QUESTION 3**

Estimate of the total value of all property removed from France by the Germans

It is at present impossible to give such an estimate, because the only means of determining the value would be to obtain declarations from the victims themselves, and since circumstances have not permitted an investigation, which should be general, for there are undoubtedly millions of cases of looting in which there is reason to believe that the objects taken have found their way to Germany. In particular the three departments of the East seem to have been completely emptied of their wealth.

While a complete estimate is lacking, apart from the great quantity of household furniture, bedding and housekeeping equipment, radio apparatus, automobiles, and bicycles, of which there was systematic looting, notably in the occupied regions, we should mention a certain amount of stealing of tools and machinery, which has a serious impact for French industry.

1° Petroleum refineries: already severely affected by the destruction caused by war, these factories representing a value of 6 billion Francs in 1939, have been progressively depopulated by the Germans of all their refining apparatus (tapping and cracking batteries).

2° Lead smelters for electrolytic acid: From these installations, which are essential to the chemical industry, the Germans have removed and sent to Germany 2,750 tons of lead worth about 67 million Francs in 1939.

3° Material for sorting equipment for the importing of coal: On June 6, 1944, the Germans had robbed France of 53 out of 213 appliances of this sort owned in 1939.

4° Presses for automobile industry: 38 were requisitioned by the Germans (of which certain ones (of 2000 tons) were worth up to 4 million Francs each). Remains of other machinery were numerous at Halforf, and the Peugeot and Soconan factories were completely removed to Germany.

5° Machinery for the aeromotive industry: The Germans have taken 34 billion Francs worth of this. The aeromotive industry estimates the diminution of its potential production at 30 to 35%.
These are only some examples of the looting of which France has been a victim, in so far as its productive machinery is concerned. A complete list of it will be given soon in an official report now being prepared.

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QUESTION 4

The amount in currency and goods of the occupation levies of the Germans


10 - Levies in cash:

A) The Germans first obliged the French Treasury to pay an indemnity for the maintenance of the occupation troops. According to the periods 20, 15 and 25 millions of FF. per day, this contribution, including certain extra demands, amounted for the whole occupation to: 632 billions of francs.

B) The above levy did not include a certain number of loans which had to be furnished, in addition, gratuitously, to the occupation troops. That is notably the case with the lodging of the guards. Under this head, the French State bore an additional expense, for the indemnification of its nationals, which amounted to: 61 billions francs.

C) The German authorities also demanded services from the railway and postal systems which they neglected completely or partially - to offer any remuneration. The expense for the French government of this insufficient compensation equals: 13 billions francs.

D) The French State was also required by the Reich to finance the deficit of the French-German clearing; that is to say, to pay against a credit in marks an advance to the German account of: 164 billions francs.

E) Finally, the Belgian gold deposited in France having been taken by Germany, the French government considered itself responsible to the regular Belgian government, for about: 10 billions francs.

Total: 680 billions of francs

The cost of the occupation for France is still greater than this amount; even without including "occupation damages" properly speaking (destruction of houses for fortifications, mining and flooding, etc.).
of propery, destruction of villages for reprisals, carrying away of furnishings, pillage pure and simple, damage to persons, executions and arbitrary arrests, etc.,), although it can not yet be computed, it certainly amounts to a minimum of 1,000 billions, or an amount of 27,000 francs per person and for a family of 4 persons to 100,000 francs.

Taking into account the monetary depreciation, this sum represents 15 months of the French national revenue before the war.

Materially, the Germans have taken in 4 years a third of a French production which only amounted to 3/4 of what it was before the war.

20 - Levies in Kind

The Germans drew on part of their allocations without, however, granting any compensation thereafter, thus abusing the rights of booty, prize and requisition.

If, to tell the truth, the greatest part of it was paid by them to private individuals, it must be noted that it was by means of contributions in kind extorted from the occupied country by the occupying Power (expenses of occupation and unbalanced clearing). While giving the impression of having contracts with individuals, the payment was only fictitious in regard to the Nation and therefore, the spoliation remained the same in both cases, since the German policy of exploitation in the occupied territories had the cleverness to pillage the country without appearing to harm the nationals.

Here are, looked at from this point of view, the principal losses in material levied on France by Germany (figures approximate and provisional):

**Agricultural Commodities**

- Wheat: 208 million quintals
- Oats: 23½ million quintals
- Hay and straw: 30 million quintals
- Meat: 655,000 tons
- Milk: 13,600,000 hl. (about 100 quarts)
- Butter & cheese: 112,000 tons

**Raw Materials (1)**

- Iron (mineral): 67,200,000 t.
- Iron (finished products): 3,450,000 t.
- Non-ferrous metals: 510,000 t.
- Precious metals: 70,000 Kg.
- Coal: 97,646,000 t.
- Tars and benzols: 322,000 t.
- Electric power: 26,913 million kilowatts.
- Industrial diamonds: 90,000 carats

(1) Tonnage drawn directly from the stocks of raw materials (which today may be considered as completely exhausted for this reason), plus tonnage of material contained in the finished products which the Germans have had delivered to themselves; not including material purchased on the black market.
QUESTION 5

The number of laborers deported to Germany

**

Laborers deported ............... 700,000

**

Inconsistent:

Prisoners of war ............... 600,000

Political deportees .......... 200,000 of whom 100,000 are Jews.

Total. 1,000,000

**

TOTAL LOSSES IN POPULATION

Total losses of population, except inhabitants of Alsace-Lorraine from September 1, 1939 to December 31, 1944.

It is to be remembered that as of September 1, 1939, France had about 36,000,000 inhabitants, including the inhabitants of Alsace-Lorraine.

1) Definite losses:

- Normal excess of deaths over births

\[
\text{Excess mortality due to conditions of living and health of prisoners and deportees} \quad 600,000
\]

- Deaths in war

\[
\begin{align*}
\text{Soldiers killed} & \quad 100,000 \\
\text{Citizens killed in acts of war} & \quad 100,000 \\
\text{Deaths in Germany} & \quad 30,000 \\
\text{Presented by the Germans (see question 7)} & \quad 40,000
\end{align*}
\]

Total about 570,000

2) Transient losses:

\[
\begin{align*}
\text{Prisoners} & \quad 500,000 \\
\text{Laborers deported (see question 5)} & \quad 700,000 \\
\text{Political} & \quad 200,000 \\
\text{Total} & \quad 1,400,000
\end{align*}
\]

\[\text{(1) The rate of legitimate mortality (number of legitimate births divided by number of survival years between the ages of 15 and 50), calculated to exclude cases of war, has increased progressively, and in 1942 exceeded the figures of 1939 by 10 \%.}\]
This reckoning does not take into account the migrations of foreigners. These figures will have to be revised. They are particularly inaccurate in so far as the events of 1944 are concerned (civilians and soldiers killed, executed).

Save for the increase of normal deaths and civilian deaths caused by acts of war, all these losses affect the young (births) or adults, principally male. This accelerates the ageing of the population.

**12. QUESTION 7**

Number of Frenchmen executed by the Germans

This estimate is particularly difficult to make on account of the secret nature of the executions.

A supervised census is in progress. It will undoubtedly give a figure higher than 40,000.
QUESTION II

Estimate of the increase in mortality and morbidity rate

These rates are known only up to 1943, and for morbidity only as far as concerns contagious diseases, the reporting of which is compulsory.

A - Mortality. - The percentages of increase for 1942, as compared to 1938 are:

- General mortality: 5%
- Tubercular mortality: 3 to 4%
- Infant mortality: 16%

B - Morbidity. - In 1943, as compared to 1938:

Typhoid morbidity has quadrupled.
Diphtheria morbidity has tripled.

The two epidemics have increased regularly since the beginning of the war.

In so far as tuberculosis is concerned, an indication is given by the cases of tuberculosis reported at the anti-tuberculosis dispensaries in Paris: the increase is 45% for 1943 as compared to 1938.

The state of health of the population is the result of the living conditions since 1939, as the rationing assures only half of the human calory requirements (1200 calories a day) and a smaller proportion of lipoids and proteins.

This situation was aggravated at the end of the occupation by reason of the stoppage of transportation (the ration at Paris fell to 850 calories a day), and in the severe winter of 1944-45 on account of the lack of heat.

The increase in death rates is thus certainly, greater for 1944.

STATEMENT 9

Statement of the extent to which German capital has directly or indirectly contributed to the French Economy.

Concerning the extent to which, favored by the occupation, German capital was able to participate in the French Economy, the French Government knows only of the participations for which the nationals have officially requested authorization to transfer. These participations amounted only to 1 and 1/2 billion francs (strictly free and seem of information).

Besides there have also been secret purchase transactions or purchases through intermediaries: they can not be calculated.

Some important are those by means of which Germany has endeavored to lay her hand on French enterprises in the countries at present under her control (Poland, Czechoslovakia, Hungary, Rumania, Yugoslav): They amounted to 6 million francs.
The greatest part of the decrease in production, more than 50%, is due to the lack of means of production. It is sufficient to mention:

- Lack of labor (prisoners and deported persons, men enticed away from agriculture by the high wages of industries with priorities).
- The year and year on the farm tools and means of transport which have not been renewed or replaced for five years. From these two causes result not only the decrease in the work of clearing the land (see above), but the insufficient preparation of the soil, the increase of weeds (decrease of fertility).
- The lack of fertilizers which has become brutal: lack of phosphate since the cutting off of North Africa; lack of potash and nitrogen since the transport crisis.
- Suppression of imports of barley, corn, rice and leguminous grains (oil seeds) which is one of the great reasons for the decrease of animal production.
- Lack of transportation, the great cause not only of bad distribution of food stuffs on land but also of the decrease of production (transportation of cancers, plants, seeds, cattle to the pastures for fattening, etc.).

Estimate of the decrease in capacity of production of industry due to the occupation and the war.

In 1940, the general figure of industrial production was fixed at around 80% (basis of 100 in 1938).

At present, we have not sufficient data to calculate the general figure. Nevertheless, a rough idea of the present activity can be obtained by the amount of power consumed which, in numerous branches of activity, varies to a degree almost parallel to the production.

Compared to 1940, the quantity of coal assigned to industry, properly speaking, decreased 60%, i.e. figure 40 for electricity, it can be estimated that the present consumption by industry must be little less than that of 1940. Combining the two figures in the same proportions as in 1940 we arrive at a figure on the whole of about 60.

Thus industrial production as a whole would be approximately at a figure of 60 (basis 100 in 1940) and at 30 to 25 (basis 100 in 1938).

In the continued lowering of production of French industry, since 1941, the bottlenecks have been successively power (blockade), labor (deportations to Germany), transportation (allied bombings).
More exactly the deciding need, persistent since the liberation, is that of locomotives; one extra locomotive, going to and fro between the Lorraine iron and the Fos de Calais coal, allows an extra production of 6000 tons of steel per month, that is 20 times its weight. When the number of locomotives is sufficiently increased, coal will also be necessary to form new trains, which will allow a correspondingly increased production of steel each month, of ten times the weight of these trains. Over transportation is improved, other capacities will become evident; labor, power and, for certain districts, raw materials (textiles, rubber).

The decrease of industrial production, properly speaking, can not, then, be shown accurately since decided securities persist and prevent the use of the productive capacity of the industrial equipment proper.

In the direct estimate of the depreciation of tool equipment of French industry, we should add to losses by destruction or pillage (see question 5) the lack of renewal for five years and especially the absence of new for it during that period.
QUESTION 11

Any other significant data which in your opinion would contribute materially to an understanding of the impact of the war and of the German occupation in France.

Granted the importance for the reconstruction of France of the means of transportation and of agricultural production, the following data appear particularly significant:

1st) Land transportation:

<table>
<thead>
<tr>
<th>Stock 1939</th>
<th>German appropriations</th>
<th>Destruction and serious damages</th>
<th>Percentage utilizable in October 1944</th>
</tr>
</thead>
<tbody>
<tr>
<td>Locomotives</td>
<td>18,614</td>
<td>8,300</td>
<td>5,300</td>
</tr>
<tr>
<td>Freight cars</td>
<td>477,300</td>
<td>220,000</td>
<td>89,300</td>
</tr>
<tr>
<td>Passenger cars</td>
<td>29,103</td>
<td>10,000</td>
<td>7,100</td>
</tr>
</tbody>
</table>

(1) expressed in hauling capacity. The cars taken by the Germans were principally heavy freight cars.

2nd) Motor vehicles:

Before the war there were in France 500,000 trucks and automobiles.

There remain today only 125,000, most of which date back at least 10 years and are at the end of their usefulness.

3rd) Horses:

Before the war, France had 2,700,000 horses.

There remain today only 2,000,000.

4th) River boats:

Before the war, France had 10,840 barges and lighters.

There remained in June 1944 only 8,041, i.e., a loss of nearly 25%, which has certainly greatly increased since the resumption of hostilities on French soil.

5th) Merchant Marine:

Before the war, the commercial fleet of France amounted to 2,900,000 tons gross tonnage in service.

There remain at present only 850,000 i.e., less than 30%, of which a fifth are 20 years old or more, and thus need replacement.

In particular, the oil fleet (625,000 tons weight gross registered) is today practically reduced to nothing.

6th) Maritime Ports:

<table>
<thead>
<tr>
<th>Percentage Destruction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marseille</td>
</tr>
<tr>
<td>Rouen</td>
</tr>
<tr>
<td>Le Havre</td>
</tr>
<tr>
<td>Dunkirk</td>
</tr>
<tr>
<td>Bordeaux</td>
</tr>
<tr>
<td>Nantes &amp; St-Nazaire</td>
</tr>
</tbody>
</table>

7th) Civil Aviation:

Before the war, the Fleet of Air-France comprised 128 planes.

33 were destroyed by acts of war.
44 were appropriated by the Germans.

8th) Agricultural Production:

585,000 hectares* (1/2 of the cultivated territory) have been withdrawn from cultivation (land mined, flooded, torn up terrain, etc...) of which 87,000 hectares are definitely out of cultivation.

Translator's note: about 20 acres.
MAR 19 1945

Dear Mr. Dunn:

This is to acknowledge receipt of and to thank you for your letter of March 6, 1945, enclosing a paraphrase of Ambassador Kirk's cable regarding the views of the Allied Commission on the proposed Italian financial directive.

In accordance with your request, distribution of the paraphrase has been restricted.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Mr. James C. Ewing, Jr.,
Assistant Secretary of State,
State Department,
Washington, D.C.

SP#23 5-15-45
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE
March 13, 1945

TO
Secretary Morgenthau (For Information)

FROM
Mr. Coe FD

Subject: Modification of US and UK Financial Relations with Italy.

The Allied Commission is opposing U.S. financial proposals which would turn over a greater measure of responsibility for Italy's financial affairs to the Italian Government. The proposals are that (a) the Allied Financial Agency should promptly terminate its functions (b) the Italian Government should assume the issuing authority for Allied military lire.

AC maintains that there are an insufficient number of Italians in liberated Italy with the experience and integrity necessary to perform financial work. It also thinks that public confidence in the currency would fall and a political crisis ensue if the Italian Government were to assume responsibility for all lire currency.

Thus, the AC is adopting the views of the British.

State Department is supporting Treasury's efforts to get OSS to issue a financial directive which would embody the above proposals and prevent AC from perpetuating its existence.

Ambassador Kirk also disagrees with the views of the Allied Commission and believes that the Italian Government is in a better position now to assume the responsibilities involved in the contemplated financial measures than it would be when Northern Italy is liberated.
DEPARTMENT OF STATE
WASHINGTON

In reply refer to FRA

March 6, 1945

SECRET

My dear Mr. Secretary:

I enclose for your information a paraphrase of a cable from the American Embassy at Rome concerning the views of the Allied Commission on the proposed directive on Italian financial matters which was transmitted to Allied Force Headquarters in TAM 440. This message expresses views in addition to those contained in MAT 554 which is a reply to TAM 440. I should appreciate it if this paraphrase received only very limited distribution.

Sincerely yours,

For the Secretary of State:

James C. Dunn
Assistant Secretary

Enclosure:

Paraphrase of cable.

The Honorable
Henry L. Morgenthau, Jr.,
Secretary of the Treasury.

FROM: American Embassy, Rome
TO: Secretary of State, Washington
DATE: February 16, 1945
SUBJ: 508

SECRET

AFHQ G-5 officers came here during MacMillan’s last visit to Rome for the purpose of discussing with ACH a reply to TAM 440, concerning the proposed directive on Italian financial matters, and a draft was prepared and taken to AFHQ by G-5 officers with the intention of having it sent to Combined Chiefs of Staff from Caserta. While the draft has not been submitted to offices of political advisors to AFHQ for concurrence, and while discussions on this draft apparently are still being carried on in G-5 where the general lines of Department’s February cable to AMFOLAD, No. 84, are known, the following paraphrase of the draft, based on text as agreed upon in the conference in Rome, is submitted by me:

The following message is an agreed view following consultation with Chief Commissioner of Allied Commission and Acting President:

1. TAM 440 makes two main proposals. First is that foreign exchange transactions again be controlled by the Italian Government. The second is that the Italian Government should again become the only issuing authority for all lire currency, including all lire in circulation at the present time, whether for its own
For the purpose of meeting obligations to the Allies under Clause Twenty-Three of the Armistice. Both of these proposals are supported by me since they conform with the developing policy of the Allied governments toward Italy which is to have it assume the responsibilities ordinarily associated with sovereignty.

(2) However, there is a question in each case as to when such claims should occur.

(3) In the difficult technique of exchange control, both experience and probity are required, and neither can be found generally in Italy at this time. At the present time none of the most expert persons are in that part of Italy controlled by Germany and the remaining ones are suspended and awaiting operation hearings. We are attempting to expedite hearings in order to obtain at least a nucleus of competent men, but considerable care must be exercised. Exchange control machinery substantially like that of 1917-1919, that is operated by Banca d'Italia as agents of Italian Treasury, is now being developed by the Italian Government with the assistance of the Allied Commission. Acceleration of date when full responsibility would pass to Italian hands has never been requested by either the government or the public, so far as we know. Moreover, the governments of the Allied nations have an interest to the extent to which they have to make available to the Italian foreign exchange either at present or in the future in making sure that the little foreign exchange at the Italian Government's disposal at the present time is not wasted through management which is imprudent or improper. The need for exercising control in all transactions in the currencies of neutral countries, as well as in the operation of post-liberation in the United Kingdom and the United States accounts, has been urged by you in the airgram 54 and cables TAM 104 and 290 and, therefore, you seem to share this view. It may be felt by you that these considerations weigh against any relinquishment of controls prematurely. Meanwhile, I shall continue the policy of preparation for transfer to the Italians of full responsibility whenever it may so be directed by you.

(4) With respect to the second proposal, it is clear that at some date the Italians must publicly shoulder the burdens which they have not had to face simply because the invasion by the Allies came from the south and therefore the facilities for printing notes were not available to the Allies for almost a year, and, when reached, were found destroyed. Thus, it was not possible for the Italian Government to make currency available in fulfillment of its obligations under Article Twenty-three.

I am in full sympathy with your desire to make the Italians face this issue and to realize that it is an illusion to expect possible escape from or reduction in their obligation. The above military circumstance alone has been responsible for the fact that AM lire have had to be printed and imported and yet there is no doubt in my mind but that it is hoped by both the
government (as shown by its recent memorandum) and the public that the Allies might be persuaded to make available dollar and sterling credits commensurate with the currency thus created. I must warn you that this control over the issue of currency may well appeal to the Italians for a welcome concession or as no advantage, since it means the open assumption of an obligation of the Armistic which the government has publicly declared it is trying to avoid. While the lira account proposed last autumn would have meant a charge to the government's budget of some fifteen-eight billion lire annually, if carried out, the new proposal would mean an immediate increase of some fifty billions in the government's debt to the Banco di Italia and budget charges of some five billions of lire would continue monthly.

(6) The dollar and/or sterling counterpart not only for all outstanding Allied military lira, but also to cover all payments which have been made or will be made by the Italian Government, for supplies, services, requisitions and equipment furnished to or ordered by the Allied forces, has been requested by the Italian Government in a memorandum presented recently to the Allied Commission and to the Governments of the United Kingdom and the United States. It is not felt by me to be likely, but unless it is proposed by the two governments to accept this demand, they must face the question of whether it is in the name of "decontrol" to compel the Italian Government and people absolutely to undertake at this particular moment their financial obligation. I recognize that the arguments in favor of doing so without further delay are very strong both in logic and in equity. The Italians should face the realities. An outward and visible sign of a sovereign state is that it issue and control its own money, and, since they will have to swallow this bitter medicine at one time or another, they might as well do so at once. On the other hand, it is arguable, in the present circumstances, that the government is weaker than it ever will be again. It is possible that no government might be formed at all if the proposal in TAM 445 precipitated a crisis. At the last crisis it took twelve days to produce a government. Moreover, in spite of the grave financial situation of the country, the people in general retain what has been called an uncritical confidence in the value of the lira, and I should not like to do anything to destroy the confidence in the currency which is felt at the present time. Bank deposits continue, contributions for life insurance, assistance societies and the like flow in, savings are made, and there has been no sign of any panic flight from money into goods thus far.

(6) While I agree that the government's assumption of responsibility for its currency is desirable, I feel that, in
view of these considerations, I should invite your attention to the fact that the wide issues and potential dangers set forth by me should be given due regard in deciding this question. In the event you determine to go ahead with the proposal, however, I should like to make informal soundings as to the likely reaction of the Italians before officially making any demands.

(7) With respect to the establishment of a lire account, all of the same considerations apply although in a reduced form. It is desirable technically but it is politically difficult.

(8) With respect to the proposals concerning AFA contained in TAM 440, I have been informed in the following sense by my experts at AO and at this headquarters:

(A) Regardless of their location with respect to the Italian Government or AMG territory, the Allied forces in Italy must continue to receive from AFA an adequate volume of lire currency. Therefore, if the Italian Government assumes responsibility for all currency, AFA should either draw currency from the government physically or should obtain currency from abroad at present for the account of the Italian Government, but for use of military forces. Moreover, the remaining stocks of AM lire should be retained by AFA after the non-military currency arrives and AFA should have the right to use them in emergency.

(B) Some months will be required by the Finance Sub-
commission, including AFA, to complete the process already started of divesting itself of financial operations such as mentioned in TAM 440, paragraph 1-A. Civilian supply and financial accounting and the financing of Advisory Council and AO-AMG are included among certain operations which AO must continue and which are in addition to those mentioned in TAM 440, paragraph 1-C.

(9) Therefore, the transfer of AFA to headquarters could not be carried out for several months and even then would make necessary the creation of another Finance Sub-
commission section to continue handling many current AFA functions.

(9) TAM 440 deals only to a limited extent with the wider problem of giving the Italian Government a greater measure of responsibility in financial matters. At the present time the AO is concerned in varying degrees between advice and control with many other areas of financial operations such as those listed below:

in its own territory

(A) The government/ias assisted by the AO in the control of expenditure and, to a certain extent, the AO finds it necessary from time to time to bring pressure upon the government to prevent the breakdown of essential communications and other services necessary
to the Allied war effort.

[B] In the development of new sources of revenue, the collection of revenue, the improvement of existing techniques of collection and in the effort to reduce cost of collections and generally stimulate the revenue service efficiency, the AC collaborates with the government.

[C] With respect to governmental accounting within and without the budget, the AC works in cooperation with the central accounting authority in trying to keep a close check on budget deficit, expenditure and disbursement deficit.

[D] With the Italian Government the AC is attempting to obtain normal operations of domestic insurance, but at the same time is keeping a tight control over insurance interests abroad, as required by T. 447.

[E] The AC has been trying, in the field of property control and in the absence of any detailed instruction from CCH, to conserve the properties of Allied nationals in Italy and to arrange appropriately for the transfer to the Italian Government of this responsibility.

[F] Until otherwise instructed, I intend to continue as previously. Paraphrase ends here.

With respect to the foregoing, I can only say, without presuming to enter into technicalities, that it is an unhappy commentary on Allied policy and practice in Italy if, because of the failure to take reasonable measures to improve the conditions in the country and strengthen the Government's position, it is not considered advisable to establish at this time financial measures which must eventually be put into effect as a part of a self-economy in Italy at which, if determined months ago, could have been realistic and practical.

The liberation of the north should not, in my mind, be regarded as a potentiality for increased strength to the present Government, but should be looked upon as an eventuality full of fresh burdens which may prove unbearable and, consequently, contributory to a state of disorder throughout the country similar to what we have already witnessed in other areas but greater in extent. Allied financial experts here say that the tension so to create a state of affairs to confront the present Government in its present state of disillusionment and weakness with the necessity of adopting measures which, taken by themselves, increase their responsibilities before the country without concrete and present benefits, but even that it will not be established without accurately determining the measured views of all the interested government ministries. It is understood by me that some steps to that end are envisaged.

However, I cannot refrain from submitting in conclusion that if assurances can be given to the Italian Government that the expressed views of the President with respect to food and transport requirements for Italy may be regarded as in the process of execution.
execution, and that the American policy put into effect more realistic status for Italy in place of the present starvation regime has been accepted for implementation, then the Italian Government should be in a position to absorb the shock of the contemplated financial measures, especially in view of the fact that they are fundamentally salutary and in themselves do not preclude the possibility of eventual credits to Italy which may prove constructive and necessary. Even if that view is too optimistic, and the government fails in the above outlined test, it can be argued that the results of such a revelation of weakness would be dealt with not more easily than at the time of the real emergency upon the liberation of the northern part of the country.

LIRK
OFFICE OF STRATEGIC SERVICES
WASHINGTON, D.C.

19 March 1945

Honorable Henry Morgenthau, Jr.
Secretary of the Treasury
Treasury Department

Dear Henry:

I am enclosing a copy of one of our Research and Analysis Branch reports, entitled Paris Intelligence Weekly No. 20, which I think you will find interesting.

This memorandum deals with (1) political regrouping in France; (2) Luneray, a rich Norman farming community; (3) the contact of the French Government with both the Austrian underground resistance and the anti-Nazi Austrians in France; and (4) conditions in Belgium during January.

Sincerely yours,

William J. Donovan
Director

Enclosure.
Regraded Unclassified

POPE NO. 49

OFFICE OF INTELLIGENCE SERVICE
Research and Analysis Branch

FIELD INTELLIGENCE 170 (FR-396)
21 February 1945

PARIS, 1 February 1945

PARIS NEWS/FRANCE LINE No. 60

1. Political Regrouping in France
2. German-Paving Connection

1. Political Regrouping in France

Last week's national congress made it clear that the final emergence of a few large political groups in France is still far from accomplished. More than ever, all agree that the petty fraction of pre-war French politics must not reappear. The alliance of all political forces is a constant reassessment of politically conscious Frenchmen. But such of the old parties and on the new men must be sanctioned by their countrymen's continuance to play their own role in an accelerated whirl of events.

Movement for Liberation National (MLN): To a silence the title of appeals to resistance movements, usually Frankists of the Front National, and sharp personal clashes, the FLN concerned with the events on 23 January (see Newscoop No. 264) sought its way to a decision on the issue of relaxation in the FLN National Assembly.

Two arguments were used to carry the day against fusion with the FLN (Front National). The most important was that FLN was dominated by the Communist Party and that raison d'être of the Communist National against all resistance. The conclusion, it was said, would result from Stalin's skill in organization and the result be not from radical, after other points of view. Communist domination would allow the FLN to maintain the independence of the party. However, FLN was a new game made of resistance and the people who joined FLN only to get a resistance label to hide their identity or collaboration during the occupation. The FLN was not an organization where real resistance might find themselves similarly directed by any mass movement in France. The FLN was held up 23 January.

The Communist answer was that resistance should exercise a decisive influence on the future of the FLN. The FLN should review its program clandestine activity as a permanent title of nobility and be realistic enough to endorse the resistance's aim of good will. Resistance was already being ignored by the government failure to resist would allow further participation. Failure resistance would ensure resistance to FLN even if there were new resistance groups.

The decision finally reached, the "Valeurs Révolutionnaires," rejected fusion. It called instead for a common action by all resistance movements and parties for the accomplishment of specific limited objectives of a socialist character. The FLN wanted to be achieved through a common front of the central organizations. The FLN and the Resistance elements were expressly prohibited. The FLN would not be a disguised party with a full-fledged doctrine, nor an amorphous, imperfect, all-inclusive movement, but a program-organized movement of its own, inviting the cooperation of all groups or individuals.

This communiqué contains information received by R. F. personnel in the field. Because of its timely interest it is distributed prior to analysis and processing.

(60744)}
The fusionists did not accept their defeat graciously. Following the Friday night vote, Education, Cultural, Political, and Religious leaders, including the MPs who had voted for the minority in the UNH, left the assembly in a spirit of non-cooperation. The majority, however, decided to continue with the process of forming a new government. The situation was further complicated by the fact that the minority had not accepted the results of the vote and were planning to challenge the legitimacy of the new government.

A loose coalition of Socialists, Christian Democrats, and Nationalists, without political affiliations, called themselves the "minority". The goal of this group was to maintain the UNH as an independent minority with its own agenda and political interests. However, the majority in the UNH, which included the Socialists, the Christian Democrats, and the Nationalists, formed a new government with the support of the majority of the MPs.

Within the UNH, the Socialists were the most popular and influential group. They were followed by the Christian Democrats, who were the second-largest group. The Nationalists were the smallest group, but they had a significant influence on the political landscape due to their traditional support for the monarchy. The Socialists, Christian Democrats, and Nationalists formed a loose coalition with their own agenda and political interests. However, the majority in the UNH, which included the Socialists, the Christian Democrats, and the Nationalists, formed a new government with the support of the majority of the MPs.

People have enough to eat. They have no coal, but even those families who are unable to live on their own do not suffer as much as those families who live in the countryside. In each house one room is heated by a stove, the other by a fireplace. The worst consumer shortages are in shoes, especially for growing children.

Ecology, Cattle, and Crops: Daily output is diminished by the scarcity of the supplies and the weather. Many families are short of fuel, and the potato crops have failed. The Ministry of Agriculture is working to ensure that there is enough food for the population. foilage, corn, and other crops are growing well, but the sugar beet crop has been severely affected by the weather. The Ministry of Agriculture is working to ensure that there is enough food for the population. foilage, corn, and other crops are growing well, but the sugar beet crop has been severely affected by the weather. The Ministry of Agriculture is working to ensure that there is enough food for the population. foilage, corn, and other crops are growing well, but the sugar beet crop has been severely affected by the weather. The Ministry of Agriculture is working to ensure that there is enough food for the population. foilage, corn, and other crops are growing well, but the sugar beet crop has been severely affected by the weather. The Ministry of Agriculture is working to ensure that there is enough food for the population.
Political and Social Attitudes. A community of large farmers,
Lorraine has long been conservative. Before the war, as a result of
the Ruhr crisis, the Social Republic Party, the Communists, the
Centre, the Radical-Liberal Party, and the Social Democratic Party.
in the elections, Perriers will look for Right and Center candidates. Some of
the Socialists of the Ruhr, who before the war resided in coal areas
and in Lorraine, have been identified by the Government of
Colonel de la Roque, talk of the need for strong leadership and
of reducing the significance of universal suffrage.

Local political attitudes are dominated by:

(1) Fear of the Communists -- with very little information
on their current activities.

(2) Fear that the Government may be planning radical
economic measures. The subscriptions to the liberation
loan were large but the figures were not reliable. For the
first time, it was claimed that the local authorities were
forcing coal miners to pay extra coal.

(3) Business and, indifference toward party programs and
activities. Many people do not know the political affiliations
of the parties and their leaders. The Radicals and Commu-
nists are represented in the local government. The former
are formed of local agriculturalists and the latter of
socialists and communists.

Neither the occupation nor liberation has affected the conser-
vative tone of this Lorraine community. Even if the Communists
would prevail in any of the elections, and in power agricultural
and industrial interests would remain a stronghold of French
socialist and conservative government.

3. France and Austria.

The French Government is currently in close touch with both
the Austrian government and the Social Democratic
Austrians in France. By giving such support, the French hope
to enlist the gratitude of the Socialists who will be asked to
support the conservative government. The French are aware
that they may face three important tasks of French political policy:
(1) recovery of the looted property of Austria;
(2) restoration of the borders of the French Republic
in small States bordering on Austrian soil; and
(3) increase of French influence in the countries of the French
sphere.

As immediate steps, the French Government is planning to
provide some relief for the Austrian people and to bring
about a union with Austria in France which will
among other things, facilitate admission of an Austrian
unit in the French military. It is not possible at this time
to give exclusive support to any group or federation of groups,
inside or outside Austria, as a provisional government.

The French have been in touch with the Austrian government
and have recently brought to Paris a representation of
the Austrian Social Democratic Committee, the newly formed communist
organization of the ex-socialist political body which
(except for the Radicals in Paris). This representative has promised
himself well pleased with his conversations with high French
officials and the latter apparently raised no objection to
representation of Austrian workers in French military
organization. The Austrian men are not, however, that
the French Government is now on the defensive to give
exclusive support to its political organization, which included no representatives
of the ex-socialist political body.

With regard to Austrian groups in France, French policy
hesitates between Spanish Republicans: It makes no commit-
ments to any one group but encourages unity among them. There are

The fighting in the Ardennes caused many people to
withdraw. Loss of the German front line, the peoples, the
Government is in occupation and must therefore make
arrangements for their own security. The Socialist
organizations were organized by the Austrian Armed
forces. All parties have been excluded from the distribution
of coal and other commodities, and in the evacuation plan for
the children of France and Spain. How
people in Lorraine are free of criticism of fifth column or
reports that in many ways shows that "it was better under the Germans."

As in every liberated country, the Left has continued to
challenge the Government on the Left. Its attacks forced the
Minister of Finance to resign. He has now come down to liberating
those 5,000 Belgian soldiers interned for security reasons
against whom no formal charges had been brought.

The Left was not supported by the entry into effect on
January 1 of a new accord which would have greatly increased
the financial obligations of the Left, and made it even more difficult
for the Government to meet them. The Left, however, is not
threatened by the Left, which is a threat to the Government.

The Right has been violently attacking the Government's bill
for $100 million in capital. As a result, the bill is expected to be
rejected by a large majority in May 1940
and to bring about a union with Austria in France which
will among other things, facilitate admission of an Austrian
unit in the French military. It is not possible at this time
to give exclusive support to any group or federation of groups,
inside or outside Austria, as a provisional government.

The Austrian Government, generally regarded to be more
to the Right than the Provisional Government of France, is
favoring a measure more drastic in both fiscal and social
measures than any the De Gaulle Government has approved.

The Belgian Catholics and Liberals claim that the tax is too
high for the small capitalist and small property owners. Above
all, that it fails to distinguish between legitimate and
alienated property. The Socialists are opposed to the tax on the grounds
that it will not bring any benefit to the unemployed. The
socialists have been more critical toward this move than
they would ordinarily support, since it stems from a Government
to which they are in formal opposition.

The Government's failure to press this financial measure over
the opposition in Parliament and within the Grand Coalition,
on its inability to make a more compelling appeal against the
Belgian material hardships, may bring the fall of the Marlot
Government.
three Austrian groups in present organized in France. The Association
now in Liubensko, is relatively well-off financially, and is the most
conservative of the three. It is a group developed out of the Laning
Committee, which before the collapse of France took over of Austrian
energies, and its leaders are still Austrians who left their country
ten or twenty years ago, many of whom will probably never return. The
AL (Austrian Committee of Liberation) represents the Social Democrats
and receives some encouragement from French Socialists. It is reported
to be the largest of the three organizations, has its headquarters in Paris
and branches in a number of southern cities. The Communist-led FM
(Austrian National Front), styles itself a branch of the Free
Austrian World Movement associated with the OSAP in Austria. It
follows the line of similar French and Spanish organizations in
emphasizing its active role in French resistance. The Austrian
monarchists are negligible in France. They have no organization,
and the post-liberation activities of their self-styled consul
in southern France were quickly stopped by the French Government.

In pursuing its efforts to bring these three groups together,
the French Government has dealt largely through the Association,
partly because several of its leaders were already in the employ of
one French ministry for special tasks. Another ministry has offered
it financial assistance. In a personal interview with two Associa-
tion representatives, held in mid-January, France's readiness to
give some kind of status short of recognition as a government-in-
exile to a union of Austrian refuge organizations and encouraged
them to believe that such a union would be allowed to broadcast in
Austria.

The French Foreign Ministry is awaiting with some impatience
the outcome of current negotiations among the Austrians. The chief
stumbling block toward unity is the attitude of the FM which, as a
branch of a movement which claims to represent all
Austrian resistance, cannot accept a union unless the other organiza-
tions agree to become part of FM. The French say, however, to
be ready to establish a federation of the Association and of AL and to
drop FM entirely.

The French are both advantageously and disadvantageously placed
for gaining influence in present-day Austria through current activities.
They have no common frontier with Austria and will not provide the
liberating armies. Austrians in France number only a few thousand;
they are scattered, poor, and -- like other minorities -- subject to the
police because of irregularities in their papers. On the other hand,
the French have had for a long time connections with Austrian resis-
tance in France, and the latter had connections with resistance in
Austria until the Germans expelled from east of France last
summer. More recently, the French have established direct contact
with the Austrian resistance in the homeland. Unlike the allies in
England and the United States, who are repudiated by both the
FPÖ and the OSAP, a number of these when the French are now attempting
to unite have a record of active opposition to the Nazis.

4. Army in Belgium

With the German offensive stopped, the chief worry of the Bel-

gian people became the material difficulties of everyday life --
food, coal and -- in Antwerp, Liège and the Ardennes -- shelter.
During January popular strikes on the Government, for its weakness
in meeting all these problems rose in intensity and threatened to
topple the Florot Cabinet. The Left criticized the Government
sharply for its purse policy, and the Right fought its proposal for
a steep tax on capital acquired during the occupation.

Material Difficulties: The aftermath of the German counter-
offensive was an aggravation of material difficulties.
March 19, 1945

My dear Lieut. Putsell:

This will acknowledge receipt of your letter of March 17th with which was enclosed a copy of radiotelephone message #200, from tester. Thank you for sending this to me.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Lieut. R. J. Putsell, Jr.,
Acting Executive Officer,
Office of Strategic Services,
Washington, D.C.

March 19, 1945

My dear Lieut. Putsell:

This will acknowledge receipt of your letter of March 17th with which was enclosed a copy of radiotelephone message #200, from tester. Thank you for sending this to me.

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(Signed) H. Morgenthau, Jr.

Lieut. R. J. Putsell, Jr.,
Acting Executive Officer,
Office of Strategic Services,
Washington, D.C.
17 March 1945

Honorable Henry Morgenthau, Jr.
The Secretary of the Treasury
Treasury Department
Washington, D. C.

My dear Mr. Morgenthau:

There is attached, as being of possible interest to you, copy of radiotelephone message #288 dated 16 March 1945.

It was received last evening from our representative in Berne.

Sincerely,

E. J. Putzell, Jr.
Lt. (jg), USNR
Acting Executive Officer

Attachment
OFFICE OF STRATEGIC SERVICES
OFFICIAL DISPATCH

DATE: 16 March 1945

FROM: Berno

TO: DIRECTOR, OFFICE OF STRATEGIC SERVICES

DISTRIBUTION

FOR ACTION

FOR INFORMATION

RECEIVED IN PLAIN TEXT

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The stubbornness of the German resistance in the neighborhood of Lake Balaton and the Danube, while the defenses are crumbling in the agriculturally more vital areas in the east and south, has caused a good deal of concern. We have seen from several reports on the subject, particularly some recent arrivals from Austria, and the following seems to be the explanation:

The Germans realize that it is now completely impossible for them to hold the relatively flat country in the north of Germany from the Ruhr to Berlin. They are therefore reconciled to the inevitability of losing this. Their struggle in this area they conceive as a delaying action to gain time to re-group their forces towards the south and to complete their preparations for the defense of the Ruhr.

As I suggested some days ago, the actual evidence we have up to that time did not indicate that the Germans had really yet very serious progress in the fortification of the Ruhr area or in collecting there any vast amount of supplies. Over the last several weeks, some evidence of this, however, has been coming in. Whether this will become a reality, I cannot predict, but their present military strategy seems to be built around the idea of a retreat.

Actually, top Nazis look upon this not merely as a method of saving their lives for a few months longer. They have more far-reaching plans. They have followed with close attention the social unrest and upheavals in the Balkans. They believe that it is towards the Southeast and in the general Balkan area that their best chances lie. Taking the Ruhr as a base, they are possibly planning, to organize guerrilla bands in the mountains of Croatia and Serbia, Greece, Yugoslavia and elsewhere.

OFFICE OF STRATEGIC SERVICES
OFFICIAL DISPATCH

FROM: Berno

TO: DIRECTOR, OFFICE OF STRATEGIC SERVICES

RECEIVED

RESTRICTED

To facilitate this plan, it is important for them that the Ruhr extend as far as possible towards the Balkans, and this is apparently the reason for the strong concentration of German forces in the area east of Vienna.

The Germans apparently realize that the American and British forces will meet the Russian forces somewhere in the North German plain. They hope then to be safely entrenched in their Ruhr. Then, if there is friction between the Anglo-Saxons and the Russians, they hope to be in a position to pour oil on the flames by stirring up all kinds of mischief in the Balkan areas.

They have seen how Tito defied their best efforts over several years. They believe they can play the game of several Titos, primarily in the rear Ruhr, which will serve as a basis for supplies, and for the dispersal of paratroops and agents to forestall trouble in minor areas of resistance to be scattered far and wide in Southeastern Europe. This may well be the basic plan that they are now preparing the Ruhr to serve as a stockpile of manpower and material to give it effectiveness. In particular, preparations are reported to have been made to assure the possibility of manufacturing light, defensive and anti-tank guns in the Ruhr.

E. Here is an interesting editorial that appeared in the Weltb�ndner last night. The Allied leaders, especially Churchill, appeal to the French that one decisive Allied victory will be sufficient to break all German resistance. We hope this optimism is justified, but we do not quite believe it. We fear that, between the moment through which we are now passing and the moment of the end of the war, seemingly so near, terrible things will happen, namely, the destruction of the Allied prisoners in Germany, unless an amnesty is granted to the Nazi leaders. We are reporting this not based on definite knowledge, but rather on familiarity with the Third Reich and the Nazi mentality, concerning which we have rarely been deceived. Unfortunately, we do not dare hope that the Nazi leaders will be debarred from the most terrible actions by the consideration that the blood which they shed must fall back on the German people and signify their doom. On the contrary, we fear that any such considerations will only strengthen them in their dire determination. Hitler himself once said that, if the German people lost the war, it would have failed in its historic mission and would deserve only anihilation.

National Socialism arose as an anti-social movement from the ashes of the corrupt bourgeois world which remains after the last war.
OFFICE OF STRATEGIC SERVICES
OFFICIAL DISPATCH

FROM

TO

RECEIVED

RESTRICTED

It was an outbreak from reality, it was a bloody and cruel world of Wagner's operas and the German heroic sagas. At the same time, it was an outbreak into the world of gangsters. In so doing, the Nazis made themselves outliers of the bourgeois world and, on top of that, they have been officially banned from this world by the Allies.

They now feel themselves as beyond the law and outside the old world, relying solely on their own resources in the fight for their bare existence in a hopeless struggle. We know that no fighters are more dangerous than those who fight with the energy of despair. They shrink from nothing and no one, for they have nothing more to lose. There is much thought in this connection of new miracle weapons, especially in the use of gas, to which they might resort at the moment of complete despair. For our part, we do not believe that any such miracle weapon exists, for if they existed they would have been used before now.

It is possible that Hitler may still occupy himself with such things. But more than all that, we fear the supreme threat which would confront the Allied statesmen with the awful alternative of either renouncing the punishment of the Nazi leaders, or jeopardizing the lives of millions of decent human beings.

5. Here is a brief item from the Berlin correspondent of the Neue Zürcher Zeitung which appeared today. The whole German press quotes a Berlin Report from Washington to the effect that the President, in a press conference that Great Britain and the U.S.A. had agreed in the Yalta Conference that, after the overthrow of Germany, the German prisoners of war would be employed in the reparation of war damage caused in Russia. This report obviously gives rise to grave concern in Germany and affords fresh material for German propaganda aimed at the improvement of the fighting morale of the German people. The press calls the Anglo-Americans "slave-drivers for Siberia" and claims that Roosevelt is calling German soldiers to the Kreslin.

Deportation to Siberia is featured in the Berlin papers to show the public what they must expect if they give up determined resistance. It goes without saying that the German press adheres to every utterance from the Allied camp which tends to show that dire disaster awaits the German people if they are finally defeated.
EXECUTIVE OFFICE OF THE PRESIDENT  
WAR REFUGEE BOARD  
INTER-OFFICE COMMUNICATION

DATE MAR 19 1945

Secretary Morgenthau

From: Miss Hodel

For your information:

General O'Dwyer and Mr. Fortas met with Attorney General Biddle on Friday, March 10, to discuss the problem of ameliorating conditions at Oswego.

Mr. Fortas pressed for Justice Department approval of the program sponsored by private agencies and Interior for release of the refugees from the Shelter under a system of interment-at-large. The Attorney General refused to reverse his opinion that such a program was not consistent with the publicly expressed conditions under which the refugees were brought to this country.

General O'Dwyer took a more particular approach than Mr. Fortas. He pressed for consideration by the Department of Justice on a case by case basis of requests for temporary leave from the Shelter for specific refugees who, for reasons of health supported by the opinion of physicians and the administration of the Shelter, need a period of rest and change from the restricted life at the Shelter. The General made his request solely on humanitarian grounds and made no argument for breaking down the legal restrictions under which the Shelter was established. The Attorney General agreed that he would give consideration to any such cases. Because of his concern over Congressional reaction, the Attorney General stated that he would be glad to join General O'Dwyer in discussing the first cases with interested members of Congress.

The War Relocation Authority is now getting together the most urgent cases of this type.
March 19, 1945

Distribution of true reading only by special arrangement.

US URGENT

N.Y.

FOR INDIAN

As no word has been received from W. Chalmond since March 8 it is assumed that he has gone to Paris.

In order to enable the Board to be prepared for the situation which may develop in Switzerland, it is requested that you reply at once to the following questions:

1. Have any trains been acquired for delivery of War Refugee Board food parcels in enemy territory?

2. What are the prospects of evacuating detainees from enemy territory to Switzerland?

3. Will Internees use returning P.O. relief trucks for evacuation of detainees in Switzerland?

The above is SUB 465.

KIRK

(* apparent omission)
SECRET

DEPT No. 89

Information received up to 10 a.m., 19th March, 1945.

NAVAL

1. HOME WATERS. 18th/19th (night). E-boats active on East Coast Convoy routes where 1 ship torpedoed and enemy engaged by our patrols of which two M.T.B.'s. damaged.

2. NORTH ATLANTIC. The Canadian Minesweeper reported yesterday as torpedoed has now sunk, 36 survivors, including Captain.

3. MEDITERRANEAN. 19th/20th (night). Allied coastal forces sunk 5 F-lighters in Adriatic. 17th/18th (night). Three enemy destroyers or torpedo boats making sorties from Genoa were intercepted by two of H.M. Destroyers west of Leghorn when two sunk. Allied coastal forces also sank one of two escorted F-lighters in Adriatic.

4. BAY OF BISCAY. 19th. A 2871 ton ship in coastal convoy torpedoed and sunk by E-boats off Great Yarmouth. This same ship as reported para. 1.

5. ANTI-SUBMARINE OPERATIONS. 14th. E-boat possibly sunk off St. Abbs Head by one of H.M. Destroyers and Frigates since wreckage has now been recovered.

MILITARY

6. WESTERN FRONT. Southern Sector: During 17th and 18th general advance along 7th U.S. Army front continued and elements have breached Siegfried Line at Zweibrucken. Further north on 3rd U.S. Army front one armoured division has driven 20 miles E.E. Trier whilst armoured one armoured division and one infantry division has continued make good progress with spearhead reported nearing Kaiserslautern from direction Red Number. While infantry division now reported holding 9 mile section of west bank of Rhine south of Coblenz. Central Sector: Expansion of Remagen bridgehead continuing against stiff opposition.

7. EASTERN FRONT. Central Sector: On northern flank Kolberg captured. Southern Sector: In Czechoslovakia Russians have advanced 14 miles West Golen along River Hron.

8. BURMA. Central Sector: Although pressure still continues against our forces Meiktila position now stabilised and strong threat being made by brigade group to east from area of airfield. Further north all main roads out of Mandalay now closed by enclosing movement made by our troops advancing south to east of city which now only two or three miles from strong force driving up from southwest.

AIR

9. WESTERN FRONT. 18th. 100 escorted Lancasters dropped 512 tons through south of two benzol plants at Hattingen and Langendreer in Bochum area. 1226 escorted U.S. Heavy bombers (29 bombers and 5 fighters outstanding) dropped 2746 tons mainly by Pathfinder technique on two railway centres and two tank plants Berlin whilst 89 tons dropped on three other targets. Enemy casualties 211, 3 in combat. BOMBER AIR Command Spitfires 905 (7 missing) dropped 1382 tons 8 railway centres and communication targets. Mainly central and southern sectors while fighters and fighter bombers 2996 (25 missing) operated all sectors destroying or damaging over 4000 road and rail vehicles and cutting railways and roads in 149 places at same time inflicting enemy casualties 161, 11. Fighters Command Spitfires 146 (1 missing) attacked rocket sites and communications Holland.

10. MEDITERRANEAN. 17th. 470 tactical aircraft (1 missing) attacked communications Brimmer route and in North Italy and Yugoslav where several bridges damaged.

11. BURMA. 17th. 70 Super Fortresses dropped 437 tons in clear weather on military stores Hangcon.

HOME SECURITY (Up to 7 a.m., 19th)

12. FLYING BOMBS. 18th/19th (night). Two spotted. ROCKETS. 17th. Two further incidents reported. 4 incidents.