

DIARY

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March 17-19, 1945

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March 17, 1945
9:55 a.m.

1 ✓

HMJr: Hello.
Operator: McCloy.
HMJr: Hello.
John McCloy: Hello.
HMJr: 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?
HMJr: What did she sell me?
M: Yes.
HMJr: My grandchild.
M: (Laughs) She did?
HMJr: (Laughs)
M: Where was this?
HMJr: Walking down this morning.
M: Really?
HMJr: She was in the car and wanted to know all about the grandchild.
M: She did, huh?
HMJr: Yeah.
M: Well, good.
HMJr: She's a nice woman.
M: Well, I -- I think that's right.
HMJr: (Laughs)
M: I think that's right.

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HMJr: She's got more pep and enthusiasm.
M: She really has.
HMJr: Yeah.
M: You called me last night but when I got in it was too late
HMJr: Yeah.
M: to call back.
HMJr: Well, let me tell you this....
M: Yeah.
HMJr: and if you tell it to Stimson, please tell him not to repeat it....
M: Yes.
HMJr: except to himself.
M: Yes.
HMJr: What I did was this: I want you to know -- I stayed behind. See?
M: Yes.
HMJr: And I had a very frank talk with Stettinius.
M: Yes.
HMJr: And I shook him terrifically. See?
M: Yes.
HMJr: 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.
HMJr: And I believe him.
M: I think he's right. I'm sure of that.

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HMJr: 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 Grew at his request.

M: Yes.

HMJr: I couldn't refuse to because he said he wanted Grew 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.

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M: And the Secretary said, "Well, Mr President, I really don't want to get into this thing again." He showed his, oh, discouragement -- he said, "We sat down and we worked out something here, but suddenly the thing is -- is all changed without any consultation and I think that we better just take the position that whatever the others say that we should do, the Army is trying to take account. I do assert an interest in seeing that the Administration is militarily possible since we're going to carry it on, but I'm really very discouraged at the way the thing has worked out."

HMJr: Yeah.

M: He said something like that. The President immediately responded to the effect that, "Oh, well, I didn't pay much attention to that."

HMJr: Oh, for God's sake.

M: And that, "This is something that I thought had been all worked out and that I'm sure that you can take it and do something with it." Well, that's all that was said on that. Then yesterday I got all of the people in who have been working on this thing over here and I told them that this is the understanding that I got: first, that they want to change 1067, but they do not want to -- under the interpretation which the very same people that wrote this thing gave to us, that it did not involve a centralized administration which the order itself very clearly points to.

HMJr: Yeah.

M: That it was repeated several times that that was not the interpretation -- we had to take them at their word

HMJr: That's right.

M: and that we were going to look at 1067. I wanted them to go over that again and see to what extent they felt 1067 ought to be changed in the light of what the Yalta decisions were, and in the light of the apparent decision to have this complete economic control.

HMJr: Yeah.

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M: 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. Hilldring 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 Bretton Woods.

M: Oh, yes.

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HMJr: But -- and bonds.

M: Yeah.

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

M: Yes.

HMJr: ... 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 Hilldring 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 gulk on it.

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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: Yes.

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 Coe 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: Yes.

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-damndest

M: Isn't it terrible?

HMJr: And then they admitted to Coe that that Yalta thing could be perfectly well interpreted another way to completely fit 1067.

M: Yeah. Yeah.

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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 extreme."

M: Good God!

HMJr: Now, that's what Riddleberger and

M: Yeah.

HMJr: And you know Coe 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: Yes.

HMJr: He implied he didn't read it.

M: Yeah.

HMJr: He 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 deplorable, 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 want to draft this thing but

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M: I think what they've done -- they -- they -- on that line, I mean, for 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.

HMJr: I just had a talk with General -- with Admiral Leahy

M: Yes.

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

M: Yes.

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

M: Yeah. Yeah.

HMJr: in his hearing.

M: Yeah.

HMJr: And he said he attended every single meeting.

M: Yeah.

HMJr: 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 sat 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.

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

M: (Laughs)

HMJr: Am I lying down or laying down?

M: Lying down.

HMJr: I think I'm lying down.

M: Yeah, that's right.

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HMJr: Yeah. Well, I'm not going to lie down and take it, and I hope that Mr. Stimson doesn't. But I gather after talking to the President, he's not going to.

M: Well, he sort of said this, "Listen, I have the theory," -- this is his attitude when he explained it to me -- "I've got some theories about how Germany should be run -- what the future of Germany is, but"

HMJr: Who -- who was that?

M: Mr. Stimson.

HMJr: Yes.

M: But he said, "I'm not going to fight about them any more. I disagreed with Mr. Morgenthau on his Quebec business, and with you on that, and I don't agree with this, but that isn't my business. My business is -- I've come to the conclusion that my business is to put out something which is administratively possible and effective from the military point of view, and I don't think that this is. And I don't believe you're right in setting this up this way, and I'm not going to assert myself about your economic policy. Somebody will have to determine that. I'm not going to waste my time about it," he said.

HMJr: Well, we'll approach it in two sections: One, make the approach that this could be interpreted to support 1067. Right?

M: Yeah.

HMJr: And then another section will be on the economic which I will show you, but I gather you're not going to take an interest.

M: We're not going to take much of a part in that. Now, I don't know -- you're going -- you've got to figure out what the implications of the reparations business are. You've got to figure out whether you, under the objectives which we've got to achieve, whether you think that we've got to undertake the complete control that Henderson says he thinks we should. That is to say, if we want to have the reparations, if we want to have the minimum standard, if we want to demilitarize -- it's Henderson's feeling that you then have to control completely; that you

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M: Cont'd. can't let the Germans do it.

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

M: Yes.

HMJr: That's the position that he takes.

M: Uh huh.

HMJr: 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.

HMJr: They don't look to Riddleberger.

M: (Laughs) That's right.

HMJr: What?

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

HMJr: But come 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.

HMJr: And see what happens.

M: Yeah.

HMJr: But I can tell you

M: Yeah.

HMJr: that I never have seen Stettinius 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.

HMJr: And that can happen to any of us.

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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

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

M: He did, huh?

HMJr: 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.

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

M: Yeah.

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

M: Right. Right.

HMJr: Only for you and Mr. Stinson.

M: Right.

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

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

HMJr: Well, all right. It's Stinson, Hilldring and you.

M: All right.

HMJr: Because I mean

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

HMJr: if it goes below that level

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M: Yeah, it will get around.

HMJr: Yeah, but Stimson, Willdring and you. How is Willdring?

M: You can be sure.

HMJr: Can I say, "Hello," to him?

M: Wait a second. Hold the wire.

General Willdring: Yes, Mr. Secretary.

HMJr: 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.

HMJr: I -- I

M: We had quite an upheaval when I was -- I just left town two weeks, but

HMJr: 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.

HMJr: Yeah, I'm not going to take

M: (Laughs) I don't blame you, sir.

HMJr: No. And I want some support.

M: Oh, yes, sir. Well, you'll get it.

HMJr: I need something better than an SS, too.

M: Yes, sir.

HMJr: Something that can outshoot an SS.

M: Yes, sir.

HMJr: You've got that new 90, haven't you?

M: Yes, sir, we have and it's a fine piece of artillery.

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HMJr: Well, bring up the General's -- General Pershing.

M: All right, sir, I will.

HMJr: And tell McCloy if he and I are going to run a General Pershing, I don't expect him to stall it this time.

M: Who, Mr. McCloy?

HMJr: Yeah, just tell him that. He knows what I mean.

M: I see.

HMJr: Tell him that while I'm on the phone.

M: Yes, sir. (Talks aside)

John McCloy: What are you talking about -- stall -- here?

HMJr: 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?

HMJr: Yeah.

M: Oh.

HMJr: Yeah.

M: You want to see one of the tanks?

HMJr: Yeah.

M: We'll go over to Aberdeen.

HMJr: All right.

M: They're very good.

HMJr: All right.

M: I'll set it up with -- with Campbell.

HMJr: Now, don't stall it in the middle of the road this time.

M: Oh, I hope not -- I get you.

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HMJr: All right.
K: Right.
HMJr: Bye.

March 17, 1945¹⁶
10:11 a.m.

HMJr: Henry talking.
Senator George: Yes, sir. This is Walter George, Henry.
HMJr: How are you?
G: Pretty good.
HMJr: 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.
G: Over this week-end, Henry?
HMJr: Well, if it's convenient. If not, Monday. I -- I don't want to intrude on your Sunday.
G: 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.
HMJr: Well, you say how and when, and
G: I'll drop by to see you.
HMJr: Do you want to do that Monday morning.
G: 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.
HMJr: All right. What do you call very early?
G: Would it suit you for me to come about nine o'clock?
HMJr: That will be perfect.
G: At your office.
HMJr: Yeah.
G: All right, I'll come about nine o'clock.
HMJr: That's all right.
G: 9:00 a.m. Monday.

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HMJR: I just want to have a little chat with you about
Bretton Woods.

G: All right, sir, I'll be glad to come by.

HMJR: Thank you so much.

G: All right.

HMJR: Good bye.

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March 17, 1945
11:00 a.m.

FINANCING

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

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. KLOTZ: 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

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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 1944 and subsequent years."

H.M.JR: Just a minute!

(Discussion off the record)

MR. BLOUGH: 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. BLOUGH: 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. BLOUGH: These may be considered before the end of the war.

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

MR. BLOUGH: 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. BLOUGH: I certainly hope we can hold to that.

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

MR. BLOUGH: (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. BLOUGH: 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. BLOUGH: 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.

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(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. BLOUGH: That can happen. If it does, they pay a fairly substantial penalty.

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

MR. BLOUGH: Yes.

MR. BELL: Okay.

MR. BLOUGH: (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 them to get the money back faster.

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

MR. BLOUGH: 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. BLOUGH: 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. BLOUGH: His men have been in on it every day. Cann 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. BLOUGH: Not ultimately, but for the time being.

MR. BELL: Quick money.

MR. BLOUGH: 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) "B. 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

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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 85 percent for 1946 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 1946. 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 1st.

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

MR. BELL: Roy, 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.

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H.M.JR: What else?

MR. BLOUGH: I am not sure I can find language here to save time, but if the war doesn't end until 1946, then the excess-profits tax continues throughout 1946 at the full rate and is repealed as of the beginning of the following year, 1947. Or if the war should continue into 1947 the excess-profits tax continues throughout 1947 and is repealed at the end of that year. Capital stock and declared value excess-profits taxes are repealed immediately following the end of the war. There will be no tax repeals or tax rate reductions until the end of the war.

H.M.JR: Let me just ask you a question. Have you been over this?

MR. BELL: Generally, I have been going along with Roy in this study, not in detail as Joe has, but I think it is a good program.

H.M.JR: Does it give business a chance to pick up?

MR. BLOUGH: That's what we think.

It gives them some assurance when excess-profits taxes are going to go on.

H.M.JR: Well, I am not going to--

MR. BLOUGH: I am through.

H.M.JR: Whether you are through or not, I am going to say this: I am not going to pretend that I understand what you have been saying, see, and I have sufficient confidence in you that I am going to take this sight unseen. I can't assimilate these things, and I have to defend them. I'll sit down with you, but Joe here says it is all right, you say it is all right, and Bell says it is all right.

MR. BELL: It is an excellent program.

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

MR. O'CONNELL: It is better.

MR. BLOUGH: 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. BLOUGH: 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. BLOUGH: Yes.

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

MR. BLOUGH: 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. BLOUGH: We are doing our best so there won't be any recriminations.

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H.M.JR: I 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. BLOUGH: 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. BLOUGH: 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. BLOUGH: Won't you mention that?

MR. BELL: Yes. Roy told you the other day he had been discussing it with the 'Inson 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?

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MR. BLOUGH: Yes.

H.M.JR: They are coming to dinner tomorrow night, so supposing you put it on one page in case they ask me some questions and see 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. BLOUGH: 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. BLOUGH: 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.

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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 with Doughton 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 sweat blood and cried with you over so many tax 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 Counsel's office after one o'clock.

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

MR. BELL: Non-Irish, I take it.

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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 CED 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 Spence 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.

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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-C 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.

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HMJr: Hello.
Operator: Senator Glass. Go ahead.
HMJr: Hello.
Mrs. Carter Glass: Mr. Secretary.
HMJr: Mrs. Glass?
G: Yes. The Senator is on the other phone right now.
HMJr: Is he listening?
G: Yes. You can talk right to him if you wish.
HMJr: Well, either way that is convenient.
G: All right, sir. Well, he's there.
HMJr: Hello. Hello.
Senator Glass: (Coughs)
HMJr: 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.
HMJr: I can tell you, Mrs. Glass, what I wanted.
Mrs. G: Well, he's all right. He wants to speak to you now.
HMJr: 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

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HMJr: If I could come down some time Sunday and see you.
G: Yes. Yes.
HMJr: Around twelve o'clock?
G: Yes.
HMJr: Would that be a good time?
G: Yes, that will be a good time.
HMJr: Well, then I'll come around about twelve o'clock to see you.
G: All right.
HMJr: It's so nice to be able to talk to you.
G: Thank you.
HMJr: I'll look forward to seeing you.
G: Thank you.
HMJr: All right, Senator. Good bye.
G: Bye.

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H.M.JR: Get a statement from him on Bretton Woods.
(Laughter)

MRS. KLOTZ: Dan, don't look so sad.

MR. BELL: I think that's terrible.

MRS. KLOTZ: That's what happens in old age. It's terrible. I won't live that long, so--

MR. BELL: It's pitiful. Really, it's sad.

H.M.JR: I told Ned Brown that after the Seventh War Loan, before we had made any arrangements with any managers in any states on how we would handle work with the banks, I would sit down with Mr. Brown, Mr. Dan Bell, and Mr. Gamble and discuss our relationship with the bankers in the states.

MR. O'CONNELL: And you won't see me Monday until late in the day.

H.M.JR: And I won't call you tomorrow morning either.

MR. O'CONNELL: That would be very fine.

MR. BELL: You have an appointment Monday.

MR. O'CONNELL: Oh, Tom Smith. I'll make it Monday afternoon. I was planning to come back Monday morning.

H.M.JR: Take it easy.

MR. BELL: Do you want to see me on financing? It won't take very long.

H.M.JR: I'm just bushed.

(Discussion off the record.)

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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 Marriner wrote me a letter dated the 9th and said he felt rather strongly that we should not attempt to put out the two and one-quarters and the two and one-half's too far and that he would prefer to put the shorter two and one-quarters '88-'91 as opposed to Haas' recommendation of '80-'85 and he would prefer to put the long bond in the '86-'91, but he said that he wouldn't go too far--'87-'92 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, 1946, addressed to Mr. D. W. Bell.)

MR. BELL: There are one or two other things I would have to have Monday morning. People are going to call 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 to keep people out of the market, and they are losing money. Bob House had a case yesterday where the people made their arrangements to come out on May 10th, and I said certainly they cannot. On that I asked the investment bankers to stay out of the market between April 9th 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,

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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.

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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 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. Fussell
Mr. Luxford
Mrs. Klotz

H.M.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 McLarin, didn't you?

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

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

MR. FELTUS: Yes, M-c-l-a-r-i-n.

H.M.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.

MRS. KLOTZ: That is just what he sounded like.

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

H.M.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.M.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. LUXFORD: A one-paragraph statement for Carter Glass?

H.M.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. LUXFORD: I think he has got a good mind.

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

H.M.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 Scheiberling any time

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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.M.JR: Is there anything else today? I haven't talked to Shipstead, and I haven't talked to thing-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 Stettinius call it in his office at some later date and have conservative people in the Government, Vinson, Crowley, Eccles 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 Stettinius' office.

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

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

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

H.M.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 Hodges, Quincy Howe--

H.M.JR: Who is Hodges?

MR. FELTUS: He is--

H.M.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.

Cary Longmire, Waverley Root, Robert St. John, Paul Shubert, Johannes Steel, William Shirer, Leland Stowe, Bob Trout, John Vandercook, Cesar Saerchinger, William Gellmor, Walter Winchell, Creighton Scott, John B. Kennedy, Bruno Shaw--

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.M.JR: When do those telegrams go out?

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

H.M.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 Godwin. I didn't ask Lowell Thomas for a reason. He is beyond the pale, but I thought Kennedy might be--

MRS. KLOTZ: When will we know how many there are?

MR. FELTUS: Monday, I suppose.

H.M.JR: You had better ask Lowell Thomas.

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

H.M.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.M.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.

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MR. WHITE: Wouldn't Kennedy use this to say, "high pressure tactics," and so forth?

MR. FELTUS: We will scratch him.

H.M.JR: I think so.

MR. FUSSELL: I question Gailmor.

MR. WHITE: I don't know.

H.M.JR: If he feels doubtful--

MR. FELTUS: Gailmor has been one hundred percent for Bretton Woods.

MR. FUSSELL: No doubt of that. He will be picked by Pegler, and Pegler will smear the whole thing.

MR. FELTUS: I don't think we ought to be afraid of Pegler.

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. McLarin, as follows:)

March 17, 1945 42
11:41 a.m.

HMJr: Hello.

W. S. McLarin, Jr: Good morning, Mr. Secretary.

HMJr: How are you all down there?

W: We're nice and warm. The sun is shining just as pretty as it can be.

HMJr: I hope you've got a Coca Cola on your desk.

W: No, there's one upstairs, but not one on my desk.

HMJr: 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 News Week.

HMJr: Yeah.

W: He was talking to a lot of manufacturers -- Manufacturers Association. He was violently opposed to it.

HMJr: Yeah. Well, he's opposed to anything that I'm for.

W: (Laughs)

HMJr: 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.

HMJr: Robey -- He's a bad boy. He doesn't always tell

W: He has very definite ideas about Bretton Woods.

HMJr: He doesn't always tell the truth.

W: He said anything the American Bankers Association says is all right.

HMJr: Well, that's enough, isn't it?

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M: Yeah.

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

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

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

M: 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

HMJr: Yeah.

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

HMJr: Yeah.

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

HMJr: Yeah. How much notice would they need?

M: 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.

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

M: Yeah.

HMJr: 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?

M: 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.

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

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

HMJr: A bad night?

M: Yes, sir.

HMJr: What about a Sunday night?

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

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

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

HMJr: Oh huh. Monday night, huh?

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

HMJr: No.

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

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

M: I would say so.

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

M: Yes.

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

M: 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.

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

M: Yeah.

HMJr: Well, thank you very much.

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M: All right, sir.
H.W.Jr: Bye.
M: I'll hear from you Monday.
H.W.Jr: You'll hear from me Monday.
M: All right.

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H.W.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?

H.W.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. LUXFORD: 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 Dumbarton Oaks, and we can give Los Angeles Bretton 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. LUXFORD: There is going to be a recess, and you might as well take advantage of it.

H.W.JR: You know what they say. I dictated my talk to the Speaker last night. It is the 26th, 27th, or 28th 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.

H.W.JR: Who has it?

MRS. KLOVE: 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. KLOVE: She must have just this minute brought it in. They were not there; I cleared everything this morning.

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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.

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

MR. FELTUS: A mass meeting.

MR. WHITE: That night, and--

H.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. FELTUS: There is also Hedy Lamarr.

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

H.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.

H.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.

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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 newreels of things right and left.

H.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.

H.M.JR: I want to say Joan Morgenthau completely blanketed everything in the Minneapolis papers. Joan Morgenthau is the babe in Bretton Woods. That is wonderful.

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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-pressured.

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 Mallon's column? It is the most complimentary thing we ever had. He says,

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"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 Mallon 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.

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H.M.JR: Gentlemen, I will be glad to see you in New York on Wednesday. Happy Sabbath.

MRS. KLOTZ: Mr. Feltus, you better let me know, because they can only accommodate--I don't know if they can accommodate more than thirty people, and they won't have any place to sit, because the room is just so big.

H.M.JR: What is the number?

MRS. KLOTZ: Thirty of them.

MR. FELTUS: I thought I ought to add in the telegram RSVP to you, and Fitz suggested we don't have RSVP to you because it would be confusing--telegrams coming in--he thinks I ought to put my name in to receive a reply.

H.M.JR: That is not necessary; give them a copy of the telegram upstairs in the telegraph unit, and say, "If there are any telegrams from these people, please send them to Mr. Feltus."

MR. FELTUS: All right.

H.M.JR: Give it to the chief telegraphist up in telegraph, the list, and say when the answers come in they are to come down to you.

MR. FELTUS: I will take it up.

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.

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March 17, 1945
3:15 p.m.

Re: REPARATIONS

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

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

MR. LUBIN: Well, I want you people to start. I want some ideas about this thing. The 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 evident he did not read it carefully.

MR. COE: That's the one Stettinius spoke about.

MR. LUBIN: And I think--

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

MR. LUBIN: The part about centralized control?

H.M.JR: 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 Ed 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

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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.JR: Were you in Yalta?

MR. LUBIN: No.

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

MR. LUBIN: I couldn't discuss them.

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

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

H.M.JR: 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 that 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.JR: Well, I think that's sensible. You see what we are doing now is, Stettinius gave us this agreement

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which he initialed and prepared, and I told Stettinius-- and I know this was done by Jimmy Kiddleberger and-- what's the other fellow's name?

MR. DuBOIS: 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 Grew and I said no.

MR. LUBIN: Grew 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. COE: 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 1087. Now, what we maintain is you can take 1087 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.

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H.M.JR: Since the meeting Thursday?

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

MR. DuBOIS: 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 Kiddleberger 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. COE: 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.")

"Reference 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.

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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." Those 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 13), the only industries which Germany is specifically forbidden to maintain are 'aircraft, 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 these industries to other countries will be restricted.

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"2. 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.JR: That's 1067?

MR. COE: 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 questions 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.

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"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 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 insure that appropriate controls, both financial and direct, are maintained or revived."

H.M.JR: 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. COE: (Reading) "3. Decentralization of Germany. A. Prior to Yalta. Directive 1067 provided as follows:"

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

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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 basic standard of living for the Germans.

H.M.JR: 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 Rumania, 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.JR: 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.JR: And they used that to draft this thing.

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MR. LUBIN: Yes, and the question I raised with them, do we have a policy of our own, or is ours a policy of adapting 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. DuBOIS: 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 supporting now for months, and it is just an attempt on their part to interpret 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.

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"(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 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 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.

"C. 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. 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."

It would seem there is a complete flopover 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.'"

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"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. 1087 (revised.) Accordingly, J.C.S. 1087 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 withdrawn 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. COE: 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 to it 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 Hilldring 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 Coe 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

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him that you are here Tuesday at eleven-fifteen. I am sure it will be, and your Reparations Commission, and I will call Hilldring and say we have this document in good shape, and I am going to send mine over and go over it with Stettinius. 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. COE: 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.

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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 Barney wanted 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.JR: To you?

MR. LUBIN: Yes.

H.M.JR: 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.JR: 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.JR: Do you think we ought to show him this?

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MR. LUBIN: I think you should, because I think he will agree with you. He is one hundred percent for forced labor.

H.M.JR: Yes. The only thing is that Barney--I think it is a lack of knowledge, with all due respect to him--that is one of the things--and after all, I saw Lord Cherwell. Don't overlook him. Are you going to London first?

MR. LUBIN: The Prime Minister wants Cherwell to be the British representative, and he said he can't go because of his diet. He's a vegetarian. He doesn't drink, and so forth. So I told Winant--I was only in London for six hours on my way home--I told Winant to tell him I couldn't take it unless he took it. I talked it over with Cherwell and he and I think alike.

H.M.JR: He's wonderful!

MR. LUBIN: If we could put pressure on him, my job is going to be easier. If the Foreign Office takes it over, it is going to be a tough one.

MR. COE: The British Treasury takes over your job.

MR. LUBIN: Keynes, of course, is one hundred percent on our side.

H.M.JR: Not entirely.

MR. LUBIN: He told Leon and me that we might as well make up our minds that we are going to spend two or three million dollars over there if we decide we want to do anything with Germany.

H.M.JR: The thing that bothers me about various things--the total export of German coal is a political sore spot. Bernie comes back and says maybe we can produce coal cheaper in Saar and--so what the devil. They want work for their people, see? We have gone an awfully long way on this, and why does the President bring me up there to Quebec to sell

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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, 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 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 in 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 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

- 2 -

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."

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 13), the only industries which Germany is specifically forbidden to maintain are "aircraft, 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 these 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 export 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 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."

B. Yalta.

Nothing was decided on this basic question at Yalta,

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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 3. 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 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:

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(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 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 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."

C. 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. 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."

* * * *

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Conclusion

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 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.

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HMJr: Hello.

Operator: Mr. Henry Morgenthau?

HMJr: Speaking.

Operator: We're getting your call through to London, England. In the interest of security, you are requested to refrain from discussing departures or arrivals

(Inaudible)

Operator: Go ahead.

Ambassador
Winant: Hello.

HMJr: Hello, Gil?

W: Yes. Hello, Henry.

HMJr: 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.

HMJr: Good.

W: All right, Henry.

HMJr: Gil, you know our mutual friend Lou, well he has been in here to see me.

W: Yes.

HMJr: 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.

HMJr: It would be very helpful.

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W: Yes, I agree.

HMJr: See?

W: Yes.

HMJr: I didn't know whether the people where I went to have tea a couple of times might be helpful in bringing that about beside yourself.

W: I'm there now.

HMJr: Hello?

W: I'm there now.

HMJr: Oh, are you? That's interesting.

W: Yes.

HMJr: Are they there, both of them?

W: Yes.

HMJr: Well, I see. Well, that's very nice.

W: And I'll do everything I can to help on this.

HMJr: I don't have to say anymore.

W: No, I understand, Henry.

HMJr: Should I say "hello" to him, or not?

W: Well, he's not in the room.

HMJr: Will you give them both my very warm regards.

W: I will do that.

HMJr: And you know what I'm talking about.

W: I do perfectly.

HMJr: 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.

HMJr: Well, I didn't know whether they had, but I want

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you to know that my attitude hasn't changed one bit towards you.

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

HMJr: And you've got a friend here.

W: I know that.

HMJr: And I didn't know from some remarks some people came back that you thought that I might have changed and I want you to know I haven't.

W: Well, thanks ever so much.

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

W: I understand, Henry.

HMJr: But I wanted you to know that.

W: Yes, I understand that.

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

W: Yes. (laughs)

HMJr: Did you?

W: What did you say?

HMJr: Did you have some of that orange liquor?

W: Yes, I did.

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

W: All right, I will.

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

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

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

W: I will do that.

HMJr: All right.

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W: All right, goodbye

HMJr: Goodbye.

W: Goodnight.

HMJr: Goodnight.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

March 17, 1945

TO Secretary Morgenthau

FROM Mr. White

For Action

Messrs. Feltus, Gaston, Russell, Luxford, Bernstein and myself believe it would be very much worthwhile to have a Bretton 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 Bretton 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, War 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?

MAR 17 1945

Dear Mr. Baukhage:

I was happy to note your comments on the Bretton 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. R. Baukhage,
Blue Network,
National Broadcasting Company,
Washington, D. C.

RB:ec 3/15/45

BRITISH EMBASSY,
WASHINGTON 8, 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,

Harfax

The Honourable

Henry Morgenthau, Jr.,

Secretary of the Treasury,
Washington, D.C.

VASSAR COLLEGE

POUGHKEEPSIE, NEW YORK

Department of Economics, Sociology & Anthropology

March 17, 1945

Mr. Harry D. White
Assistant Secretary of the Treasury
Washington 26, D.C.

Dear Mr. White:

Following up our telephone conversation I am sending you a list of the speeches I have made and those (noted as in April) still to come.

New York City

Columbia University summer school
Barnard College
New York Times Hall
Downtown Business Women's Club
Vassar Club of New York City
Vassar Club of Westchester County
National Association of Women Lawyers (April)
"Mademoiselle" forum for college students (April)
Americans United

New York State

Albany: Foreign Policy Association
Bronxville, League of Women Voters and Sarah Lawrence College
Larchmont: Community Forum
Poughkeepsie: various organizations, including business men's clubs, women's clubs, Vassar College, and summer institute of representative women from many states
Saratoga Springs: Community Forum and Skidmore College
West Park: Hudson Shore Labor School (labor union representatives)
White Plains: League of Women Voters, leaders for Westchester County
Millbrook: Bennett Junior College
Peekskill: American Association of University Women
Hewlett, L.I.: League of Women Voters (April)

Massachusetts

Mt. Holyoke College
Smith College (April)
Wellesley College (April)

Connecticut

Hartford: Vassar Club (April)
Service Bureau for Women's Organizations (April)
New London: Connecticut College
Salisbury: International Students' Union, summer conference
League of Women Voters

Mr. Harry D. White

2.

New Jersey
Englewood League of Women Voters
Newark: 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
Spokane: 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 Woman Banker, the Commercial and Financial Chronicle, the Vassar Alumnae Magazine, the YWCA Women's Press, 300 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 40,000 rich, conservative women).

Sincerely yours,

Mabel Newcomer
Mabel Newcomer
Chairman

SEN:EW

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM Mr. Shaeffer *SP*

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.

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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.

Winning 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. At 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 penitentiaries, 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 "perfectionism, 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 unregenerate 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 richness. 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 coordination 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 a 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.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 17, 1945

TO Secretary Morgenthau
FROM Mr. Hays

In accordance with your request of March 14, I am attaching an outline for a speech on ". . . what the Treasury has done since Pearl Harbor about combating inflation."

Attachment

The Treasury's Role in the Control of Inflation

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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 \$245 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
29 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 sterilize surplus

- 2 -

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 \$264 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 \$44 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.

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- D. Income taxes are much more effective in combating inflationary pressures when they are collected at the source. From November 1941 until its final enactment by Congress in June 1943, the Treasury Department continuously urged the adoption of legislation for the source-collection of individual income taxes.
- E. Great strides have been made in simplifying the tax-paying procedure for the great bulk of the population in the lower and middle income brackets. These individuals can now make out their tax returns with a few simple computations.

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 1942 to \$62 billion in 1944. The amount of this borrowing absorbed by banks increased only from \$24 billion to \$25 billion. Thus, practically all of the increase in the annual amount of borrowing has been accounted for by nonbank investors.

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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 $1\frac{3}{4}\%$, as contrasted with an average rate of $4\frac{1}{4}\%$ for World War I.

C. 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. Fussell 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 5th, 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 perusal 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.

RECEIVED S. S. P.

RUB

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Mar. 17,
1945

TO Secretary Morgenthau
FROM J. W. Pehle

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

COPY

WAR DEPARTMENT
Office of the Chief of Engineers
Washington

Refer to File No. CE SPENF

13 March 1945

Mr. J. W. Pehle
Assistant to the Secretary
Treasury Department
Washington 25, D. C.

Dear Mr. Pehle:

Reference is made to your letter of 8 March 1945, with which you inclosed 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

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

92 ✓

DATE March 17, 1945

TO Secretary Morgenthau (For information)FROM Mr. Coe *RC*

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. 261

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 FEA 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

FEA:

Charles Denby
Rupert Emerson
Daggett H. Howard
Paul White (unofficial)

MEA: (London Counterpart of FEA)

Walter Thayer

War Department

Lt. Col. James Davis
Lt. Col. Charles Failes (unofficial) representing SHAEF.

Treasury - Taylor
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

Mr. Harry D. White,
Assistant Secretary,
Treasury Department,
Washington 25, D. C.

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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. Moseley 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 Snider 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 Safehaven 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 cabling 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 Morse and I had luncheon yesterday with Isador 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 advisor. 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

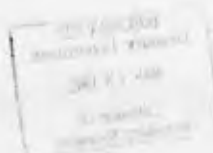
- 3 -

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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 the 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 : Mr. Coo *CC*

Subject: Revised German Directive on Education

The revised Directive for Military Government concerning Education and Religion, issued by SHAEF 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 very thorough housecleaning of personnel is desirable. Moreover, all persons removed from office will retain their pension rights, except persons "convicted as war criminals." Payment of pensions to removed persons would be a great help to Nazi underground activities.

SECRET

SUPREME HEADQUARTERS
ALLIED EXPEDITIONARY FORCE

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AG OIL-1-1 (Germany) GE-ACB

SUBJECT: Directive for Military Government of GERMANY prior to
Defeat or Surrender - Education and Religion SectionTO : Headquarters, 21 Army Group
Commanding General, Twelfth Army Group, AF 01
Commanding General, Sixth Army Group, AF 03

1. The revised Directive to Army Group Commanders for Military Government of Germany prior to defeat or surrender was issued on 9 November 1944, under file AG OIL-1-1 (Germany) GE-ACB, Section XIX of Annex III, "Education and Religion" and withdrew from this Directive and forwarded on 21 November 1944.

2. A revision of Section XIX is forwarded herewith for inclusion in the revised basic Directive. It is to remain in force until such time as it should be destroyed.

By direction of the Supreme Commander:


J. L. DAVIS
Brigadier General, USA
Adjutant General

DESCRIPTION:

In for letter, this headquarters,
file and subject as above, dated
9 November 1944.

File

1 - Theater Joint Advocate, ETOUSA

THIS DOCUMENT CONTAINS INFORMATION AFFECTING
THE NATIONAL DEFENSE OF THE UNITED STATES WITHIN
THE MEANING OF THE ESPIONAGE ACT, U.S.C. 5031 AND
5032, AND IS LOANED TO YOU FOR THE REVELATION OF ITS
CONTENTS IN ONE MANNER TO AN UNAUTHORIZED
PERSON IS PROHIBITED BY LAW.

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Annex III of Directive for Military Government
of Germany Prior to Defeat or Surrender

SECTION XIX

EDUCATION AND RELIGIOUS AFFAIRS

This Directive is issued in substitution for Section XIX 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: AG 014.1-1 (Germany), GS-AGM) 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 Unterstufen der Volkschulen and Oberstufen der Volkschulen.
- (2) Hauptschulen, and
- (3) Mittelschulen.

b. The term "secondary schools" (Oberschulen) throughout includes, among others, the following types whether publicly or privately controlled:

- (1) Aufbauschulen, and
- (2) Gymnasien.

2. Policy.

It is the policy of the Supreme Commander to eradicate Nazi-ism 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.

3. Responsibilities.

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 (Jugendberufshilfsanstalten), evacuation camps (Kinderlandverschickungslager) and orphanages) in which, however, you will prohibit all teaching.
- (2) to ensure that German authorities inspect all school textbooks 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.

SECRET

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10. Curricula.

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 mobilization 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 Nazi-ism 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 (Jugendvolk, Hitlerjugend, Jugendmadel, and Bund Deutscher Madel) and sequester their records and property. 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 or technical and vocational education, or for the re-opening 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.

14. Religious Instruction and Denominational Schools.

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.

RELIGION

15. Policy.

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.

16. Freedom of Religion.

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.

SECRET

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, an increase of administrative difficulties and any complications of the task of Military Government. You will exercise control and direction employing, as far as possible, personnel of the existing German educational system as purged or freed from 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 handicapped, giving priority to the first four school years (*Grundschule* or *Unterstufen der Volksschulen*). When it is practicable to open one or more elementary schools, you will advise this Headquarters. You will not, however, permit the re-opening of elementary schools until you are so directed by the Supreme Commander.

6. Preparation for the Re-opening of Secondary Schools.

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 whom no 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 categories as set forth in Appendix 'A' to this Directive. No appointment or reinstatement made to any position in the German educational system will be considered permanent. All educational personnel not dismissed or suspended and all candidates for temporary appointments will be investigated. In no circumstances will active Nazis, ardent Nazi sympathizers or militarists be employed.

8. School Buildings.

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

9. Abolition of Nazi Educational Organizations and Special Schools.

You will abolish all Nazi Party educational organizations (including the *Deutsche Volkshilfswerk*) and their affiliates in schools and universities and sequester their records and property. You may place the use of such property at the disposal of approved educational authorities. All special Nazi schools including *Adolf Hitler Schulen*, *Marlene* and *Ordensburgen* (Nazi leaders' colleges) will be abolished.

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SECRET

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. In 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 remove from ecclesiastical office (normally through the established ecclesiastical authorities) all churchmen who are proved by investigation to be active Nazis. New officials will not be appointed by you; ecclesiastical authorities will fill their own vacancies. You will, however, ensure that such appointees are not active Nazis. Ecclesiastical institutions must not be permitted to propagate Nazi ideology in any form.

19. Political Activity of Clergy.

Any member 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 offender's superior ecclesiastical authority, should you consider such a course preferable to direct action.

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APPENDIX A

PURGE OF GERMAN EDUCATIONAL PERSONNEL

- Three lists should be prepared, a "Black", a "Gray", and a "White".
- 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 occupation. 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.
- The Black List should consist of the following categories:
 - Persons condemned as war criminals by the United Nations.
 - Reich ministerial officials of the rank of Ministerialdirektor or higher.
 - Present or past administrative officials of all grades in the N.S.-Lehrerbund, the N.S.-Dozentenbund, and the N.S.D.Studantenbund, together with persons who have at any time held the office of Dozententhrer or Studententhrer in a university.
 - Present or past administrative officials in the National Socialist Party of the rank of Ortsgruppenleiter or higher.
 - Present or past members of the S.S., other than conscripts to the Waffen-SS.
 - Present or past officers of the S.A., the M.S.K.K., and the N.S.F.K. of the rank of Sturmbannfuhrer (in the M.S.K.K. Staffelfuhrer) or higher.
 - Present or past leaders of the M. J. or B.D.L. of the rank of Stammfuhrer or Hahndirigfuhrer or higher.
 - Persons who not or have acted as agents of the Gestapo or the Sicherheitsdienst.

In addition, existing Rectors (Rufur) of universities and Heads of Teachers' Training Colleges should be dismissed from their rectorships or headships if they were first appointed to those offices under the National Socialist regime. In respect of any other educational offices they may hold, they should be placed on the Gray List.

(Note. Persons employed as teachers or administrators in Napoleon, Adolf-Hitler-Schulen, or other prohibited institutions, will automatically lose their present employment. They should not be re-employed in an educational capacity unless their suitability for employment is established after searching enquiry.)

- The Gray List should cover the remaining categories of persons against whom there are reasonable positive grounds of suspicion. Such persons should not be dismissed without further investigation; but the appointments of persons in categories (a) to (c) below, and of others against whom the prima facie grounds of suspicion appear to be strong, should be suspended pending investigation. Persons on the "Gray List" should be required to complete the M.I. Gov. Fragebogen. The cases of persons in categories (a) to (c) below should as far as possible have priority. Those dismissed should retain their pension rights, subject to good behavior.

- The Gray List should consist of the following categories:

- Schulrate of all grades and educational administrative officials of the rank of Regierungsrat or higher, who entered the educational administrative service under the National Socialist regime.

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SUPREME HEADQUARTERS
ALLIED EXPEDITIONARY FORCEAPO 757 (Main)
7 February 1945

AG 014.1-1 (Germany) GE-ACM

SUBJECT: Directive for Military Government of Germany Prior to
Defeat or Surrender.TO : Headquarters, 21 Army Group
Commanding General, Twelfth Army Group, APO 655
Commanding General, Sixth Army Group, APO 23

Law No. 76 (Amended), forwarded by letter this headquarters, file and subject as above, dated 2 February 1945, is amended as follows:

a. So much of sub-paragraph 6e, Article II, of Law No. 76 (Amended) as reads:

"code wireless signals"

is amended to read:

"C-W (continuous wave) signals"

b. So much of sub-paragraph (a), Article I of Notice "Declaration of Telephone, Telegraph and Other Communication Equipment and High Frequency Electrical Apparatus", as reads:

"code wireless signals"

is amended to read:

"C-W (continuous wave) signals"

By direction of the Supreme Commander:

H. H. H. H. H.
H. H. H. H. H.
Colonel, AGO
Acting Adjutant General

DISTRIBUTION:

As for Ltr. Supreme No. A.F.
file and subject as above,
dtd 9 November 1944.

plus

- Theater Judge Advocate,
European T of Ops

THIS DOCUMENT CONTAINS INFORMATION AFFECTING
THE NATIONAL DEFENSE OF THE UNITED STATES WITHIN
THE MEANING OF EXECUTIVE ORDER 12958, AND
IS CLASSIFIED "TOP SECRET" AND "NO FORN DISSEM"
UNLESS AUTHORIZED BY LAW.

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- (b) Teachers in all types of school who hold or have held the office of *Vertragslehrer*.
- (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 organizations: *N.S.D.-Arbeitsbund*, *N.S.-Rechtswahrerbund*, *N.S.-Reichsbund für Leibeshaltungen*, *Reichsbund der deutschen Beamten*.
- (g) Members of the National Socialist Party.
- (h) Present or past commissioned officers of the *S.A.*, the *H.S.V.H.*, and the *N.S.F.H.*, below the rank of *Sturmamführer* (in the *N.S.V.H.* *Staffelführer*).
- (i) Persons who in their public speeches or writings have actively and voluntarily propagated National Socialism, militarism or racialism. A preliminary list of such persons should be compiled by the Working Party, but it will require to be supplemented by *S.H.A.F.*'s education officers working in consultation with German advisers.
- (j) Other persons against whom there are reasonable positive grounds of suspicion. It may be possible for the Working Party to compile a preliminary and provisional list of such persons, but it will require to be revised and supplemented as above.

6. The White List should contain the names of persons inside Germany whose character, 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 advisers, 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 need for this purpose the confidential advice of men with personal experience in German education.

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SUPREME HEADQUARTERS
ALLIED EXPEDITIONARY FORCE

AG OHL.1-1 (Germany) GE-AGM

APO 757 (Main)
25 January 1945

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

TO : Headquarters, 21 Army Group
Commanding General, Twelfth Army Group, APO 695
Commanding General, Sixth Army Group, APO 23

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 Emblems".

By direction of the Supreme Commander:

[Signature]
J. J. DAVIS
Brigadier General, USA
Adjutant General

1 Incl:
Law No. 7,
as listed

DISTRIBUTION:

As for ltr, Supreme Hq AEF,
file and subject as above,
std 9 November 1944.

1 - Theater Judge Advocate,
European T of Ops

THIS DOCUMENT CONTAINS INFORMATION AFFECTING
THE NATIONAL DEFENSE OF THE UNITED STATES WITHIN
THE MEANING OF THE ESPIONAGE ACT, U.S.C. 563A AND
AS SUCH IT IS TO BE KEPT SECRET AND NOT TO BE
DISCLOSED TO ANY PERSON OR TO ANY UNAUTHORIZED
PERSON OR PERSONS WITHOUT LAW.

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MILITARY GOVERNMENT - GERMANY
SUPREME COMMANDER'S AREA OF CONTROL

LAW NO. 7

REMOVAL FROM OFFICIAL SEALS OF NATIONAL SOCIALIST EMBLEMS

1. No notary, no official and no military, naval, air force, or governmental officer, department, agency or body within the occupied territory shall hereafter use to authenticate any document or for any other official purpose a seal bearing the swastika or other insignia, emblem or legend of the NSDAP, SS, or other national socialist organization.

2. There are hereby deprived of effect hereafter within the occupied territory all requirements or provisions under German law to the effect that any such seal shall bear any such insignia or emblem.

3. When under German law any document requires for its validity or effectiveness authentication or impressment thereon of any such seal or provides that such impressment confers upon such a document a legal status which it would not otherwise have, a seal conforming with all applicable provisions under German law not inconsistent with paragraphs 1 and 2 hereof shall be operative for such purposes.

4. Any person violating the provisions of this Law shall, upon conviction by a Military Government Court, be liable to any lawful punishment, other than death, as the Court may determine.

5. This Law shall become effective upon the date of its first promulgation.

BY ORDER OF MILITARY GOVERNMENT

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SUPREME HEADQUARTERS
ALLIED EXPEDITIONARY FORCE

AD 010.1-1 (Germany) 93-AGH

APO 757 (Main)
1 February 1946

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

TO : Headquarters, 21 Army Group.
Commanding General, Twelfth Army Group, APO 658.
Commanding General, Sixth Army Group, APO 83.

1. Reference is made to letter, this headquarters, file and subject as above, dated 9 November 1944.
2. Attached is Law No. 151, "Surrender of Effects of Deceased Members of the United States Forces".

By direction of the Supreme Commander:

R. Davis
T. J. DAVIS
Brigadier General, USA
Adjutant General

1 Incl:
Law No. 151, as listed

DISTRIBUTION:

As for ltr, Supreme Hq AEF,
file and subject as above,
dtd 9 November 1944.

- plus
- 1 - Theater Judge Advocate,
European T of Ops

THIS DOCUMENT CONTAINS INFORMATION AFFECTING
THE NATIONAL DEFENSE OF THE UNITED STATES WITHIN
THE MEANING OF THE ESPIONAGE LAWS, U.S.C. 5031 AND
5032. IT IS THEREFORE THE POLICY OF THE UNITED STATES
GOVERNMENT TO PREVENT THE DISSEMINATION OF ITS
CONTENTS TO AN UNAUTHORIZED PERSON AS PENALIZED BY LAW.

-1-

20063

105

MILITARY GOVERNMENT - GERMANY.
SUPREME COMMANDER'S AREA OF CONTROL.

LAW NO. 151

SURRENDER OF EFFECTS OF DECEASED MEMBERS OF THE UNITED STATES FORCES.

1. Every person within the occupied territory holding personal property of a deceased member of the United States Forces as custodian or bailee or indebted to any such member upon a debt, then due and owing, or payable on demand shall, upon demand by the Summary-Court-Effects-Quartermaster, European Theater of Operations, United States Army:

- (a) surrender to the said Quartermaster all such personal property;
- (b) pay to said Quartermaster any such debt.

2. The production of a certificate of authority in the form set forth in Table A hereto annexed, executed by the authority of the Adjutant General, European Theater of Operations, United States Army, shall be conclusive proof of the facts therein stated.

3. Compliance with such demand, as evidenced by appropriate release or receipt of the said Quartermaster shall operate to relieve such custodian, bailee or debtor of any and all further liability for such personal property or debt.

4. For the purposes hereof, the term "person" shall mean and include any natural person, collective persons and any entity under public or private law.

5. Any person violating the provisions of this law shall upon conviction by Military Government Court be liable to any lawful punishment other than death as the court may determine.

6. This law shall become effective upon the date of its first promulgation.

BY ORDER OF MILITARY GOVERNMENT:

TABLE A.

Headquarters, European Theater of Operations, U.S. Army.

CERTIFICATE OF AUTHORITY OF SUMMARY COURTS-EFFECTS QUARTERMASTER

1. _____
(Name) (ASN) (Rank) (Organization)
is a deceased member of the United States Forces within the meaning of Law No. 151 of the Military Government - GERMANY entitled "Surrender of Effects of Deceased Members of the United States Forces".

2. _____ has been appointed the Summary-Court-Effects Quartermaster, European Theater of Operations, United States Army, in accordance with laws and regulations of the United States of America and as such is empowered to perform the acts recited in paragraphs 1, 2 and 3 of said Law No. 151 respecting the above named deceased.

By direction of the Theater Commander:

Assistant Adjutant General

106

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'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.

MLR:er 3/16/45

RET to J. H. Hoffmann - Box 2418



In reply refer to
FMA

DEPARTMENT OF STATE
WASHINGTON

March 10, 1946

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 8. I enclose for your information a copy of the memorandum handed to it at that time.

Sincerely yours,

For the Acting Secretary of State:

Assistant Secretary

Enclosure:

Memorandum.

The Honorable

Henry L. Morgenthau, Jr.,

Secretary of the Treasury.



MEMORANDUM

The United States Government has welcomed the initiative of the Italian Government in sending a mission to Washington to discuss economic and financial matters of mutual concern to the two Governments. The United States Government feels that the conversations which the mission has had with American experts have afforded an opportunity for a helpful interchange of views on many of these matters and have provided a basis for further discussions through the diplomatic missions which are being established in Rome and Washington, as well as through the appropriate Allied agencies in so far as these matters are subjects of Allied rather than purely American concern.

In these conversations, the representatives of the United States Government have indicated the desire and intention of their Government that economic and financial relations between the United States and Italy be restored as promptly as possible to a normal basis, which the

United

-2-

United States Government has learned with pleasure is 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

-3-

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

-4-

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-armistice 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

-5-

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

-6-

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

-7-

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 are 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 Boards 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 legal ceiling, or normal selling, prices in the country of destination.

b) Those 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

-8-

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).

c) 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) Pending 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. All of the arrangements described above, of course, involve no commitments on the part of the Allied Governments as to the availability of shipping to move the commodities.

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

-2-

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

-10-

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 governing 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

-11-

agreement embodying reciprocal assurances of complete most-favored-nation treatment by each country of the other's commerce.

15. 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 conditions 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.

TRADING WITH THE ENEMY CONTROLS

16. The mission has been informed of the substantial 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

-12-

the United States would not be vested in the future in instances where vesting might be proposed solely 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, 1948, a decision was made that the Custodian would adopt a policy of refraining from selling 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 paragraph should not be taken as an indication of an intention 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 control assets

-13-

assets which have been subjected to blocking by the Treasury Department. The ultimate disposition of Italian assets in the United States remains a subject for determination by this Government in the light of American claims against Italy, after consultation with other Allied Governments.

18. At the appropriate time, the Treasury Department of the United States will issue licenses which will authorize all transactions incident to the importation of goods, wares and merchandise into the United States from Italy. The licenses will require that payment for such imports be made only by payment of the dollar amount to 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 lire.

19. It is the view of the United States Government that the speed with which Italian external financial and

-14-

trade relations can be restored to normal conditions will depend to a substantial extent upon the cooperation of the Italian Government with the economic warfare measures 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 6, 1946.

12"

*Original to
Mr. Clegg
3/16/45*

March 15, 1945

In reply refer to
72A

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 its responsibility for the Allied military lire currency.

Sincerely yours,

For the Secretary of State:

James Clement Dumb
Assistant Secretary

Enclosure:

Paraphrase of cable.

The Honorable

Henry L. Morgenthau, Jr.,

Secretary of the Treasury.

PARAPHRASE OF TELEGRAM RECEIVED

123

FROM: American Political Adviser, Genoa
TO: Secretary of State, Washington
DATED: March 3, 1945
NUMBER: 798

SECRET

Yesterday at meeting of SAC's Political Committee, a draft cable to CCS 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. Instead it was decided to send a cable to CCS asking for a clarification on this subject. The subject will be on the agenda for the next political conference of SAC.

EIRK

DC/L:VAG 3/6/45

MAR 17 1945

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 of 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,

(Signed) H. Morgenthau, Jr.

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

ISF/efs 3/17/45

FOREIGN ECONOMIC ADMINISTRATION
OFFICE OF THE ADMINISTRATOR
WASHINGTON 25, D. C.

MAR 3 - 1945

The Honorable
The Secretary of the Treasury
Washington 25, D. C.

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 metallic tin which the United States requires to fulfill its 1945 commitments under COMSEC 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 such 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 Central Bank of China as payment for tin delivered by the National Resources Commission. The gold so transferred was to be held in a special earmarked account of the Central Bank of China with the Federal Reserve Bank of New York. Up to the present time, \$15,000,000 of gold (\$7,500,000.00) have been earmarked under the terms of this agreement.

The National Resources Commission has no gold in China to continue its tin program. In anticipation of replacements from its own holdings in the Federal Reserve Bank for use in China, it has borrowed gold from the Central Bank of China, but is now unable to continue borrowing for this purpose. In consequence of this situation, the Foreign Economic Administration finds itself unable to purchase further substantial amounts of tin from China. It will remain unable to purchase tin unless gold is immediately arranged to enable the National Resources Commission to resume its own tin purchase program.

In a letter to Mr. Currie dated December 6, 1944, the Treasury advised the Foreign Economic Administration that if the Chinese Government agreed to export earmarked gold obtained from the proceeds of tin sales, the Treasury had no objection, but that because of shipping limitations, such gold exports could only take place at the expense of exports of tin for the Chinese Government from the proceeds of the tin sales. The Treasury advised on 15 March 1945. Since this letter was sent, however, the situation

The Honorable
The Secretary of the Treasury

Road has been opened, and the flow of supplies into China will soon increase sharply. Therefore, it should now be possible to accelerate the rate of gold shipments into China and to meet the most urgent requirements for gold both for the purposes of the 1942 credit and for the tin program.

To carry out the tin program, the National Resources Commission has immediate need for 100,000 ounces of their earmarked gold, together with provision for the early export of the remaining gold earmarked to their account. In view of the above situation, I should like to ask for your early assurance that the necessary gold export licenses will be granted promptly to the National Resources Commission for the 100,000 ounces just referred to, and that licenses will be granted for the remainder as required to effectuate the tin program.

Sincerely yours,

Leo T. Crowley
Administrator

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

March 17, 1945

TO Secretary Morgenthau (For Information)

FROM Mr. Ness

Subject: Results of Mexico City Conference

The following results of the Mexico City Conference will be of especial interest to you.

I. MATTERS OF IMMEDIATE INTEREST TO TREASURY

A. Safeguards and Control Problems. Resolutions calling for the continuation of the controls established pursuant to Resolution V of the 1942 Rio de Janeiro Conference and for the enforcement of our present Safeguards objectives were approved by the Conference in substantially the form desired by Foreign Funds Control.

B. Bretton-Woods Agreements. Two Resolutions were passed incorporating unequivocal recommendations that the American Republics secure prompt acceptance of the two Agreements. By reason of some effort we managed to suppress a proposal for a western-hemisphere bank and one suggesting the use of the International Bank to finance commodity surpluses.

II. OTHER MATTERS OF PARTICULAR INTEREST TO THE TREASURY

A. Position of Argentina. Consideration of the status of Argentina was forestalled in the first stages of the Conference's proceedings, but its last order of business was the approval of a Resolution drawn by the Foreign Ministers. It provided that Argentina might be readmitted to the American community (1) provided it should adhere to (a) the Declaration of the United Nations and (b) the Final Act of Mexico, and (2) provided such acts of adherence were considered bona fide. Adherence to the Declaration of the United Nations requires cooperation in the war effort and implies a declaration of war, and acceptance of the Mexico City Final Act involves agreement with the separate undertakings contained therein, including the surrender of war criminals, the implementation of Safeguards projects, elimination of centers of subversive influence, etc.

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Division of Monetary
Research

- 2 -

The requirement that Argentina's actions be genuine is not stated in so many words. Instead, readmittance 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.

B. 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 guaranty of participation in this country's industrial output during the transition period. By force of Mr. Clayton's arguments they were persuaded 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 stockpiling program nor could 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 Moskowitz, 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.

MAR 17 1945

Dear Ed:

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 peseta 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, effect 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 Nazis, 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. VI 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 Gerhard 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 Behn 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 Behn 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 me 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 W. Stettinius, Jr.,

Secretary of State.

LC:amw
3/17/45

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DEPARTMENT
OF
STATE

INCOMING
TELEGRAM
DIVISION OF
CENTRAL SERVICES

DIVISION OF¹³¹
CENTRAL SERVICES
TELEGRAPH SECTION

1945 MAR 17 AM 9 58

MS-599

00/L
This telegram must be
paraphrased before being
communicated to anyone
other than a Government
Agency. (SECRET 0)

Chungking

Dated March 17, 1945

Rec'd 11:50 p.m.

Secretary of State

Washington

453, March 17, 10 a.m.

TO SECRETARY OF TREASURY FROM ADLER

One. United States Army no--rate in dollars ex-
penditures. 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 2.19 billion in February
for engineering commission to be expended for United
States Army construction and operations but actual ex-
penditures not yet known.

Two. Fonanu Engineering Commission expenditures
for United States Army between 5 and 6 billion.
JM ATCHESON

WARNING
For security reasons the
text of this message must
be closely guarded.

DEPARTMENT
OF
STATE

INCOMING
TELEGRAM

DIVISION OF¹³²
CENTRAL SERVICES
TELEGRAPH SECTION

CORRECTED COPY

MS-599

This telegram must be
paraphrased before being
communicated to anyone
other than a Government
Agency. (SECRET-0)

Chungking

Dated March 17, 1945

Rec'd 11:50 p.m.

Secretary of State,

Washington.

453, March 17, 10 a.m.

TO SECRETARY OF TREASURY FROM ADLER.

One. United States Army no--rate in dollars ex-
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mission to be expended for United States Army construction
and operations but actual expenditures not yet known.

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

ATCHESON

JM

134

CABLE TO HARRISON, BERN, FOR SOCIALLAND FROM WAR REFUGEE BOARD

Reference your No. 1181 of February 23, 1945.

Interested groups here authorize you to remit to IORC for relief of Luxembourg deportees 60,000 Swiss francs from balance of 83,000 francs held by you for labor-sponsored projects. They also advise that prior consultation with Jules Elter is left to your discretion.

THIS IS YOUR BERN CABLE NO. 561

10:45 a.m.
March 17, 1945

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

March 17, 1945

7 p. m.

ALBENBASTY

BRUSSELS

199

Re our 109 February 3.

War Refugee Board
/ has extended facilities to World Jewish Congress
for outgoing communications. Polish facilities from several
diplomatic missions have also been extended.

You are authorized therefore to grant to Dr. Dubowitzki,
as congress representative, the permission requested.

ACHESON
Acting
(CHN)

12"

JMD
Distribution of true
reading only by special
arrangement (SECRET W)

March 17, 1945

Midnight

AMERIZATION

REUN

1108

The following for McClelland is WHS 561.

Reference your no. 1108 of February 23, 1945.

Interested groups here authorize you to remit to ICRC
for relief of Luxembourg deportees 60,000 Swiss francs from
balance of 83,000 francs held by you for labor-sponsored
projects. They also advise that prior consultation with
Jules Etter is left to your discretion.

ACHESON
Acting
(OTM)

Rome

Dated March 17, 1945

Rec'd 10:20 a.m.

Secretary of State

Washington

734, March 17, 10 a.m.

FOLLOWING FOR McCLELLAND, WAR REFUGEE BOARD
REPRESENTATIVE SWITZERLAND FROM NEATHCOTE SMITH,
REPRESENTATIVE INTER-GOVERNMENTAL COMMITTEE ON REFUGEES
ITALY.

I understand General G'Dwyer your director now visit-
ing Switzerland in connection with rescue of internees,
slave workers, prisoners of war, Jews and others now in
Axis hands: all to be referred to as "hostages" in this
telegram.

Two. Can you recommend for favorable consideration
and urgent operation following practical proposal of
Polish officer who escaped recently after 4 1/2 years
experience and knowledge of conditions in many German
concentration camps?

Three. He emphasizes three points (one) it has never
been tried; (two) it cannot react unfavorably on those
we wish to protect; (three) in view of shadow of coming
defeat now lowering German morale it would find favorable
psychological conditions; (four) it might well save from
ill treatment and death large numbers of hostages.

Four. Proposal (One) SS guards should be invited
to procure from all those in their power statements
testifying to the humane treatment they have received.
(Two) Such statements if (repeat if) confirmed by the
signatories after release would be taken into consider-
ation when the SS guards are tried as criminals.

Five. Manner of carrying out of proposal. This
would be as usual by intensive campaign of leaflets,
broadcasts and also by individuals specially introduced
into Germany. Those addressed would be (a) SS guards
(b) wives and other female relations, calling on them to
urge their menfolk in self-interest to arrange that tor-
ture and murders shall cease and (c) German Army challenge-
it not to participate by aiding in transport to

12"

-3- #734, March 17, 10 a.m., from Rome

massacre camps or other means the brutality policy of the Nazi leaders. Photographs of German atrocities and of some war criminals already executed would illustrate this campaign on behalf of United Nations hostages.

Six. (A) Please reply urgently indicating whether you concur in general. (b) Do you consider this or any other step can usefully be taken on behalf of those deported into Germany including those removed from North Italy? (c) Have you any further news concerning these latter?

KIRK

NOTE: Delayed because originally received undecipherable.

WFO

March 17, 1945

2 p.m.

AMLEGATION

STOCKHOLM

502

The following for Johnson and Olsen from War Refugee Board is WFR 326.

Re our 173, January 31, and your 676, February 22. There is requested below for your information text of our cable to London requesting blockade authorization for on shipment from Sweden of medical supplies, clothing, and food parcels with over-all amount of 1,000,000 kroner:

QUOTE Expansion of parcel program from Sweden for detainees in Bergenbelsen desirable at this time and recommended by Amlegation and WFR representative Stockholm. Proposal covers on shipments from Sweden of 300,000 kroner medical supplies, 500,000 kroner clothing, and 200,000 kroner (24,000 parcels) food from Sweden.

Distribution would be handled after the manner of the currently approved food parcel program from Sweden. Reference is made to Department's 945 of February 7, year 1559, February 13, year 1897, February 23, and earlier exchange on this subject.

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

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

ACHESON
Acting
(OIM)

March 17, 1945

6 p.m.

AMBASSY

LONDON

2070

The following for Minut and Stone from Department, Visa, and War Refugee Board is WBR 97.

Expansion of parcel program from Sweden for detainees in Bergentzen desirable at this time and recommended by delegation and WBR representative Stockholm. Proposal covers on shipments from Sweden of 300,000 kroner medical supplies, 500,000 kroner clothing, and 200,000 kroner (24,000 parcels) food from Sweden.

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

ACTIONSON
(Active)
(CDS)

WBR:1000:101
3/13/45

WBR

FBI

FRA

WBR-397

PLAIN

Lisbon

Dated March 17, 1945

Rec'd. 2:46 p.m.

Secretary of State

Washington.

595, Seventeenth

WBR 360, JOC 200

FOR LEAVITT FROM HAROLD THOMAS

Gottfard called Had medical conference with Sweden's foremost experts and governmental relief authorities who stress necessity sending high qualified food together with medicines. Now have exceptional opportunity purchase twenty-five tons cod liver oil for 125,000 thousand crowns top best quality used every day in Sweden. Export licenses available and transport could be decided later according your advice. Urge purchase strongly as don't think opportunity will recur. We advised Gottfard purchase dried milk assuming funds could come from appropriation according your 153 or additional appropriation if you prefer. Reference cod liver oil advised Gottfard hold deal open pending our checking with you. Please advise.

CROUCHER

141 ✓

March 16, 1945
12:56 a.m.

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

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

HMJr: You think they're going all right?

W: He's making 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, quietly, 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 over here on the floor today.

HMJr: I see.

W: I had to pick the more inopportune time to me 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?

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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 -- if 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 passed 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.

- 3 -

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HNJr: Yeah.
W: There's a little soreness developing on account
of the
HNJr: Well, I -- I -- I'm awfully glad I called you.
W: All right.
HNJr: Thank you, Jesse.
W: All right.

Treasury Department
Division of Tax Research

Date 3/19/45 1944

To: Miss Chauncey

From: Miss Doyle

This is a copy of a memorandum
which Mr. Blough sent to the
Secretary Sunday, March 18.

March 18, 1945

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 "resale" of 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 him before and by Secretary Wickard 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 3 years (it used to be 2 years).

Mr. Davis, Director of Economic Stabilization, has proposed that he, Mr. Bell and Judge Vinson consult with Chairman Doughton on 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 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. Emil Schram, 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

12"

March 15, 1945

MEMORANDUM FOR THE SECRETARY

From: Mr. Blough

Subject: Chairman Eccles' capital gains tax proposal.

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RB:ad
3/19/45

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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.

*See group 9/17/45 - Bell will submit
memo - Bell's memo in -*

DEPARTMENT
OF
STATE

INCOMING
TELEGRAM

148
DIVISION OF
CENTRAL SERVICES
TELEGRAPH SECTION

LFG-858

PLAIN

London

Dated March 18, 1945

Rec'd 10 a.m.

Secretary of State,
Washington.

US URGENT

2803, 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

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-2-#2803, 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

criticisms.

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-3-72803, 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 by 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

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-4-72803, Eighteenth, from London

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

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-5-#2803, 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-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 mere logic of geography to keep a very sharp eye on each others German policy. For the sake of the Russian alliance more even than for the sake of

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-5-#2803, 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 or 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

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-7-12803, Eighteenth, from London

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 then 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

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-8-12803, Eighteenth, from London

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

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-9-2803, 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 countrymen within a very few years. The Ruhr is the source of Germans 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

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-10-2803, Eighteenth, from London

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

An independent Rhineland?

Germany

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-11-#2803, Eighteenth, from London

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 anschluss 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

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-12-#2803, Eighteenth, from London

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 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 sapping 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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-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 seething 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

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-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 rump 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 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 native 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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-16-/2803, Eighteenth, from London

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--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

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-16-/2803, Eighteenth, from London

prosperous and politically discontented. It is absolutely certain that a ruined country will feel even more bitterly its political discontents. 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 150 million tons of coal, 38 million tons of coke, 57 million tons of brown coal, 15 million tons of pig iron, 18 million tons of steel ingots and nearly 20,000 million KWH of electricity. These figures represent a very high proportion of Germany's total output--31.2 per cent of its coal, 37.5 per cent of its coke, 29 per cent of its brown coal, 34 per cent of its pig iron, 37.5 per cent of its steel ingots, and 40 per cent of its electricity.

All these figures, however, have been made rather meaningless by bomber command. The Ruhr towns have been pulverised. According to official estimates, over 60 per cent of Cologne and Düsseldorf have been destroyed, 50 per cent of Essen, over 80 per cent of Bielefeld. The Nazis are said to be adding to the ruin by flooding and

firing the

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-17-#2803, Eighteenth, from London

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 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 sheer 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 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

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-18-#2803, Eighteenth, from London

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 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

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-19-#2803, Eighteenth, from London

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 3,688 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?

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-20-#2803, Eighteenth, from London

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 Crimean 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 states? 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 impracticable about reparations. It does lift into very clear relief the difficulties that lie in the way of combining a reparations

policy with any

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-21-#2803, Eighteenth, from London

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's exports is diverted from Rump Germany to new channels.

But where

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-22-#2803, Eighteenth, from London

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 was prolonged depression in the German-speaking area and in any case, Czechoslovakians--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

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-23-2803, Eighteenth, from London

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

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-24-2803, Eighteenth, from London

Ruhr might face west rather than east and play their part in enriching a pacific western Europe rather than in strengthening an aggressive greater Germany. It might then eventually be possible to withdraw the coercive force of the present victors without the whole structure collapsing. But these are the only circumstances in which all these fortunate results can reasonably be expected or in which the establishment of an independent Rhineland can be counted on to be a positive contribution to European stability.

The next task, which will be attempted in the following article, is to enquire whether these attractive circumstances are likely to be translated from dreams into reality.

VIRANT

EDA

DEPARTMENT
OF
STATE

INCOMING
TELEGRAM

DIVISION OF¹⁷²
CENTRAL SERVICES
TELEGRAPH SECTION

LFG-658

PLAIN

London

Dated March 18, 1945

Rec'd 10 a.m.

Secretary of State,
Washington.

US URGENT

2803, 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

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-2-2803, 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

criticisms

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-3-2803, 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 by 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

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-4-2803, Eighteenth, from London

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

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-8-2803, 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-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 mere logic of geography to keep a very sharp eye on each others German policy. For the sake of the Russian alliance more even than for the sake of

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-8-2803, 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 or 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

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-7-2803, Eighteenth, from London

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 then 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

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-8-2803, Eighteenth, from London

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

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-9-#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 countrymen within a very few years. The Ruhr is the source of Germans 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

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-10-#2803, Eighteenth, from London

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

An independent Rhineland?

Germany

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-11-#2803, Eighteenth, from London

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 anschluss 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

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-12-#2803, Eighteenth, from London

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 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 capping 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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-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 seething 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

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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 rump 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 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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-15-2803, Eighteenth, from London

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—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

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-15-2803, Eighteenth, from London

prosperous and politically discontented. It is absolutely certain that a ruined country will feel even more bitterly its political discontents. 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 180 million tons of coal, 36 million tons of coke, 87 million tons of brown coal, 15 million tons of pig iron, 18 million 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, 89 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 bomber command. The Ruhr towns have been pulverised. According to official estimates, over 80 per cent of Cologne and Düsseldorf have been destroyed, 80 per cent of Essen, over 80 per cent of Stichum. The Nazis are said to be adding to the ruin by flooding and

firing the

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-17-#2803, Eighteenth, from London

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 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 sheer 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 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

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-18-#2803, Eighteenth, from London

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 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

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-19-#2803, Eighteenth, from London

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 3,368 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?

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-20-#2803, Eighteenth, from London

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 asking 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

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-21-#2803, Eighteenth, from London

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's exports is diverted from Rump Germany to new channels.

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-22-#2803, Eighteenth, from London

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-23-2803, Eighteenth, from London

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-24-2803, Eighteenth, from London

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MINANT

EDA

SECRET

OPTEL No. 88

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 possible 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 INDIES. 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 Andamans.

MILITARY

4. WESTERN FRONT. Southern Sector: Steady progress made by 7th U.S. Army on 15th and 16th along whole front east of Saarbrücken 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 Merzig, while north of this Moselle bridgehead widened with additional division crossing on right flank north of Trarbach and on left flank of bridgehead our troops reported to have reached Rhine at Boppard. Little news of 4th U.S. Armoured Division thrust to Bad Munster but known two bridges over River Nahe captured intact with southern column of thrust reaching Hochstatten and northern column to Stronberg. Central Sector: Remagen bridgehead further enlarged by advances of over 1 mile each flank. Honningen was captured on the 16th.

5. EASTERN FRONT. Northern Sector: Further progress S.W. Konigsberg where Brandenburg captured. Central Sector: fighting continues for liquidation German bridgehead on east bank of Oder opposite Stettin. Fighting also continues Breslau. Southern Sector: Germans state Russians launches counter attacks N.E. Lake Balaton and continued pressure by Russians on German bridgehead over Drava, S. of Pecs.

6. BURMA. Central Sector: 15th/16th (night). Japanese made determined attack and captured main airfield Meiktila but our tanks cleared airstrip by 1600 hours following day. South of Mandalay our troops crossed Panlung River at points 7 miles west and 10 miles N.W. Kyaukse while further north road and rail junction 10 miles south of Mandalay cut. Northern Sector: Chinese troops entered Hsipaw against light opposition.

AIR

7. WESTERN FRONT. 16th/17th (night). Bomber Command despatched 711 aircraft (31 missing): 294 Nuremberg (114 tons), 236 Würzburg (970 tons) 50 Berlin, 24 sea mining and 107 bomber support and other missions. Bombing of main targets concentrated. 17th. 1275 U.S. escorted heavy bombers (15 bombers outstanding, 10 fighters) attacked through cloud four oil plants (1234 tons) four armament factories (1195 tons) and two railway centres (510 tons) in Central and N.W. Germany. 161 escorted Lancasters dropped 797 tons through cloud on two benzol plants in Ruhr. SHAEF (Air) bombers 766 dropped 1194 tons communications and other targets battle areas with unobserved results while 1376 fighters and fighter bombers operated same areas destroying or damaging nearly 2,000 road and rail vehicles. Enemy casualties 4, 0, 2 with 1 Allied bomber and 10 fighters missing. 148 Spitfires (1 missing) attacked railways Holland connected with transportation of rockets while Mosquitoes attacked shipping Norwegian coast leaving 5 ships totalling 16,000 tons on fire.

8. MEDITERRANEAN. 16th. 790 U.S. heavy bombers (6 missing) dropped 1717 tons targets including 4 oil refineries Austria (668 tons) railway centre (495 tons) Amstetten (75 miles west Vienna) Wiener Neustadt (260 tons) Monfalcone (230 tons) and other targets 64 tons while 10 fighters (4 missing) attacked trains and locomotives Austria and south Germany. 700 tactical aircraft (3 missing) attacked communications and other targets Italy, Austria and Yugoslavia.

HOME SECURITY

9. GENERAL. Flying bombs, enemy aircraft and rocket attacks reported over England during period under review. 18 enemy aircraft plotted. 5 bombs plotted. 11 rocket incidents reported.

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March 18, 1945
8:00 A.M.

GROUP

Present: Mr. D. W. Bell
Mr. Gaston
Mr. White
Mr. Luxford
Mr. C. S. Bell
Mr. Pehle
Mr. Slough
Mr. Hass
Mr. Dubois
Mr. Coe
Mr. Russell
Mr. Lynch
Mr. Bartelt
Mrs. Klotz

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. LUXFORD: Good!

H.M.JR: And you people have to protect 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"--I told him that Baruch felt that reparations came first--he said, well he told him he thought it was very 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. BARTELT: Thank you sir.

H.M.JR: We'll take that nice fresh look off your face.
(Laughter)

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MR. GASTON: Wipe that smile off your face.

H.M.JR: I'll give you about two weeks to have your tongue hanging out.

MR. BARTELT: That's good.

H.M.JR: As you get thinner and more worried I expect Dan Bell to get happier and fatter.

MR. BELL: Not any fatter, I hope!

H.M.JR: That's your mission in life, to put weight on Bell.

MR. D.W. BELL: I don't have any difficulty with that. The only difficulty I have is to keep it off.

H.M.JR: Now, Erie Cooke has done a good **B**.

MR. COE: Cooke?

H.M.JR: Erie Cooke. Down South that's the way they pronounce it. (Laughter)

MR. COE: I beg your pardon.

MR. WHITE: They have their troubles there.

H.M.JR: And he kind of wants to come up. Now I don't know who is handling him, but for God's sake, somebody handle him!

MR. WHITE: We were in touch with him and told him we would let him know the minute we had a statement for him. I'll call him this morning.

H.M.JR: Will you tell you to remind yourself? How will you remind yourself?

MR. WHITE: I have to go into the biology of it.

H.M.JR: What can we do to remind them?

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MR. KLOTZ: All we can do is give them memos.

H.M.JR: White, you happen to be innocent for once. (Laughter) Just relax, will you? Keep out of this.

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

MR. LUXFORD: You're doing all right.

H.M.JR: Keep out of it. (Laughter)

MR. D.W. BELL: He's guilty.

H.M.JR: If your conscience bothers you, well--

Now the other thing he mentioned--I will get off Bretton Woods in a minute--I asked about my going down there and the man he seems to look to is a man by the name of Frank Neely with Aich and Company, and Frank Neely 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. BELL: He is the Director of the Federal Reserve Bank down there.

H.M.JR: A little later in the day I will have a little conference and we will talk, but he is connected with Aich and Company.

MR. D.W. BELL: That's a department store I think. He owns most of it he said.

H.M.JR: 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.

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H.M.JR: Are you people going to be on the Hill?

MR. LUXFORD: Yes.

MR. WHITE: He is, and we have some things to decide before, so I wondered if we could bring them up.

H.M.JR: Go ahead. The other thing he said is, "I know this doesn't go to the heart of the thing, but myself and others up here are worried. We hear about loans to France, loans to England, loans to Russia--I know we have to do this thing but there's UNRRA--and there just doesn't seem to be any coordination." So I said, "Well, I agree with you and I think the thing should be centered in the Treasury. Maybe you disagree with me." He said, "Well, it should be centered in the Treasury so we can look to the Treasury. That's where it should be--one central place we can look to, not that we won't want to make these loans, but it seems unlimited."

MR. GASTON: Too many people have checkbooks.

H.M.JR: And the other thing he said which bothers me is that the size of the Fund is too big, so I gave him a little talk on that and he said, "Well, Cooke said that it is all right." I told him that when you are playing poker and have chips in front of you, you don't bluff the fellow if you have two chips, but you bluff the fellow if you have a lot of chips. He said, "I understand that language."

Those are the two things--and to my amazement he told me this--"Unless you forget," I said, "don't forget, Walter, starting with Postal Savings and right down the line the ABA has always opposed that legislation." He said, "I'll tell you something. Before Ronald Hanson was with the Federal Reserve he came up here representing the ABA and made a terrific fight against the Federal Deposit Insurance and," he said, "I told him that was the kind of thing that the country needed even though it cost money to re-establish confidence in the banks, but I'm just mentioning this as a matter of interest. Ronald now is completely changed." He realized perfectly it is just the big banks in New York, so I think he is in pretty good shape, see?

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MR. D.W. BELL: 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 Lend-Lease, we would like to have you have all the answers."

H.M.JR: Well--

MR. D.W. BELL: 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. D.W. BELL: Yes.

H.M.JR: ...of Government lending?

MR. D.W. BELL: 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.

McCloy 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)

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H.M.JR: Good morning.

MR. WHITE: He didn't ask for you.

H.M.JR: How do you do?

MR. WHITE: He said there was a meeting scheduled for us and he was troubled about Lubin's being present. He didn't want to feel--so I said I was certain that if you knew that he was that you would arrange it so that Lubin wouldn't be there, so if you have already called him--

H.M.JR: You called who?

MR. WHITE: I didn't call anybody, and then I found out that you were here. (Laughter)

MR. GASTON: I think it was a couple of other fellows.

H.M.JR: What I want to know is, is Harry White here?

MR. WHITE: Yes, I'm here. I am here now. (Laughter)

If you have invited Lubin, then I think that somebody will have to make some changes--if you haven't, well, you can just forget it.

H.M.JR: Lubin was here when I called him.

MR. WHITE: Well, he was much troubled. He said it would appear we were ganging up on the State Department, butting into things the Army doesn't feel it is wholly--

H.M.JR: So you will give me the privilege of calling Lubin?

MR. WHITE: You can have that privilege, or if you don't want to, we will take care of it.

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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 Avery 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 he'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.JR: 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.

MR. WHITE: All right.

H.M.JR: So I talked to him.

MR. WHITE: Okay. Did you hear the debate between Taft and Acheson?

H.M.JR: I didn't, but Mrs. Morvenhaus did.

MR. WHITE: What did she say?

H.M.JR: Her reaction was that she didn't think that we got quite the best of it.

MR. WHITE: That's what I heard.

H.M.JR: 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

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you gave a very good answer to that, but he didn't answer that. She thought Dean 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--

MR. WHITE: ...in the layman's.

H.M.JR: Am I correct?

MR. LUXFORD: I agree fully with that.

H.M.JR: It's too late for me, but this question that the money would be frittered away within one year--

MR. LUXFORD: They didn't get down to Taft's level in slugging him.

H.M.JR: Does that check?

MR. WHITE: Yes, and Taft is on the American Forum of the Air tomorrow against Tobey 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 commenting speaker and he apparently gets away with it, so we ought to shy against debating with him in public.

H.M.JR: Can't somebody slip notes to Tobey?

MR. LUXFORD: We will talk to them in advance about how we have to handle Taft.

H.M.JR: That particular thing better be taken care of so the whole Fund won't be disposed of the first year.

MRS. KLOTZ: If they want a Treasury man on it, they can still put somebody on against him.

H.M.JR: Something tells me you are overruled.

MRS. KLOTZ: I expected to be, but I expected this before.

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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 Taft. Someone like Gregory who isn't in the Government--

H.M.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.M.JR: What else?

MR. WHITE: That's all.

H.M.JR: Luxford?

MR. LUXFORD: I have nothing.

H.M.JR: Luxford, please make a note. This afternoon I would like a nice letter to Will Clayton thanking him for Saturday's performance, which I think was excellent.

MR. WHITE: Mr. Feitus had arranged that.

H.M.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 AF of L comes out against Bretton Woods, and thinks they should come out for it.

H.M.JR: Do you know Pearl?

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MR. GASTON: Phil Pearl? I know him very well.

H.M.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 Thorne.

MR. GASTON: Yes, she was over here once or twice on taxes. Boy, you've seen her.

MR. COE: Harry, did you hear the International Committee under Woll took it up and seemed favorable?

MR. WHITE: All the people down the line were favorable.

MR. COE: Including Matthew Woll.

MR. WHITE: I didn't know Woll, but the technical people came out for it.

H.M.JR: Is that all?

MR. WHITE: Yes.

H.M.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?

MR. D.W. BELL: He was foreign exchange man in the last war. He was loaned to Fed in that period.

H.M.JR: Are you going to take care of Earl Cooke?

MR. WHITE: Yes.

H.M.JR: All right.

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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. Coe.

MR. D. W. BELL: He was on China, wasn't he?

MR. C. S. BELL: Far East and the Orient.

MR. COE: We 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. We 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

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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.

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That is the thirty to thirty-three group.

H.M.JR: 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.M.JR: I hadn't seen that.

MR. C.S. BELL: That is the general understanding with the draft boards.

H.M.JR: 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.M.JR: Well, I think that until we change that-- after all I changed my sights to nobody under thirty.

(Secretary signs deferment request of Ronald S. Folk.)

H.M.JR: You will have to go to General Hershey and find out.

MR. GASTON: 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 19, 1945.)

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H.M.JR: 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 ground 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.M.JR: 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 well 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.

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H.M.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.M.JR: This is entirely colored.

MR. C. S. BELL: Yes, sir.

H.M.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.M.JR: I think it is the Young Men's Christian Association; I am not sure, but it is only for Negroes, see?

MR. PEHLE: You won't get into trouble on segregation on Government property, will you? That is always a very touchy thing.

H.M.JR: Well, we have got it with the Stage Door Canteen.

MR. PEHLE: 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.

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H.M.JR: Talk it over with Mrs. Doyle.

MR. C. S. BELL: There is a lot in what John says on that.

MR. PEHLE: They say you are Jim Crowing, or something out here.

H.M.JR: Then let's leave it alone.

MR. PEHLE: That is what always happens. It is very unfortunate, but--

H.M.JR: Let's leave it alone.

MR. C. S. BELL: That is all I have.

H.M.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.M.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.M.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.M.JR: Who was on for the U. S. Government?

MR. D. W. BELL: No one on Reparations.

H.M.JR: Nobody representing the Treasury?

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MR. D. W. BELL: 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. BELL: He was not a representative of the Treasury in a sense.

H.M.JR: What else?

MR. D. W. BELL: That is all.

H.M.JR: Joseph?

MR. DuBOIS: I have nothing, except that Frank and I would like to talk to you for a while on this German question.

H.M.JR: Well, I want to see Mrs. Klotz and the stenotypist, so if you people will wait outside, I will see you right after that. I will see you this morning.

MR. D. W. BELL: 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. BELL: Well, he said he had quite a long talk, and he was asking him how they should deal with the

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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 relied 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. BELL: 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. BARTELT: 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 28th 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.

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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. BELL: 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. PERLE: The Mead 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 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."

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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. PERLE: This isn't anything that can be slipped to anybody any more.

H.M.JR: Well, I don't know.

MR. PERLE: Not that I would be willing to have it go to anybody, but--

H.M.JR: You have contacts on the Hill.

MR. PERLE: 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. PERLE: That needs great improvement. We are in touch with Mr. Fussell on it.

H.M.JR: He hasn't anything to do, so--

MR. PERLE: We are trying to locate a new man.

H.M.JR: Is that right, Fussell?

MR. FUSSELL: Yes.

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MR. PEHLE: So far our press has been reasonably good.

H.M.JR: Have a talk with Fussell. 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. PEHLE: Right. I haven't anything else.

H.M.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. PEHLE: Yes.

MR. COE: I have nothing, sir.

MR. HAAS: I have nothing. I received your note.

H.M.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.M.JR: Immediately. That's the result of Jude Rosenman's going over there to see that the civilian population gets more.

MR. COX: I think that's a proposed allocation.

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H.M.JR: Well, the English--the full story of the English press from London--I wondered how much more there was if they cut the English down from two hundred and fifty thousand tons to twenty-five tons. I would like to know because that is contrary to this whole agreement, which sat around here for months, isn't it?

MR. COE: I'm not sure about that.

H.M.JR: You are not sure about that?

MR. COE: Because the agreement is subject to--contrary to the spirit of it, but the agreement was all subject to allocation and what they are doing is proposing to allocate less for one quarter and draw on the stock piles for more.

H.M.JR: If this is the way we are tightening our belt, I would like to know about it?

How?

MR. FLOUGH: Aside from being flat-footed and red-faced, I haven't anything.

H.M.JR: Flat-footed and red-faced?

MR. FLOUGH: You didn't get your memo Saturday.

H.M.JR: You and Dan forgot it, didn't you?

MR. FLOUGH: I forgot.

H.M.JR: Well, that's an excuse for me to find out some way to make it impossible for you fellows to forget.

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MR. BLOUGH: That's all he's got to do.

MRS. KLOTZ: How can we follow them up on Sunday?

H.M.JR: I wanted it Sunday, for supper.

MR. BLOUGH: He got it, too.

MRS. KLOTZ: I thought that was a day of rest.

H.M.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 them for.

MR. D.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.

H.M.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. D.W. BELL: Did you get any results?

H.M.JR: I mentioned it to him and he sort of seemed a little surprised and didn't pay much attention to it and he said he would talk to you about it.

MR. D.W. BELL: I am supposed to call him back today.

H.M.JR: He wanted to know why we postponed it until after Congress adjourned, and you didn't tell me--

MR. D.W. BELL: It was lack of complete data.

H.M.JR: That wasn't in the memo.

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MR. BLOUGH: I said we were continuing studying and that's why it was postponed.

H.M.JR: I don't think he wanted--

MR. BLOUGH: You wanted it limited to one-page.

H.M.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. LYNCH: I have nothing, Mr. Secretary.

H.M.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. LYNCH: I'm an unofficial Irishman, Mr. Secretary.

MR. GASTON: You are not in the inner circle.

H.M.JR: Unofficial, North of Ireland.

MR. LYNCH: I am not carrying the banner currently.

H.M.JR: Mr. Gaston usually goes up there and carries it.

MR. GASTON: I was up there.

H.M.JR: What kind of Irishman are you?

MR. D.W. BELL: He's able to get back.

MR. GASTON: I'm a St. Patrick's Day Irishman.

H.M.JR: He's the kind that can walk back. A good time was had by all.

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MR. GASTON: Yes, a good time.

H.M.JR: I never get invited to those affairs. why don't we do something for the Irish in the War Refugee Board?

MR. PERLE: They take care of themselves, Mr. Secretary.

H.M.JR: Herbert?

MR. GASTON: I don't have anything.

H.M.JR: All right.

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March 19, 1945

11 am

Present:

Mr. Coe
Mr. Glasser
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 Reparations 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.

Secretary Morgenthau: 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.

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Secretary Morgenthau: Incidentally, I asked the State Department for a correct copy of the London Economist article which appeared in Saturday night's Star on reparations and they said it would come in. I asked for the full text, this morning, out of Stettinius' 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 Lutaringer, a senior economist, and I gather he has already agreed. He's a good civil servant, flexible in his views.

Secretary Morgenthau: Is he better than that fellow, Dupres?

Mr. Du Bois: From our point of view, George is not that sort of fellow.

Mr. Coe: James Middleberger is on the political side. He is head of the German Division or Central European Division in the Office of European Affairs.

Secretary Morgenthau: (To Miss Chaucery. Make a note and tell Mrs. Klotz that when I go to see the President, I want to take that name.)

Mr. Coe: He is talking about another man, Abramovitch, whom Joe thinks doubtfully of. Lubin seemed to take Du Bois' going as a certainty.

Mr. Du Bois: Did you get the impression it was pretty definitely settled?

Mr. Jr.: I just take it for granted.

Mr. Coe: He mentioned a National Income man - Wallace Salant, and two or three OSS 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.

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He mentioned one engineer, a Colonel Goodfellow, who knows something about intelligence in Germany. Also OSS. A man named Aldredger, now in Paris, a former State Department man. Then he wanted to know what we thought about a big business man. We offered, through the manifold talks of Treasury on Bretton Woods, offered to recommend some good names there. He said he thought of Swope.

Mr. Jr.: Terrible! You know our experience with Swope? When we wanted to kick the Germans out of General Aniline Dye, he wouldn't do it. If he's going to get a big business man, get one from the South, because they, on the German situation, are much, much better.

Mr. Glasser: Someone who does not have property in Germany.

(At this point the Secretary dictated Senator George's views on Germany, which is transcribed separately.)

Mr. Coe: Then, on Henderson, Lubin repeated that he was still going to try to get Henderson to fly up there for a week or so while he was there, from Chungking, and told us his ideas on Henderson and they were he wanted someone like Henderson back here to make sure his telegrams had an answer, issues got around. He didn't think DuPres or anyone else in the State Department could go high enough to get action for him so he wanted Leon in.

We asked him to confirm our impression that Henderson was terribly set on these economic controls and he gave a pretty good exposition of Henderson's views: that is, in order to get reparations out you do have to have a well functioning, stable German economy; that, therefore, you need financial and economic controls which will enable you to take a surplus product and move it somewhere else; therefore, you have to be against inflation and have to be prepared to assume widespread control of the

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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.

Mr. Jr.: I think I will have to talk to him about Henderson 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 Henderson. I will tell him that in just so many words.

Mr. Woods: 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.

Mr. 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. Du Bois: On the short document on reparations, do you want us to give that to Lubin?

Mr. 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 Henderson.

cCc-cCc

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DRAFT MEMORANDUM FROM THE PRESIDENT TO THE U.S. MEMBERS OF THE REPARATIONS COMMISSION

In deciding, with your colleague, upon the practice and procedures to implement the Reparations protocol of the Crimean Conference, you will be guided by the following principles:

1. This 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 compute our own claims according to the same standards agreeable 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.

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March 19, 1945

From Mr. Du Bois.

his draft of suggestion for Lubin to give to the President as instructions for Lubin to go to Moscow.

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March 19, 1945

In my conference with Senator Walter George, this morning, he's for de-industrializing Germany; thinks that's the right thing to do. He approaches it from the standpoint of competition in the world market.

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REPARATIONS

In implementing the Reparations Protocol agreed upon at Yalta, you should be guided by the following general principles as representing the American view 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 these 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 designed 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 consumer 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.

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3/15/45

Secretary Morgenthau (Urgent)

Mr. Coe.

This is for your 2:45 meeting with Stettinius et al.

FC:rl 3/15/45

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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 Crimean Conference policy and basic U.S. policy.

FC:rl 3/15/45

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March 16, 1945MEMORANDUM 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 insofar 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 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.

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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 Morgenthau 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.

Joseph E. DuBois, Jr.
Joseph E. DuBois, Jr.

March 19, 1945
11:00 A. M.

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Operator: Mr. Lubin is out of town until this afternoon.
His secretary is on the wire.
HMJr: I'll have to talk to her.
Operator: All right, Mrs. Page.
HMJr: Hello.
Mrs. Page: Hello.
HMJr: Mrs. Page.
P: Yes.
HMJr: This is Morgenthau speaking. I suggested the
possibility of Mr. Lubin coming over to my office
tomorrow when Mr. McCloy was coming. You may know
about it. Mr. McCloy sort of feels that if we all
got together the State Department might feel that
we were ganging up on it. Hello?
P: Yes.
HMJr: Makes you laugh, doesn't it?
P: Yes. (laughs)
HMJr: So he is worried about it. So you tell Mr. Lubin
we'll continue to work with him and give him every-
thing we've got, but I can't control anything but
the Treasury.
P: All right. Fine, I'll tell him that.
HMJr: Tell him I'm sorry, but that was the message that
I got from McCloy.
P: All right, I'll pass it along to him.
HMJr: Tell him I'm sorry.
P: Thank you very much.

March 19, 1945
11:05 A.M.

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Operator: Mr. McCloy is away from his desk. I have
Mrs. Wayne his secretary. Go ahead.
HMJr: Hello.
Mrs. Wayne: Hello.
HMJr: Goodmorning.
W: Goodmorning, Sir.
HMJr.: Tell Mr. McCloy to rest easy, Mr. Lubin will not
be at the Conference tomorrow.
W: All right, Sir.
HMJr: Will you tell him that?
W: Yes, I will.
HMJr: I got his message.
W: All right, thank you very much.
HMJr.: Bye.

March 19, 1945
2:47 p.m.

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HMJr:

Hello, Mr. McLarin. I had a very satisfactory talk with Senator George, and I would say that he is about 90 per cent for Bretton Woods. In fact when he left he said, "I'm going to say something nice about Bretton Woods." Now he thought it would be nice if I talked down there, but he didn't think it was really necessary. Hello?

W.S.

McLarin, Jr.: Yes, well, I don't say it is necessary myself. I just say we would like to have you down here.

HMJr:

Yeah. Well, I tell you. He said this, and I want to ask you about it. He said had I been in touch with Frank Wesley. Hello?

Mc:

Yes, hello.

HMJr:

And I said, "No." Now he's --- what is he, the chairman of your Board?

Mc:

Yes.

HMJr:

--- and he seemed to think that Mr. Wesley was very much for Bretton Woods.

Mc:

Well, he is and now -- he's talked about it here. Now, Mr. Wesley hasn't gone far enough into it himself to understand a whole lot about it --

HMJr:

Well, here's what I've got in mind and I'm going to have to wait a couple of days. I hope to get off quietly for a little rest the night of the 24th, see? Hello?

Mc:

Yes.

HMJr:

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?

Mc:

Yes, I understand that.

HMJr:

And before I go away on the 24th, I will give you another ring.

Mc:

All right.

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HMJr:

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.

Mc:

Well, of course, I'm sure that there wouldn't be any trouble in getting the Chamber of Commerce and the Junior Chamber of Commerce to collaborate on the meeting.

HMJr:

With the League of Women Voters?

Mc:

That's right.

HMJr:

I'm partial to the League of Women Voters because they have done a swell job for us.

Mc:

Well, I am too, because my wife happens to be one of the directors.

HMJr:

Wonderful. Well, towards Friday or Saturday I will call you again.

Mc:

That will be fine.

HMJr:

And ---

Mc:

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.

HMJr:

Now, another thing the Senator said, evidently Mr. Wesley has quite a bit of influence with him. You'd know that better than --

Mc:

Yes, I know it.

HMJr:

--- then I would.

Mc:

Yes.

HMJr:

He will be down there himself as late as the 12th of April. Hello?

Mc:

Yes.

HMJr:

Down at Vienna I think, as you call it. And I said if I came, I would only come if he would come, and he said he would come himself.

Mc:

Yes.

HMJ: So that would be an added extraction.
 M: Oh, yes, no doubt about that.
 HMJ: So I'll be in touch with you today or tomorrow.
 M: All right. In the meantime I'll be in touch with Mr. Seale and will let him tell you about George something if Senator George calls him.
 HMJ: That's right.
 M: And I'm sure he will be glad to tell you what you've asked.
 HMJ: Well, that's --
 M: I'm sure he will be glad to tell you what you've asked.
 HMJ: Thank you.
 M: All right.
 HMJ: Goodbye.

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March 19, 1945
 3:15 p.m.

REPARATIONS

Present: Mr. White
 Mr. DuBois
 Mr. Glasser
 Mr. Coe
 Mrs. Klotz

H.M.JA: 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.JK: Who was there?

MR. WHITE: Luxford and Bernatein were there.

H.M.JR: What is this?

MR. COE: This is that document from you to Stettinius regarding his 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

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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.

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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. COE: 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 Riddleberger 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 Stettinius--I was dumb. You spoke

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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 Stettinius 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 Stettinius through the President. I am going to capitalize on it and write an explanatory letter to Stettinius 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 amazing to me that Lubell can see it and Stettinius tells you that you can't, which is inconsistent. Incidentally, Mr. Secretary, I don't want to raise too many doubts on Stettinius' 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 reparations document and told him to come over and look at the records. So, Stettinius 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--

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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 Stettinius-- 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 Stettinius. I am not saying it is bad.

H.M.JR: Stettinius 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: Stettinius 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 approach him are wholly on my side. As far as Stettinius 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 Stettinius saying that in light of what he has told you

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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 Stettinius has to realize this-- I am just speaking aloud--that either he treats you as a person and gives 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 Stettinius, but I say--

H.M.JR: 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 none 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.JR: Do you mind making it singular?

MR. WHITE: The bull by the horns?

H.M.JR: You said--

MR. WHITE: Bulls by the horns. To-ma-toes, to-may-toes.

H.M.JR: 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.JR: 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 Stettinius to carry out and supplement Yalta, so this thing should be addressed to Stettinius and not the President. I am certainly going over there and look to the

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President and say, "I want to tell you what happened. I want to tell you the story, and before I send this to Stettinius, is my assumption--"

MR. COE: Approach.

H.M.JR: "...is my approach correct? If it isn't, I want to change it. But I am here because Stettinius told me to come to you, that he couldn't talk to me. Now, Stettinius didn't tell the truth. He said he did. When they came back Yost told me he had an order from Stettinius that he couldn't tell War or Treasury anything. I told that to Stettinius, and he said, 'ridiculous, I never gave any such order.'"

Look, if the thing is addressed to the President, he sends it over to Stettinius anyway. If I leave it on his desk to read, then he sends it over to State with his own comments on it. I think I am right.

MR. COE: Mr. Secretary, I think you might go a little further along that same line, though, and leave this as a memo for Stettinius, but give the President three or four simple things in a memo saying, "I am taking this position in the accompanying memo to Stettinius. It is based upon the assumption that (a) there will be dismemberment, (b) that we still want to deindustrialize or eliminate the war industries of Germany."

MR. WHITE: Then you are not putting all your eggs in one basket on dismemberment, because you have a good case without that.

H.M.JR: If I could have a one-page memo for the President he would read that, but if he sees this thing before he reads the--

MR. COE: I think if we could state three or four principle things for the President, which are the basis on which we are criticizing the State Department--

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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 hand, 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?

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H.M.JR: No, I said I wanted to see what was back of this business of reparations; what was back of the whole business. I wanted to see the documents, but he said nobody could see them, they were in the safe. I didn't ask them about--don't worry about Stettinius and me. If he says anything to me, I'll just have it out with him. Look, I have decided to go to the President on this whole business. I am not going to have this fellow Lubin come over here and ask me to do his work for him, and Mr. Baruch will come over here and ask me to do his work for him. As a matter of fact, I practically made up my mind that tomorrow I am taking with me to give to the President my book on Germany. I am going to go over the whole business, see, and if Stettinius gets mad I'll say, "All right, Stettinius, you told me to go to the President and I did. You wouldn't give me the facts. You blocked me at every possible point, and what you have done to the President to get his approval--and mind you, there are some people who are very, very close to the President--feel a great deal more excited about this than I do."

MR. DuBOIS: I think you are one hundred percent right in going to the President.

H.M.JR: I am not going to him out of a clear blue sky. Sure Stettinius is going to be mad, and I told him--I am doing just what I told him I wouldn't do--I told him I would give it to him first. If he was here I would have given it to him.

MR. COE: Then in line with that--the document for the President.

H.M.JR: I think I would leave it this way, and I think that in the President's document you can say, "This is written having in mind that there is going to be dismemberment. If that is correct, then--"

MR. COE: Well, wouldn't--

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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.

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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, the stopped presenting it to EAC. They have just stopped that thing cold, Harry, right there. 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.

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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 1087, 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--

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MR. WHITE: All you need is two.

H.M.JR: Just a few things to whet his curiosity in the conclusion. I have to do something like this, Frank, something like this has to be said.

MR. COE: 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 1087 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. COE: We haven't that. We'll get it, though.

H.M.JR: What do you mean you haven't got it?

MR. COE: 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, 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. COE: We can do that.

H.M.JR: This is a memo I might send Joe DuBois, page six, or he might send me. (Laughter)

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MR. WHITE: Only one thing occurs to me, and that is if Stettinius is not here, I am wondering whether before 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 Acheson is Acting Secretary until Tuesday night.

MR. DuBOIS: Don't leave yourself open.

MR. COE: Acheson 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 went 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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H.M.JR: This goes to Mr. Coe. I don't think he has ever seen it. You charge him with it. (To Miss Chauncey.)

MR. COE: Thank you.

MR. WHITE: Harold, what do you think? What's your judgment about these?

MR. GLASSER: I think it is really necessary to go. It seems to me the State Department is trying to put one over, and they will succeed unless the Secretary goes to the President.

H.M.JR: But for God's sake, boys, don't talk about this, except amongst the four of you, please!

MR. COE: We are still on that one document basis, Mr. Secretary.

H.M.JR: All right. Shall I show this tonight to McCloy before he comes over?

MR. WHITE: I think you have to compare all your cards with somebody, and since he is apparently playing ball with you, I think you ought to reciprocate.

H.M.JR: I think so.

MR. COE: I don't think he will play ball with you.

MR. WHITE: He apparently is somewhat warm. I think you ought to do it the night before you give it to the President.

H.M.JR: This is the night before.

MR. WHITE: And you will see him tomorrow morning, so he can't get to somebody and postpone the meeting.

H.M.JR: No, I am not going to tell him. I am going to say, "If you are coming over at nine o'clock, would you like to read this document before you come over here?"

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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. COE: 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 Stettinius 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 Stettinius' 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 McCloy 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. McCloy, as follows:)

March 19, 1945
3:55 P.M.

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HMJr: I haven't heard from your secretary --
John McCloy:
HMJr: About tomorrow.
HMJr: Yeah.
Mc: Well, I was trying to get hold of Forrester 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.
HMJr: Oh.
Mc: But even though he does come, probably he won't come because Stimson is out of town.
HMJr: Oh.
Mc: I can be there at nine o'clock anyway.
HMJr: Good.
Mc: I'll be there in any event at nine o'clock.
HMJr: Now our document is ready.
Mc: Oh, good.
HMJr: And I'll show it to you.
Mc: Good, fine.
HMJr: Have you got ---
Mc: And I'll show you what we've got. I will have had something by tonight. I've got something but they are making changes on it now.
HMJr: Well, my boys are making a few changes too.
Mc: Yeah.
HMJr: They are putting a little diplomatic language in it.
Mc: [laughs] Well, we'll have something in the morning.

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HMJr: Fine, then we'll ---
Mc: I think you've got a -- I understand you're going to talk to the chief. I think it is awfully important to.
HMJr: I'm going to talk to the chief?
Mc: That's what I heard.
HMJr: Where did you get that from?
Mc: Somebody -- I guess it was my secretary, wasn't it?
HMJr: Well, I said I had an appointment with the President.
Mc: Oh, that was it. Yes.
HMJr: Yeah.
Mc: Well, that's what I mean.
HMJr: Yeah.
Mc: You're going to talk to him about this, aren't you?
HMJr: Well, -- we'll see.
Mc: Okay, all right. Well, I'll be there in the morning.
HMJr: The answer to you is "yes."
Mc: All right (laughs)
HMJr: God damn it.
Mc: We should you know.
HMJr: What?
Mc: We shouldn't let this get by. The more I think about this thing the more outrageous it becomes in my mind.
HMJr: The more I learn, the more I -- I'd go further, I think it is absolutely vicious.

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Mc: Well, I do too.

WMJr: And the position I'm taking all comes up to one thing.

Mc: Yes.

WMJr: Leave 1067 as it is.

Mc: Well, the more I hear of it, the more it's examined -- the more I think it's a sound document.

WMJr: At least that's our approach.

Mc: Yeah.

WMJr: We've got a brief here which all leads up to, to leave 1067 --

Mc: It is?

WMJr: Yes.

Mc: Well, I'd be very interested to read it.

WMJr: Now, that's our whole approach.

Mc: All right. Right, O.K.

WMJr: Bye.

Mc: Bye.

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(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?

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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 smaller role because the more recurring reparations you get--this is the reparations each year--the more you have to build up Germany, so they ought to get the largest part from whatever exists there, if there is going to be any kind of total reparations as I gather there is. And item four, "Over as long a period of years as possible--" there are a number of reasons for that. I think that is important, that is, if they want to increase the 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, "Reparations should aid in rehabilitating, strengthening 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. 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.

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MR. WHITE: I just heard that Lubin was going to be given no authority whatever, and that he was going to be required by the State Department to be merely transmitting things back and forth, and that the State Department was going to keep him very closely in check.

H.M.JR: Did you boys get this economic one? (Referring to Cable 2808 from London, about article published in the London Economist about "Settlement for Germany.")

MR. COE: We brought it in for you.

H.M.JR: Has anybody read it?

MR. COE: I have read it.

H.M.JR: Could you digest it for me and let me have it tomorrow? Some of the things I have read are terrible.

MR. GLASSER: We have a very bad position on that.

H.M.JR: I think we did a full day's work in the last five minutes.

MR. DuBOIS: Do you want me to do anything with Lubell or wait on that, too?

H.M.JR: Who's he?

MR. DuBOIS: Baruch's man.

H.M.JR: Did he call you today?

MR. DuBOIS: No, he didn't call.

H.M.JR: Let's wait. I am leaving tomorrow to go to New York. Let's hold everything.

MR. DuBOIS: I will leave you the memo you wanted on my conversation with Mr. Lubell.

(Hands Secretary memo for files, dated March 16, 1945, on his conversation with Mr. Lubell about reparations.)

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REPARATIONS

In implementing the Reparations Protocol agreed upon at Yalta, you should be guided by the following general principles as representing the American view 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 these 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 designed to maintain the German standard of living above that of any other country of Europe, after allowing time for the adjustment to reparations measures.

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, electrical and chemical industries (including all industries producing synthetic oil, synthetic nitrogen and synthetic rubber).

B. Delay in determining the total amount and division of German reparations should not prevent the immediate removal of plants, equipment and raw materials from Germany and the confiscation of German assets abroad, as parts of a program of reparations and restitution.

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

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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:

- (i) As small as possible, in relation to the reparations under A.
- (ii) Primarily in the form of natural resources, such as coal, metallic ores, timber and potash.
- (iii) In as small annual amounts as possible.
- (iv) Over as long a period of years as possible.
- (v) 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.

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March 19, 1945
3:55 p.m.

PRE-PRESS

Present: Mr. D. W. Bell
Mr. Gaston
Mr. White
Mr. Shaeffer
Mr. Rought
Mr. Fussell
Miss Chauncey
Mrs. Klotz

H.M.JR: Mr. Fussell, do you have anything?

MR. FUSSELL: No.

H.M.JR: Mr. Shaeffer?

MR. SHAEFFER: Just maturities.

H.M.JR: I am waiting on Dan 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.

H.M.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: He isn't out there. It might be a good thing to call them off today and let them go to CED.

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H.M.JR: Are there many out there?

MR. D. W. HELL: Eight or ten.

MR. WHITE: Could the Secretary say that the group who constituted the CED 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. HELL: Knowing they are coming out for it--

MR. SHAFER: We will have a press conference report from them eventually.

MR. D. W. HELL: Are you going to tell them you will have maturities this week?

H.M.JR: No, the telephone still works.

MR. D. W. HELL: 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
3:57 P.M.

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Mrs. Wayne: Yes, Mr Morgenthau.

HMJr: Would you give this message to Mr. McCloy, and I'd like an answer Monday.

W: All right.

HMJr: Mr. McCloy and General Hilldring are coming over to see me Tuesday.

W: Yes, that's right.

HMJr: At 11:15.

W: Yes.

HMJr: And if it is agreeable to him, I'd like Lubin, Isador Lubin --

W: Isador, yes.

HMJr: --- to be there.

W: All right.

HMJr: See?

W: Don't you want -- are you planning to ask him?

HMJr: I will plan to ask Mr. Lubin ---

W: I'll tell Mr. McCloy.

HMJr: But I don't want to do it unless it is all right. I recommend that he be there.

W: All right, sir.

HMJr: So we get all these people to working on this together. Right?

W: Yes, sir. You're right.

HMJr: Thank you.

March 19, 1945
4:12 P. M.

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HMJr: Hello.

Operator: Miss Tully, Mr. Secretary.

HMJr: Right. Hello.

Operator: Secretary Morgenthau.

Miss Tully: Hello, Mr. Secretary, how are you, Sir?

HMJr: Good, I'm awfully busy, I can't make Jullians out to 194.

T: (Laughs) You can't go stepping. Ah, I'm surprised.

HMJr: You'll have to get some other bird.

T: (Laughs) That really is a shame.

HMJr: Yeah.

T: Mr. Secretary, the President had a letter from telegram from our old friend, Louis Rappel. Do you remember Louis Rappel, the newsman man who worked for you one time?

HMJr: Very well. Yep.

T: Well, he's now out in Chicago with the Herald American, and he sends the President a telegram and he says, "With reference to your proclamation of May 30th, I Am An American Day, we here in Chicago contribute our part in gigantic Soldiers Field, with which you are well-acquainted. As you know, the Nation generally considers the Associated Press photos of the Marines raising Old Glory on Mt. Suribachi, the greatest picture of this War to date."

HMJr: Yeah.

T: "Since the 7th War Loan Drive will be on in May, and because we believe it would be one of the most striking things we in Chicago could do on 'I Am An American Day', I would ask that you order the men who raised that flag returned home to participate in the Soldier Field program, and to make bond-selling appearances."

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HMJr: Make what?

T: "Bond-selling appearances."

HMJr: Yes.

T: "I wire you direct in the hope that you'll propose the idea to Vendergriff and the Treasury Department."

HMJr: Yeah.

T: Being a Marine Corp Captain which he was on inactive status now, he hesitates to bring the proposal to the Commandant, and yet he thinks the dream of having these boys before a 150,000 people inside Soldiers Field and many more who could see them in bond appearances, warrants giving the idea consideration. Now I don't know what your plans are for the 7th War Loan Drive, or whether you have done anything about it, or whether anything-- or what you would recommend.

HMJr: Well, in the first place, we've had a beautiful oil painting done of that flag raising, and that is going to be the principal poster for the 7th War Loan.

T: Wonderful.

HMJr: So -- and they did a beautiful job.

T: Did they?

HMJr: They got the man that does the cover for Collier's to do it.

T: Uh huh. Well, I'm very interested in that. I have a nephew on Iwo Jima in the 5th Division, so that is wonderful.

HMJr: So far we're together. I think Louis has a swell idea.

T: Annn.

HMJr: And I think it would be marvelous to bring those boys back.

T: You do?

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HMJr: Yes.

T: All right, fine, because I know that when you launch your War Loan Drives, that you make your own arrangements, and I know you have had boys, 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.

HMJr: What I think we ought to do is this: we're opening it on -- I think it is May 10th.

T: Yeah.

HMJr: What is the day Louis has?

T: He just says "will be on in May", he doesn't give any date.

HMJr: Well -- and we asked for--

T: Well, for May 10th, for the "I Am An American Day." That's when they would want them out in Chicago at Soldiers Field.

HMJr: Well, and I think that if the President would order these men back--

T: Yeah.

HMJr: I asked the President would he again help us open the Drive, and he said he would.

T: Yeah.

HMJr: And I think that those boys ought to make their first appearance with the President.

T: Yeah.

HMJr: On the 13th -- evening, ---

T: Huh?

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HMJr: On the evening of the 13th.

T: Evening of the 13th of May.

HMJr: -- and have them here, and something -- and we'll work out something with the President.

T: Yes.

HMJr: And, they can re-enact the thing, he can be sitting there watching them, or something like that. But the first appearance, I think, should be with the President.

T: That would be the 13th of May, and then a week later they could go out to Soldiers Field.

HMJr: That's right.

T: All right, fine. Let me tell the President your reactions and your suggestions.

HMJr: Yes.

T: And, then, if he wants us to follow through, we could take it up with the Secretary Forrestal, and take it up with Commandant Vandergriff.

HMJr: Fine.

T: Fine. The Secretary ---

HMJr: I think Louis has a wonderful idea.

T: Good. He always had some idea of the dramatization. Louis always has had that, but it is very good, I think.

HMJr: Yeah.

T: And certainly it is in everybody's minds. They have heard so much about Iwo Jima. I think it would be wonderful for your War Bond Drive, too.

HMJr: I think it is fine. And I think if we could do it with the President--

T: Yes. On the 13th-- to have them there when he broadcasts, and so on.

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HMJr: Yeah.

T: All right, Sir.

HMJr: Grace, I asked Hassett whether I 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 kinda check it.

T: All right, fine.

HMJr: If you would.

T: All right, sir.

HMJr: Because, I told him I was leaving on the 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, goodbye.

March 10, 1945
8:19

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HMJr: Dean?

Dean Asheson: Yes, Harry.

HMJr: I'm glad we are not lending any money overseas. I read that Asheson says so.

A: (Laughs)

HMJr: They asked me at press bay about a loan, I think, to China or Greece, and I said, "Asheson says no."

A: (Laughs)

HMJr: So that ended that one. The boys tell me you did very well.

A: Well, I hope that what I did was right. I didn't know of anything contrary to what I said.

HMJr: Well, we'll all back you up, and wait until we make the first loan.

A: (laughs) All right. Then I can start running.

HMJr: Then you can start running. (Laughs) I've got no loans in prospect, but I'm very glad to use Asheson.

A: (Laughs)

HMJr: It's just like General Marley came back and he said, "I said M.V. Every morning, noon, and evening, 'Sorry, no gold, Morgenthau won't let it go'".

A: (Laughs)

HMJr: Well, the boys said you did a swell job. Are you through now for the --

A: They want me to go back tomorrow morning.

HMJr: Yes.

A: I think there are about four more Congressmen who have some questions.

HMJr: How's our friend Jesse Wolcott?

A: Well, I think he was all right. Low thought -- he

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A:(Cont) questioned me a large part of the morning. But Lux thought that he was not really being difficult - that he wanted to get this all cleared up so that it would be out of the way, and not be subject to debate on the floor.

HMJr: Sometime when you catch your breath this week, Senator Walter George was in to see me and he has the same question as mine about these loans -- too many blank checks all over town.

A: Yes.

HMJr: 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.

HMJr: Oh, that's right. Well, when you come back.

A: Yeah.

HMJr: He's for Bretton Woods.

A: He is.

HMJr: He's all right, but the thing that's bothering him is all the agencies that, as he puts it, and draw blank checks. Hello?

A: Yes, sir.

HMJr: 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.

HMJr: And he's all right on Bretton Woods.

A: Oh, well, that's --

HMJr: He has just got this overall worry.

A: Well, we'll try to calm him down. You didn't hear that crazy brawl I had with Bob Taft on Saturday night, did you?

HMJr: No, I didn't hear it. I went to bed early.

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A: Yeah.

HMJr: How was it?

A: Well, it was just a slugging match. Bob lost his temper --

HMJr: Oh, did he?

A: And, I think it was all right -- in the sense that we encouraged our supporters. I don't believe anyone was enlightened very much by the debate.

HMJr: Taft lost his temper?

A: Yes.

HMJr: I didn't know that.

A: Well, he --- well, I said that as far as I could see there were just two alternatives which were offered to Bretton Woods. And I said what Bretton Woods was about, then I said the two alternatives were -- first of all, a do-nothing policy which was, I understood, the Senator Taft policy. Then he shouted, "That isn't my policy!" Well, I said if that isn't it, then the only other alternative is that we make some dickering with the big powers and leave the little fellows out.

HMJr: Yes.

A: Well, he said, "That's what I think". I said that's just as bad, and exactly the same thing as doing nothing, because you can't do it that way.

HMJr: Well, I didn't hear it. I sent over a nice one to State Department the way I promised I would while you were sitting.

A: Ah, yes. You did very good.

HMJr: Did you get the one on IT & T?

A: I haven't gotten it yet.

HMJr: Well, you had better leave it to your successor (laughs).

A: Oh, yeah. Is it over there?

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HMJr: I sent it over, I think it was Friday night. I don't know who was acting on Saturday. Whether --

A: I was but it didn't come to me.

HMJr: Questions are there -- they are selling out in Spain.

A: Oh, yes.

HMJr: We asked the State Department to advise us. I'm not rushing you, I can wait.

A: (Laughs) That's a joke.

HMJr: I think so too.

A: All right.

HMJr: I sent it over Friday, 'cause I thought -- you told me you would only be here Monday.

A: Yes.

HMJr: I tried to get it in ahead of your being acting, so as not to worry you.

A: (laughs)

HMJr: 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.

HMJr: You're a tower of strength.

A: Well, I'll keep going as long as I have any strength.

HMJr: Thank you.

A: Goodbye.

HMJr: Goodbye.

March 19, 1945
5:57 P.M.

275 A

HMJr: Hello.

Operator: Senator Pepper.

HMJr: Hello.

Senator Pepper: Hello, Mr Secretary.

HMJr: This is Henry. How are you?

P: All right. How are you getting along? This is Claude Pepper.

HMJr: I'm just one jump ahead of the sheriff.

P: Well, (laughs) I'd stay that way -- it's not bad.

HMJr: Yeah.

P: I was going to -- I had requested to see the President last week, and they notified my office that it might come through tomorrow.

HMJr: Yes.

P: When I -- I was rather hoping that when I did get a chance to talk to him I could talk to him about that Pawley matter, and I wondered if you --- I know it is pressing you because some of the information just reached your man a few days ago.

HMJr: Yeah.

P: And I just wondered if it had gone far enough to where you are likely to get anything to him soon.

HMJr: Well, I told them that the minute they got anything to bring it to me, and they haven't brought anything to me now in about 10 days.

P: I see.

HMJr: I understood that they were sitting down with his attorney, but I haven't had any reports from them.

P: I see.

HMJr: But I will ask them in the morning what is the latest.

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P: O.K.
HMJr: And if I have anything I'll give you a ring.
P: All right. Thanks very much, Henry.
HMJr: Thank you.
P: Goodbye.

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8/19/45

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-E 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. *Punchel*

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NEW YORK MIRROR

DAILY AND SUNDAY

Mar. 10, 1945

238 EAST 45TH 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

m

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MAR 19 1945

My 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/efe 3/17/45

R/ 1000

0/16 2-ff. Miss Chauncy

SECRET

WAR DEPARTMENT
WASHINGTON

MAR 14 1945

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



SECRET

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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.

R.M. Chauncey

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3/19/45

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.

Finished

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Mar. 19,
1945

TO Secretary Morgenthau
FROM J. W. Pehle

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. Lesser, formerly Special Assistant to the General Counsel and Assistant Executive Director of the War Refugee Board, was 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 Lesser's very able leadership and direction is now 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 hand, 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 them 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 Funds Control. In the past, congressional mail appears to

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have been much neglected. The generally sympathetic and understanding tone of the majority of the letters written to the Division by Congressmen 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 calibre 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.



COPY

March 3, 1945

MEMORANDUM

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.

1. 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 more 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 some of the circulars issued are annexed hereto and marked Exhibit 1.

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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 available 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

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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 even 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,

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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 tempt 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. Slough, like all of your other
men with whom I have talked, is most un-
derstanding, 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,

H. A. Wallace



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

289

DATE March 19,
1945

TO Secretary Morgenthau

FROM J. W. Pehle

FOR YOUR INFORMATION

There is attached hereto the Interim Report of
Senator Stewart's Subcommittee of the Senate Small
Business Committee. This report deals with the disposal
of surplus consumer goods by the Treasury Department
and is based upon hearings which were conducted in
December 1944.

The Committee's report is not a very masterly
job and leaves considerable to be desired. However,
the criticisms of the Treasury Department made by the
Committee are, on the whole, warranted and we are doing
our best to remedy these defects.

This Committee was quite critical of Mr. Olrich.
You will find references to Mr. Olrich on pages 3 and
18 of the attached Committee Report.

J. W. Pehle

Attachment

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70th Congress
1st Session

SENATE SUBCOMMITTEE PRINT No. 1

DISPOSAL OF SURPLUS CONSUMER GOODS BY
THE TREASURY DEPARTMENTINTERIM 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. 286—70th Congress)

A RESOLUTION TO APPOINT A SPECIAL COMMITTEE
TO STUDY AND SURVEY PROBLEMS OF
AMERICAN SMALL BUSINESS
ENTERPRISES

FEBRUARY 27, 1945

Printed for the use of the Committee To Study Problems
of American Small BusinessUNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1945

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UNITED STATES SENATE
SPECIAL COMMITTEE TO STUDY PROBLEMS OF AMERICAN SMALL
BUSINESS

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SURPLUS WAR PROPERTY SUBCOMMITTEE

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LETTER OF TRANSMITTAL

FEBRUARY 27, 1945.

HON. JAMES E. MURRAY,
Chairman, Special Committee to Study Problems of American
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 surpluses 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) appendixes on several subjects which could not be treated in full detail in the report.

Sincerely yours,

TOM STEWART,
Chairman, Subcommittee on Surplus War Property.

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DISPOSAL OF SURPLUS CONSUMER GOODS BY
THE TREASURY DEPARTMENT

SUMMARY

In January 1945, the Surplus Property Board, the administrative head of surplus property, appointed under the Surplus Property Act, assumed office. During 1944 the Treasury Department disposed of surplus goods under Executive 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 Treasury disposal 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 extent of the agencies' planning for post-war disposal.

In a number of instances your subcommittee found the following weaknesses in the disposal methods employed by the Treasury Department during 1944:

1. Inventories of unsold surplus goods accumulated during 1944 in many classes of goods in short supply.
2. The broad channels of normal trade numerically dominated by small business were not used to the fullest extent to move goods rapidly to the consumer.
3. This was true because—
 - (a) Goods were frequently disposed of in large lots which could not be absorbed by small businesses, even in the wholesale trade.
 - (b) The methods of advertising and notification of sales were not adequate to properly inform small businesses of available surpluses. In some instances there was no formal advertising, and only a random or informal notification by letter, telephone, or personal contact to potential purchasers. Mailing lists were inadequate, unpaid publicity was uncertain, and no paid advertising or catalogs were employed.
 - (c) The agency had not yet found means for using many of the trade practices customary to normal trade channels.
4. No established pricing policy had been arrived at and the market was tested before sales in an unsystematic fashion.
5. This "as is, where is" basis of sale led in many instances to sales to speculators. Several such sales to speculators were negotiated through the central office, rather than through the regions where individual businessmen could learn of them.

DISPOSAL OF SURPLUS CONSUMER GOODS

6. In an effort to achieve distribution through the regular trade channels, policies were established which gave the original manufacturer a favored position in the purchase of surpluses.

Your subcommittee recommends the following measures to afford the prompt disposal of goods in short supply through the broad channels of normal trade which are numerically dominated by small businesses:

1. Sale of goods in lots small enough for the small businesses in the distributive level of trade solicited.
2. Widespread advertising and systematic notification of sale through broad mailing of listings of surplus goods and through all other suitable avenues of publicity. The Surplus Reporter, a monthly listing of surplus property by regions and by broad classes, which came into use by the agency shortly before your subcommittee hearings appears to be a step in the right direction.
3. The Treasury Department should conform as nearly as possible to customary trade practices in the sale of those goods for which there is demand in the normal trade channels. This involves—

- (a) Delivering the goods as advertised, which depends primarily on an adequate description of the goods by the armed services.
- (b) More widespread use of samples and improved display.
- (c) Refunds to purchasers on goods which have been misrepresented.
- (d) The extension of normal trade credit to purchasers of surplus goods.

4. The establishment of a reasonably uniform pricing method with the use of fixed prices adjusted to the various distributive levels in many instances. Such prices should be uniform within a given distributive level and should be based on a thorough testing of the market.

5. Disposal procedures along the lines of those indicated should be designed so as to exclude the speculator automatically from the purchase of goods in short supply.

6. Sale of goods to the original manufacturer has no special virtues in and of itself; where disposal to the manufacturer has clear-cut advantages in terms of the objectives of the act, the goods should be offered, if possible, to all competitive manufacturing firms, rather than to the original manufacturer only.

These findings and recommendations apply primarily to the disposal of goods in short supply. The Treasury Department must dispose of large quantities of goods for which there is no known civilian use. The existence of such goods 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 those goods for which there is consumer demand.

In the disposal of presently unmarketable goods, your subcommittee recommends—

1. Widespread advertisement to bring forth the energies of the businessman able to create a market where none existed before and the ingenuity of the manufacturer who can convert unsaleable goods into goods for which there is a market.
2. An industrial research program to discover civilian uses.
3. Scrapping only when these measures have been fully tested and control over the disposition of such scrap material as may result.

DISPOSAL OF SURPLUS CONSUMER GOODS

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. J. W. Peble replaced Mr. E. J. Olrich as head of Treasury Disposal. Mr. Olrich had publicly assailed the Surplus Property Act and its objectives. Mr. Peble, 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 insuperable to his predecessor.

Your subcommittee feels 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, to veterans in establishing their own businesses, and to small business in accordance with the act.

The Surplus Property Board cannot 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 outworn attitude that finds itself hamstrung by statements of public objectives and laments the law's unworkability before it has been tried.

Congress will recognize the need for a flexible approach to surplus disposal but additional experience is needed before well considered amendments can be recommended. In its investigation 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, insofar 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. 2665, which constituted the thesis of our second report. This bill, after extensive revision by the Congress, became the substance of Public Law 457, 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 head, the Surplus Property Board, and regulatory implementation of the law by that body.

SUBJECT 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

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THE MAGNITUDE OF TREASURY'S DISPOSAL PROBLEM

In our first report, we presented an estimate of the aggregate value of war property to become surplus, on the basis of cost-to-government. This totaled \$103,000,000. The classes of goods to be disposed of by the Treasury agency cannot be separated with any precision from the 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:

	Value
Military (Army only):	
Capital vehicles.....	\$4,000,000,000
Rifle equipment.....	3,300,000,000
Infantry equipment.....	2,200,000,000
Potential civilian goods:	
Finished products:	
Trucks, vans, tractors, etc.....	4,000,000,000
Photo equipment and supplies.....	90,000,000
Precision instruments.....	90,000,000
Shelf-st and dental.....	200,000,000
Clothing (unissued).....	725,000,000
Total finished products.....	14,075,000,000

What part of the 14 1/2 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 estimators guess that it will be under 50 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 ingenuity and judgment, dwarfs any ever undertaken by a private merchandiser.

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 War 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.¹

¹ The nature of subcommittee's investigation is discussed in more detail in appendix A.

SCOPE OF PROBLEM

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 civilian uses and adaptations, or speculative markets for exclusively military goods.

At the time of our recent hearings, Treasury had received a total of but \$104,000,000 worth of property for disposal. Comparison with the estimated post-war aggregate of \$7,000,000,000, to become its responsibility, illuminates the need for bold and imaginative planning. Of the \$104,000,000 worth of property received, \$27,000,000 is said to be in goods of no civilian use, which suggests the size of the agency's find-a-use marketing job.

Moreover, a large proportion of the goods received to date has been second-hand, which limits its marketability. A recent sampling, based on five important classes of property in four regions, showed that 20 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 instances it has goods in short supply and goods in long supply. In the second, it has goods of civilian use, noncivilian goods, and used goods. While there are existing long supplies, they are inconsiderable when compared to prospective surpluses 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, May 31 to October 31, inclusive, sales aggregated only \$28,000,000, or about two-thirds of the \$50,000,000 in inventories on hand at the end of the period. In fairness it should be noted that the monthly sales increased steadily, but so also 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, chemicals, 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 easily 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.

As indicated earlier, the policies and procedures devised by the Surplus Property Board and the Treasury Department must distinguish clearly between those goods for which there is widespread public demand and those goods which are for one reason or another in long supply at the time of their disposal. However, in judging the policies of the Surplus Property Board and the Treasury Department, the public and the Congress are likely to look in the first place at the procedures set up for the disposal of goods in short supply. In the next section, then, the discussion and recommendations concerning Treasury's disposal activities during 1944 deals with goods for which there is widespread public demand and which are accordingly in short supply.

II. DISPOSAL OF SURPLUS CIVILIAN GOODS IN SHORT SUPPLY: PART PROCEDURES AND RECOMMENDATIONS FOR THE FUTURE

Small business, particularly in the wholesale and retail trades, is primarily interested in those goods for which there is a civilian market exceeding the available supply. Inflationary pressures are greatest for such goods and the primary interest of small business therefore coincides with that of the general public welfare.

A CASE STUDY IN DISPOSAL

One particular transaction exemplifies a number of weaknesses in the disposal procedures used in 1944 by the Treasury Department for goods in short supply.

In July 1944 the Treasury Department received as surplus 70,500 pairs of ladies' shoes. These shoes were described in the testimony as intended for use by WAC's, WAVES, and SPARS and were suitable for sale as ladies' comfort shoes for civilian use. They were new, in good condition, of the general run of sizes, and of a type in considerable demand. They were located in three warehouses in Jersey City, N. J., Chicago, Ill., and Atlantic, Ga. Treasury officials testified that there was no formal advertising of the availability of this lot of shoes. A witness from the Treasury Department agreed with the accuracy of Senator Taft's observation that under these circumstances "a shoe dealer or a jobber in Cincinnati, where I live, might be wholly ignored and might be wholly ignorant of the whole thing until sold."

The shoes were offered by letter, telephone calls, and personal visits to a group consisting exclusively of large companies which might be expected to purchase such a considerable number of shoes of one type at one time. These included such large wholesalers as Butler Bros., large mail-order houses, such as Montgomery Ward, large department stores, such as Gimbels Bros., and chain stores such as J. C. Penney and A. S. Beck.¹ Of these large purchasers, only A. S. Beck made a firm offer to buy at \$1.75 per pair.

Sale was finally made to the Royal Co. of Hackensack, N. J. Prior to that sale, however, an offer of \$2.75 per pair was received from the World Wide Mercantile Co., of New York City, a frankly speculative concern established for the purchase and sale of surplus, for whom Irving ("Waxie") Gordon, Wexler recently appeared as a

¹ Other firms to which shoes were offered: B. Altman, B. H. Bloch's, Abrahamson, Neiman's, Wanamaker, Bloomingdale's, Sears-Roebuck, Famous, Godefrid & Co., J. C. Penney, A. M. C., Alton-Ross, Montgomery.

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 10 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 \$3.10 per pair. The bid of the Royal Co. was \$2.80 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 \$5.25 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 top prices for an item when the normal channels of trade refuse to show any interest is not a speculator. He could not be very speculative if he is paying top prices.

This echoed a similar opinion publicly expressed by Mr. E. L. Ulrich, 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 purchasers 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 70,000 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 70,000 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 BUSINESS

Your subcommittee is, of course, particularly concerned with the equitable treatment of small business in the disposal of surpluses, 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 procedures 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 success of the job of war production required the mobilization of the manufacturing facilities of thousands of small business concerns; 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 this in evaluating this aspect of the agency's work. However, the procedures devised must assure small businesses in the manufacturing, wholesale, or retail level of trade solicited an 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 disposal in lots the size of 70,000 pairs of shoes sold to the Royal Co. effectively bars all small business wholesalers. Except in the instance of special sales plans, 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, \$155,000 worth of shoes were sold to the Finn Sales Co., of Hartford, Conn. A lot of soap was sold at \$23,000 to A. M. Lucke, of Saratoga. 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, toward breaking up the quantities of goods as declared by owning 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 is evidence of a determination to change past attitudes. Your subcommittee agrees that this is a necessary development in policy. While the assembly of small lots may involve some additional expense to the Government, it may also result in a higher average return to the Government. Small-lot bidders were consistently much higher in their offers in the case of bids on 130,000 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. This organization sells to wholesalers in large lots at a discount from the regular price on the condition that wholesalers then offer the goods to small retailers in lots of the size customary in regular trade.

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 random and informal notification by letter, telephone, or personal contact to potential purchasers. Unfortunately, this seems to have been typical of many disposal actions during this period. The most persistent complaint received by your subcommittee and the Smaller War Plants Corporation involved this lack of adequate notice. The National Boot and Shoe Manufacturers Association reported to your subcommittee that of their 116 members responding to a questionnaire on the subject, 91 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 the successful buyers 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 systematic means of publicity which has been employed thus far by Treasury. At the outset Treasury's disposal division was handicapped by the fact that the list it inherited from the Treasury Procurement Division was inadequate for the purpose for which it is now used. Mailing lists have been steadily expanded and revised and today the Office reports that the total number of concerns covered by it is just under 90,000. Several disposal actions involving goods in short supply were not advertised through this mailing list. Certainly, in the vast majority of cases all those interested should be notified of the availability of surplus goods in short supply.

The Treasury Department began in November 1944 the issuance at monthly intervals of the Surplus Reporter. These publications are issued by each region once a month for each of the eight classifications in which consumer goods are divided for merchandising purposes. In each region, all of the sizable lots of goods in the particular commodity classification which are to be offered for general sale are listed, together with a listing of those goods offered for general sale in other

¹ Some by name of the inventors.

regions which are available in quantities sufficient to justify distribution in more than one region. The goods listed go on sale 2 weeks after the date of issuance of the Reporter. For each lot of goods included, the Reporter 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 disposal.

Not all goods disposed of by the Treasury Department are advertised 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 uncertain 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 thus far. In this connection, the experience of the War Department, which handled most consumer-goods disposal after World War I, is worth noting. Until close to the end of 1919 the War Department confined its advertising to circulars and unpaid publicity in newspapers and trade journals. While these means were continual, it was found profitable to use paid advertising and the expenditures for this purpose increased from \$30,000 in 1919 to \$725,000 in 1920.

At the present time the Treasury Department is operating in a sellers market in which all goods for which there is civilian demand move so rapidly that any listing of surplus property is likely to become out of date rapidly. After the war this market will be converted into a buyers 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 type of goods available for sale.

CONFORMING TO CUSTOMARY TRADE PRACTICES

Inadequate publicity has not been the only barrier faced by the small businesses of the normal trade channels in buying from Treasury disposal. For its part this agency, faced with the greatest merchandising job in history, has found, and will find, difficulty in functioning in the manner in which most merchandising organizations are accustomed to deal. Treasury has no control over the kind or quantity of goods which it receives for disposal, and it can be sure only that the unusual merchandising problem will be commonplace in its experience. Nevertheless, it is essential that it conform as nearly as

² The nature and objectives of the Surplus Reporter are discussed more 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.

DELIVERING 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 trucks 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 their 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 buying public.

DISPLAY 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 agencies with primary reference to storage rather than display. Property has been located in widely scattered warehouses and the shifting tides 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.

RATES 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 loss 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 rebate on the loss had been paid by Treasury was typical of several complaints received by your subcommittee. In response to this Treasury representatives testified that they were without authority to make adjustments and could only suggest that the dissatisfied 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 set up an account from the proceeds of dispositions 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 been informed that a Central Claims Appeal Committee has been in the process of organization for some weeks and is ready to function.

GRANTING USUAL 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 accustomed to receiving credit in their normal operations. The granting of such normal trade credit to concerns who would ordinarily 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 lacking from their own bank or from the Smaller War Plants Corporation as authorized by subsection (b), section 18, 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 insuperable difficulties. This Government has provided very limited 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 inflexible 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 commodities of customary civilian use moving into regular channels of trade, some uniformity of pricing method seems essential to the pursuit of the small business objectives of the act. This need will grow with an increase in the supply of surplus goods.

If the agency is to make full use of the potential buying 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, fixed prices adjusted to the various distributive levels would present greater conformity to customary trade practice than sales by bidding. Selling surplus goods at a uniform price for the distributive level to which they are

offered was advocated at the hearing by two wholesale merchants, and has been suggested by a number of others in correspondence with the subcommittee. For new and customary civilian-use goods, it has been endorsed by Treasury's merchandising chief and various regional officials as a regular trade practice calculated to increase small businesses' opportunity and interest in buying.

The experience of the Canadian disposal corporation with respect to fixed prices might prove instructive. The Canadians have coupled fixed prices with a specific time guaranty in which the price will not be lowered.

No inflexible pricing policy is adequate, but in the sale of goods for which there is a ready market, fixed prices adjusted to the several distributive levels should move goods rapidly to the consumer through the broad channels of the regular trade.

UNIFORM TREATMENT

On the issue of uniform treatment for all members of a given distributive level of trade, your subcommittee is positive and emphatic in its position. If small businesses are to be given a chance that is indeed a real chance, they must be able to buy goods at the same price big businesses in the particular distributive level concerned are able to buy. The same price opportunity should be available to every member of the same distributive level and no price concessions should be granted within a given distributive level on the basis of the quantities of goods purchased.

TESTING THE MARKET

Sound pricing involves a thorough testing of the market. Our investigation revealed no adequate, systematic means for testing the market for a particular commodity.

In his written testimony, Deputy Director Doreen spoke of surveys for goods not under O. P. A. price ceiling, in which "inquiry in the trade, a study of list prices, or a combination of both," were made. Pointing out that much of Treasury's goods had no established market, he added that the most practical test for such "results from actual invitations to bid." The regions appear to have followed the policy of calling in people from businesses with whom they had contact, and asking their opinion as to the best marketing method and the most reasonable price—"by a test of the local people, letting them come up and look at that sample," as Atlanta Director Harmon put it. Such informal consultation is doubtless a usual and necessary part of the operations of this agency. However, to avoid the suspicion of collusion and to assure a fair return to the Government, your subcommittee recommends the establishment of a systematic procedure for testing the market and determining the price to be charged.

SALES OF GOODS IN SHORT SUPPLY TO SPECULATORS

Large lot sales with inadequate advertising on a cash-and-carry "as is, where is" basis have operated in too many cases to discourage the participation of small business concerns from the normal trade channels. To top this off, there has frequently been some uncertainty about the "as is" nature of the goods described for sale. In a

number of cases investigated by the committee, this has left the way open to the purchase of goods in short supply by speculators. Since risk is inherent in business, the breed of speculator is not easily distinguished from the "regular" businessman. As we indicate later, the Treasury Department may have to deal extensively with those willing to take considerable risks in the purchase of goods for which there is no ordinary civilian demand, and some of these will be of the class popularly designated as "speculators". However, in the sale of goods for which there is widespread demand, the Treasury Department should seek to adapt its sales methods to the requirements of the normal trade channels that the speculator is automatically excluded.

DECENTRALIZATION

One factor which should discourage the participation of speculators is the decentralization to the regional offices of control over individual sales. Several sales of goods in short supply to speculators were negotiated by the Washington office, such as the Royal Co. shoe sale and similar shoe sales to the Finn Sales Co., of Hartford, and the Reciprocal Trade Corporation. Now, Treasury reports that all sales are conducted by the regional offices which bear responsibility for them. The end of Washington office sales means the end in large measure of the pressure exerted upon the central office personnel directly and indirectly by the brokers, contractual agents, and speculators here to represent the bargaining power of the money behind them. Small business, which can afford no such Washington representation, benefits from decentralization. The Washington office maintains its control over policy making and planning and the shift of goods from one region to another.

DISPOSAL OF GOODS IN SHORT SUPPLY TO MANUFACTURERS

One of the stated objectives of the Treasury Department during 1944 was to achieve disposal through the "regular" channels of trade. In an effort to attain this end, goods in short supply were offered first on a number of occasions to the original manufacturer on the theory that he would employ his usual outlets and that distribution would be entirely through "regular" channels of trade. Presumably, the original manufacturer is ordinarily willing to take these goods in short supply and in satisfactory condition with which we are concerned in this section. With wide notice and appropriate size lots many others would be willing to market such goods.

Sale to the original manufacturer has no special virtues in and of itself. In many instances, disposal to the manufacturing level in preference to disposal to wholesalers or retailers may well be selected on the basis of greater ease of sale, larger net return to the Government and the establishment of sound relationships with the normal channels of trade. Where disposal to the manufacturer has clear-cut advantages in these terms, goods should be offered to all competitive firms at that level, rather than to the original manufacturer only. The lion's share of war procurement contracts went to the larger concerns. Certainly, a special effort to maintain this economic imbalance through rigid insistence on disposal where possible to the original manufacturer should not be one of the objectives of the Office of Surplus Property.

Mr. E. L. Ulrich, former head of the Treasury Department's disposal division stated that the policy of the agency was to select the level or levels of distribution that afforded, among other things, "greatest protection of trade-mark value for the manufacturer." The Government has responsibility for the disposal of its surpluses in an orderly fashion so as to avoid dislocations of the economy, and, in that sense, for the protection of all manufacturers, their distributors and their workers. However, in the purchase of trade-marked consumer goods from manufacturers, the Government accepted no obligation to protect these trade-marks. The goods are now the sole property of the Government and can be disposed of legally and morally as it sees fit. It is far beyond the obligations of government to accept responsibility for maintaining any individual manufacturer's competitive position in the trade community.

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 rest of material from the war program, the residue from shifting Army camps and, to some extent, the surpluses from World War I issued from their end, to some extent, the surpluses from World War I issued from their end, to some extent, the surpluses from World War I issued from their end.

SMALL MISCELLANEOUS LOTS

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 will continue to be a part of the function of Treasury disposal and it will probably do well to perfect a sales technique to handle this type of goods. In some instances even an auction sale was unjustified by the size of the lot of mixed goods and the agency has resorted to informal sales; such methods may continue to be necessary.

GOODS REQUIRING ALTERATION AND RENOVATION

In other cases, the Treasury Department may receive large quantities of goods requiring alteration or renovation prior to sale. For example, the agency might receive photographic film which is over-age and unsatisfactory for use except after reprocessing.

In such instances, the original manufacturer or renovator and the goods may position to carry on such alteration or renovation and the goods may accordingly be offered to him ahead of all others. However, any such justification of sale to the original manufacturer needs two important qualifications: (1) The services to be performed by the original manufacturer can frequently be carried out by some of his manufacturing

competitors; (2) the conversion or alteration of goods by the manufacturer may be performed on a contractual basis for a fee without 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.

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 recently received a quantity of tent-pole attachments which were converted by a manufacturer into children's swings. Ingenuity will be needed in many such instances to find profitable uses for much of the surplus goods. Every effort should be made to find a user who will take advantage of the labor 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 considerable 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 in any event, the Treasury Department can ill afford to inquire too extensively 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 those 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 experimentation by any of the agencies of the possibility of the surplus property involved, and how hard it is to get rid of things like gas masks and whitewash and kerosene and stove pipes, should be a bar to giving the most widespread distribution of the things the people need.

Nor is the existence of goods for which there is no known market a basis for the widespread use of private negotiated sales. Widespread advertisement is essential to bring forth the energies of the businessman able to create a market where none existed before and the ingenuity of the manufacturer who can convert unusable goods into goods for which there is a market. Such goods should be widely advertised and should be available in small lots even though large-lot disposal may sometimes be justified.

More than one-fourth of the surplus property currently received by Treasury is in the form of military goods of no known civilian use. To make these goods marketable, civilian utility must be discovered or invented through adaptation or conversion. While the agency must rely in large part on the enterprise of buyers to find uses for these goods, the aggregate of this type of property is too significant to rest on so uncertain an outlet. In view of the large quantity of this property, extensive research to discover civilian uses for it should

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 uses for surplus 30-inch guns. A considerable part of our billions of dollars of surplus will have to go as scrap. Thus far there has been little difficulty in disposing of the scrap that became available to the Treasury Department. The disposal of goods for which there is no civilian use and which are valuable only as scrap will present a major problem of control when the deluge of surpluses commences.

IV. THE SURPLUS PROPERTY 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. Treasury disposal officials were understandably impressed with the magnitude of the job they were tackling and a great deal of emphasis was placed on speed of disposal without primary regard to other objectives. However, through November 1944 the Treasury Department received, roughly, \$125,000,000 worth of goods and disposed of \$30,000,000 worth. There is a question, therefore, whether this emphasis on speed of disposal actually achieved its limited objective.

Lacking any general agreement on objectives and policies, too often the highest price obtainable became the determining factor in the selection of the purchaser of a particular lot of goods. As Mr. Gregory Silvermaster, Chief of the Research Division, so pertinently pointed out, pricing policies should be a 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 act, Mr. E. J. Olrich assailed the act and its objectives, a step which could only have added to the uncertainty respecting objectives among those charged with selling surpluses. Fortunately, his view is not shared by his successor, Mr. J. W. Pehle, Assistant to the Secretary of the Treasury in charge of Treasury's disposal division. Mr. Pehle assumed office in December 1944 a few days prior to your subcommittee's hearings.

In his testimony before the committee, Mr. Pehle said:

I find myself in complete accord with the underlying philosophy of the act—particularly the need to strengthen our system of free enterprise by preserving and expanding the participation of small business in our economy—and I realize the necessity for prompt and effective implementation of this objective. . . . It has been clear from my study of our current operations and from these hearings that our disposal program must be amended to bring it closer in line with the legislative provisions. . . . We hope that our program will be an important link in the chain of events which will bring us closer to an era of full peacetime production and 60,000,000 jobs.

In this respect, one of Mr. Pehle's first acts was to issue Surplus Property Letter No. 35, containing instructions to regional directors implementing to the extent possible at that time the small-business provisions of the act. Through such an approach to the act, Mr. Pehle should overcome many of the administrative difficulties which have seemed insuperable to his predecessor.

Sections of the act which have come under especially heavy fire from some sectors are those dealing with priorities to governmental units, veterans, small business, and with the role of the Smaller War Plants Corporation.¹ Mr. Mason Britton, Administrator of Surplus Property, has taken the position that disposal operating under such priorities must inevitably be a slow process, leaving surpluses overhanging the market. The provisions respecting preferences to State and local governments, to the Smaller War Plants Corporation, and to small-lot buyers were not contained in S. 2065 as drafted by your subcommittee, or in the Senate version which was finally adopted. However, an approach which fully accepts the objectives of the act can go far to remove the difficulties which apparently flow from a priority system of disposal. Each of the groups mentioned above constitute tremendous outlets for surplus property which will have to be fully utilized if we are to handle the expected future volume of surpluses.

DISPOSAL TO GOVERNMENTAL UNITS

Your subcommittee's investigation revealed no systematic method for determining the requirements for surplus within the Federal Government itself. Certainly a systematic procedure for screening Government contracts for the procurement of additional goods against surplus inventories is a reasonable requirement and one that need not unduly slow down disposal.

Similarly, your subcommittee found no evidence that any procedure had been established to get a coordinated statement of the requirements of State and local governments. The demands of these governmental units are certain to be large. Your subcommittee feels that the priority awarded them would no longer appear as an obstacle to disposal if steps were taken to make sure that this market was fully utilized.

It would seem clear the Surplus Property Board and the Treasury Department cannot grant priorities to each of the tens of thousands of State and local governmental units without hopelessly encumbering disposal. Several proposals have been advanced for the feasible operation of this section of the act: for example, the United States Conference of Mayors which calls for an agency of the Surplus Property Board in each State to program, centralize, and coordinate purchases of surplus property by tax-supported institutions and local governments.

Your subcommittee is of the opinion that in the drafting of regulations to effectuate this section, the Surplus Property Board should be guided by the following considerations:

1. The Board and the disposal agencies should deal with only a limited number of central agencies which would combine the requirements and purchases of the thousands of individual units;
2. Since the State and local governmental units enjoy the rights of priority, they should share the responsibility with the Surplus

¹ A summary of the objectives of the Surplus Property Act is presented in Appendix C.

Property Board for the establishment and maintenance of such central purchasing agencies;

2. The Board might require by regulation that the priorities granted State and local governmental units be exercised only through such centralized agencies;

4. In the interest of the general disposal objectives, the Board might well place a time limit upon the exercise of such priorities.

If there were a limited number of such agencies who could be reached by the Treasury Department with its lists of available surpluses, these State and local governments and other tax-supported entities could undoubtedly furnish an outlet for a large portion of the surplus property available. Viewed in this way, the priority provision would appear to be no insuperable obstacle to rapid disposal and could be a means of assuring 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 effect an orderly demobilization of veterans such as that provided in the Reconstruction and Demobilization Act, nor to afford them the benefits agreed upon 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 surpluses. 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 for guaranty 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 effective operation, it will doubtless be extremely difficult for the Surplus Property Board and the Treasury Department to set up regulations which will give veterans the genuine preference which Congress intended for them. A feasible program of surplus disposal to veterans entering their own enterprises can only be formulated by working in the closest cooperation with the agencies responsible for the veterans' welfare. In order to discharge their own disposal responsibilities, the Surplus Property Board and Treasury disposal may have to prod 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 reconciling their practices with the protection afforded small business in the act. The measures necessary to move surpluses to the consumer rapidly are those which would also render unnecessary any obstructive use of the small business preferences. Small-lot disposal, widespread advertising, ready access to usual commercial credit, and the other measures recommended in this report will build sound 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 extensively unless the measures designed to afford 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 our purchasing for resale, or otherwise interfering with the disposal process, after discussion with the disposal agencies.

Thus, while the Treasury Department should not need to fear the encumbering 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. Pehle assumed office. We may therefore expect that the necessary administrative ties, such as ample notice to S. W. P. C. of available surpluses, will soon be firmly established.

ESTIMATING THE JOB AHEAD

The formation of the policies to be followed in the disposal of surplus consumer goods in the future depends upon some foreknowledge of the nature and quantity of goods to be declared surplus. Unless the Treasury officials have some notion of the number of shoes 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 choice as to the means of disposing of it.

Up to the present time the Treasury Department has had no effective liaison with the owning agencies which would enable them to determine the extent of surpluses. In spite of this difficulty the research division has been conducting studies of particular commodities involving the extent of likely potential surpluses, and the probable market situation for the particular commodities.

Dr. Gregory Silvermaster, Director of the Research Division, cited the case of surgical instruments where they found that the surplus might represent as much as 2 years of normal production. This clearly calls 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. Silvermaster indicated, on a "piecemeal basis."

Immediate cooperative study of the probable volume of surpluses should be instituted between the disposal and owning 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 estimates derived from it would be subject to constant revision. However, these variations need not render the study useless.

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 or variations 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, businesslike 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 NOW?

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 preferred 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 arrows pointing to major snafus for disposal. The biggest obstacle to a rapid solution of the pressing problems facing the Board is the outworn attitude that finds itself hamstrung by a statement of public objectives and laments 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 must of necessity be ill considered and, in part at least, based on speculation.

In the opinion of your subcommittee, the Surplus Property Board and the Treasury Department will find it possible to adjust their procedures to meet these objectives. We feel sure that they may act in the certainty that Congress will recognize the need for a flexible approach in 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 Treasury Department, no such proof has been offered to your subcommittee.

* A detailed discussion of this point will be given in appendix B.

APPENDICES

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 survey and public hearings from December 12 to 15.

The reports showing acquisition, reappraisal, classification, disposition, and inventory accumulation of property for the period May 31 to October 31, supplied the primary evidence for staff analysis of the character and the quantities of goods becoming surplus and the record of their disposition. Dispositions that were by sale were further pursued through reports on sales on all lots of goods in excess of \$10,000 appraised value, between the dates of July 1 and October 31 of last year in the regions of New York, Atlanta, Fort Worth, Cincinnati, Seattle, and the District of Columbia. These are 6 of the 11 field offices maintained by the Treasury Department. Information on a selected number of the sales reported was amplified through additional reports, through conference, and through testimony in open hearing.

In conference and at public hearings, officers of the agency discussed organization, objectives, and policies and their implementation, methods, practices, and problems. Representatives of the principal owning 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 pooling 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 reports, as explained in the subcommittee at the hearings and in subsequent conferences, is as follows: Each regional director lists those items of the goods coming under his jurisdiction which he is unable to sell or which he feels are beyond the capacity of his region to absorb. The limitation is reported to the central office by commodity classification, two classes of commodities being reported each week. In this order each of the eight classifications in which consumer goods are divided for merchandising purposes, are reported once a month. These reports are

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 distributed by each regional office, chiefly by mail, to a list of buyers interested in the type of commodities represented.

The Reporter lists for each lot of goods, the item number, the quantity, the common designation of the item, its condition, a brief description and the sales method to be employed in disposal. The publication also fixes a date (usually about 2 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. P. Shlesinger of the Washington, D. C., region, estimates that for the last four issues of the Reporter approximately 48 percent of his 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 50 percent of surplus property, exclusive of these special classes, is used goods, it would appear on the basis of Mr. Shlesinger's estimate, that goods salable to regular trade within a region receive reasonably full publicity. It is not a practice among regional salesmen to advertise used goods in the Reporter. These, we are told, are usually sold at auction or by other forms of bidding, publicity 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 its 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 "frozen" 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 category 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 circulation, increase particularly the information available to small business. However, it remains an imperfect device of limited usefulness. 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 88 separate reports each month. Of course, in practice this should not occur often for most buyers are interested in only a limited selection of commodities. But even for the average purchaser, the number complicates their use. Furthermore, its offerings may at any time before date of sale be withdrawn for transfer to a Federal agency or for sale to a State agency. This injects an element of unreliability in the report from the regions and is discouraging to private trade. Too, there is no specification as to the distributive level 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 annoyance to buyers, regional directors are liable to restrict unwholesomely the distribution of the Reporter. The publication is scant, 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 10 weeks. Mr. Duncan has advised the subcommittee. Initially, 3 weeks are required for inventorying and inspecting the declared property; 1 to 4 weeks for reporting that portion which is listed for wider advertisement, approximately 10 days consumed in preparing the Reporter for publication and a 15-day interval is allowed for circulation before initiating sales. This, of course, would enforce slow movement for any goods in acute demand. However, the central office has other resources 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 to 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 heard 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 medium is a matter that will warrant continued study and experimentation by the agency and in this connection 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 in preparing large directories. Indeed, one such firm, we are advised, prepared a catalog following the last war for the agency then commissioned to dispose of surplus property. At best, the Surplus Reporter must be considered a creature of the sellers market and a tadpole of transition.

APPENDIX C

OBJECTIVES OF THE SURPLUS PROPERTY ACT (PUBLIC LAW 427)

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 so contradictory as to render the act unworkable. The disposition of many billions of dollars of surplus property is certain to have a profound and varied impact on the economy. Congressional objectives to guide the sale of such property are bound to contain conflicts which can only be resolved by sound administrative judgment.

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 repetitions. Furthermore, many of these objectives apply more directly to the disposal of land, plants, equipment, and industrial raw materials than to the consumer goods handled by the Treasury Department. Foreign disposal is not handled by the Treasury Department.

SECTION 2. OBJECTIVES OF THE SURPLUS PROPERTY ACT GROUPED BY SUBJECT MATTER

(All matter in quotations from Public Law 437)

A. AID TO THE PROSECUTION OF THE WAR

"(a) To assure the most effective use of such property for war purposes and the national defense."

B. RECONVERSION WITHOUT MAJOR DISLOCATIONS IN THE DOMESTIC ECONOMY

"(b) To facilitate the transition of enterprises from wartime to peacetime production and of individuals from wartime to peacetime employment."

"(c) To encourage and foster post-war employment opportunities."

"(d) To avoid dislocations of the domestic economy."

"(e) To achieve the prompt and full utilization of surplus property at fair prices to the consumer through disposal at home, and to guard against the protection of free markets and competitive prices from dislocation resulting from unrestricted dumping."

"(f) To dispose of surplus property as promptly as feasible without unduly disturbing the economy, or encouraging hoarding of such property, and to facilitate prompt redistribution of such property to consumers."

"(g) To promote production, employment of labor, and utilization of the productive capacity and the natural and agricultural resources of the country."

C. ENCOURAGEMENT TO SMALL AND INDEPENDENT ENTERPRISES

(Objectives under A, B, and C contribute to this)

"(h) To give maximum aid in the reestablishment of a peacetime economy of free, independent, private enterprise, the development of the maximum of independent operators in trade, industry, and agriculture, and to stimulate full employment."

"(i) To discourage monopolistic practices and to strengthen and preserve the competitive position of small business concerns in an economy of free enterprise."

"(j) To foster the development of new independent enterprises."

"(k) To dispose of surplus property as promptly as feasible without fostering monopoly or restraint of trade."

"(l) To effect broad and equitable distribution of surplus property."

"(m) To prevent undue and excessive profits being made out of surplus property."

"(n) To afford returning veterans an opportunity to establish themselves as proprietors of agricultural, business, and professional enterprises."

"(o) To effect broad and equitable distribution of surplus property."

"(p) To prevent undue and excessive profits being made out of surplus property."

"(q) To effect broad and equitable distribution of surplus property."

"(r) To effect broad and equitable distribution of surplus property."

"(s) To effect broad and equitable distribution of surplus property."

"(t) To effect broad and equitable distribution of surplus property."

"(u) To effect broad and equitable distribution of surplus property."

"(v) To effect broad and equitable distribution of surplus property."

"(w) To effect broad and equitable distribution of surplus property."

"(x) To effect broad and equitable distribution of surplus property."

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"(bc) To effect broad and equitable distribution of surplus property."

"(bd) To effect broad and equitable distribution of surplus property."

4. FOREIGN RELATIONS AND EXPANDED FOREIGN TRADE

"(i) To establish and develop foreign markets and promote mutually advantageous economic relations between the United States and other countries by orderly disposition of surplus property in other countries."

"(j) To avoid dislocations of international economic relations."

"(k) To achieve the prompt and full utilization of surplus property at fair prices to the consumer through disposal at home and abroad with due regard for the protection of free markets and competitive prices from dislocation resulting from unrestricted dumping."

5. TRANSPORTATION

"(l) To dispose of surplus Government-owned transportation facilities and equipment in such manner as to promote an adequate and economical national transportation system."

6. SETTERS TO THE GOVERNMENT

"(m) Except as otherwise provided, to obtain for the Government, as nearly as possible, the fair value of surplus property upon its disposition."

APPENDIX D

INVENTORIES AND ESTIMATES OF FUTURE SURPLUSES

The disposal of surplus consumer goods in accordance with the objectives of the act requires accurate knowledge of type and volume of goods to be declared surplus well 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 surpluses 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 surpluses.

Because of the importance of this problem for the development of sound disposal, the excellent summary presented at your subcommittee's hearings by Gregory Silvermaster, Chief of the Research Division, Office of Surplus Property, Treasury Department, is repeated here:

One of the most troublesome problems which was faced by disposal officials after the last war was that of getting the owning agencies to declare a surplus. For many years after the war, the Army and Navy were reluctant to declare property as surplus. It should be pointed out, however, that the fact did not return rest with them. The delay to fix the size of the regular standing Army made it somewhat difficult for the Army and Navy to determine what was surplus to their needs, to estimate their normal needs.

From this source of difficulty several additional problems arose. The disposal officials originally overestimated the size of the surplus to become available. Plans were, therefore, developed to sell considerable stocks ahead of time despite the fact that there was a general scarcity of goods in the domestic markets. This policy was disavowed under the circumstances and it was, therefore, reversed when more reliable information as to the size of the surplus became available.

To add to this difficulty, the inventory records of the surplus inadequately described the properties which were made available to the disposal agency. The problems involved in selling the surplus under these conditions are obvious and need not be dwelt upon at this time. This source of difficulty was never solved to the complete satisfaction of the disposing officials.

This aspect of the general problem of the declaration of surplus will probably not cause the disposal agencies such difficulty, since section 11 of the act clearly states that owning agencies will provide the Board with information as to surplus property in such form and at such reasonable time as the Board may direct.

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, an accounting of 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.

In the event 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 national interest. We are confident, however, that the owning agencies are well aware of this aspect of the problem and will not, as after the last war, declare property as surplus in a piecemeal and halting fashion.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE Mar. 19, 1945

TO: Secretary Morgenthau
 FROM: Mr. Hays
 Subject: The Business Situation,
 Week ending March 17, 1945.

Summary

Civilian supplies: In the face of some resurgence of concern over reconversion problems, the immediate outlook for civilian goods supplies becomes less promising as heavy military demands cause a further tightening in the materials supply situation. Shortages of such important foods as meat, butter, lard and sugar, due in part to increased military and foreign relief demands, have caused the formation of an export control committee to safeguard essential domestic needs.

Stock market: Trading activity on the New York Stock Exchange dropped sharply last week but stock prices strengthened following the previous week's decline. Featured by a sharp rise in Atlantic Coast Line, the Dow-Jones average of railroad stock prices rose fractionally above the previous 1945 high. Likewise, the Dow-Jones average of second-grade railroad bonds advanced to a new high for the year.

Commodity prices: The dominant feature of the commodity markets last week was the continued firmness of spot prices. In the week ended March 10 the BLS all-commodity index rose 0.1 percent to reach a new wartime high.

Farm real estate: Farm land values have continued their upward trend in the four months ending March 1, although at a somewhat slower pace than during the corresponding period of last year. The index of farm real estate values rose 5 percent in the latest period, and is now 50 percent above the pre-war March 1939 level. The volume of sales appears to have slackened to some extent but there are indications of a slight increase in speculative activity.

Retail trade: Department store sales in the week ended March 10 rose 28 percent above year-earlier levels, although part of the sales gain is attributable to this year's earlier Easter. On the basis of present indications dollar sales totals during the current Easter shopping period will reach a record high.

- 2 -

Materials 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 put a steady pressure on allocations of materials for a steadily widening list of civilian goods. In addition to previous 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 mill activities, have improved the operating outlook in the steel industry, although manpower shortages and the heavy backlog of orders continues to present a formidable challenge. Release of actual production figures for February reveals that steel ingot production during the month averaged only 90.9 percent of capacity and was 530,000 tons, or 7 percent, 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

- 3 -

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 the existence of ice blockades which are said to be heavier at 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 tended to squeeze 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 56 percent below that of last year. Cold storage stocks of meat on March 1 were the lowest on record, and WFA 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 12 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 as fairly as possible.

Meanwhile the reduced hog slaughtering has decreased lard production, one of the principal sources of our domestic fat 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 begun two months earlier this year than last and will be increased from 25 percent in March to 40 percent in April and 55 percent in May, according to a WFA 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. This committee is headed by FEA Administrator Leo Crowley and is composed of representatives of the Army, Navy, War Shipping Administration, State Department, WPB and WFA. 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 the battle, without first receiving the approval of this export committee. Although the establishment of the 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 WFA, 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 over-all munitions production will amount to between 5 and 10 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 appeared in the press this morning but apparently were not released officially. Further details will be made available to us sometime this week after the preliminary work has been completed.

For some time, the WPB has had little to say publicly concerning reconversion plans. Chairman Krug asserted last week, however, that the WPB has been working hard on the problem and that reconversion plans have been evolved which are better and more flexible than those developed last summer.

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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 Vickery 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 WPS 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 50 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 L & N collateral trust bond issue. The stock, amounting to 369,973 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 HLS index of 28 basic commodities was up a trifle.

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During the past month basic commodity prices have shown little movement, with most prices firm at the OPA ceilings. Only one commodity in the basic index has shown any noticeable change, steers, the price of which rose 3 percent (see Chart 3, lower section) -- and even this commodity has been steady during the past few weeks.

The HLS 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 3, 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 105.1 percent of the 1926 average, which is 1.6 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 23 points below that of a year ago. Cooler occupancy on March 1 was 68 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 1.)

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 18,653,000 bushels, which is more than 4 million bushels (28 percent) larger than the 1940-44 average for that date. (See Chart 4.)

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The above-average stocks, however, are concentrated in the eastern states. Stocks in Virginia, for example, were 53 percent above the 1940-44 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 1, 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 inconsequential 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 8,400,000 persons, which is 150,000 less than a year ago and the lowest for the month during the 21 years of record. The number of family workers, 6,900,000, was almost the same as last year, but the number of hired hands, 1,500,000, was 6.5 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 9 percent in the earlier period. At 126 percent of the 1912-14 average, the index is 50 percent above the pre-war level of March 1939. The total number of voluntary

- 8 -

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 52 percent in 1943.

Although the average down payment on mortgage-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 5.) 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 5.)

Department store sales show wide gains

Following last month's heavy sales, which pushed the FRB adjusted index of department store sales to a new high of 211 (1935-39=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 19 percent in the previous week. (See Chart 7.) 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 13 metropolitan centers, that stores all over the country are showing their biggest pre-Easter sales on record.

Table I

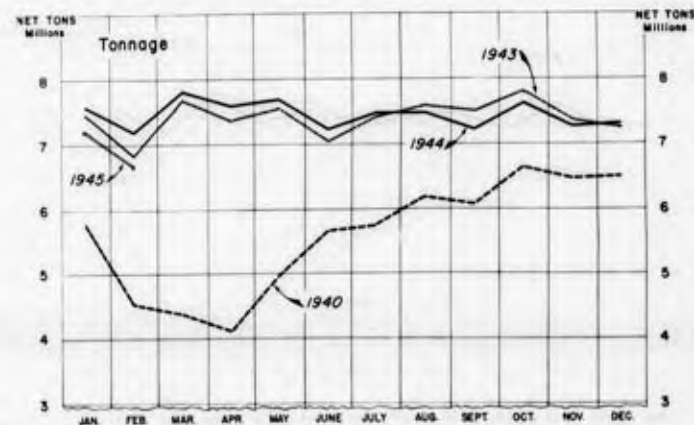
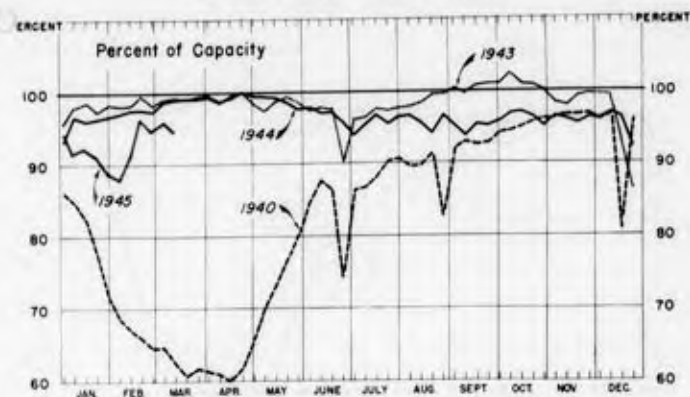
Gold storage stocks of selected items March 1, 1945
compared with February 1, 1945 and March 1, 1944

Item	Percentage change	
	March 1, 1945 over February 1, 1945	March 1, 1945 over March 1, 1944
Frozen fruit and vegetables:		
Fruit	-10	+ 17
Vegetables	-15	- 19
Meats and lard:		
Beef	+14	- 53
Pork	- 9	- 53
All meats	- 4	- 53
Lard and rendered pork fat	-16	- 81
Dairy and poultry products:		
Butter	-20	- 71
Cheese	- 5	- 26
Eggs, total	+ 1	+ 43
Shell	+77	- 74
Frozen	-14	- 13
Dried	+ 3	+ 17
Frozen poultry	-15	- 17

Source: War Food Administration.

STEEL INGOT PRODUCTION

Chart 1



Source: American Iron and Steel Institute

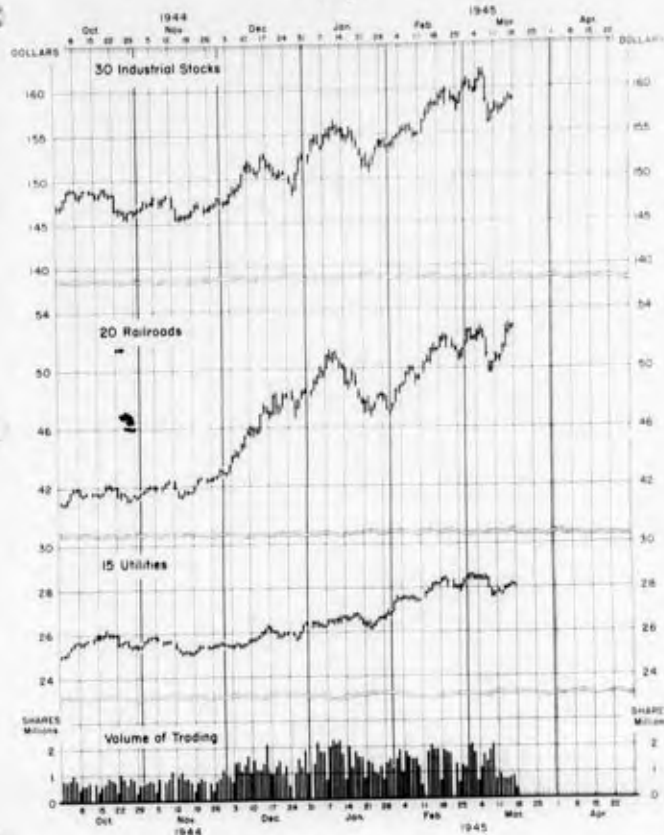
Office of the Secretary of the Treasury
Division of Research and Statistics

C-538-A

Chart 2

STOCK PRICES, DOW-JONES AVERAGES

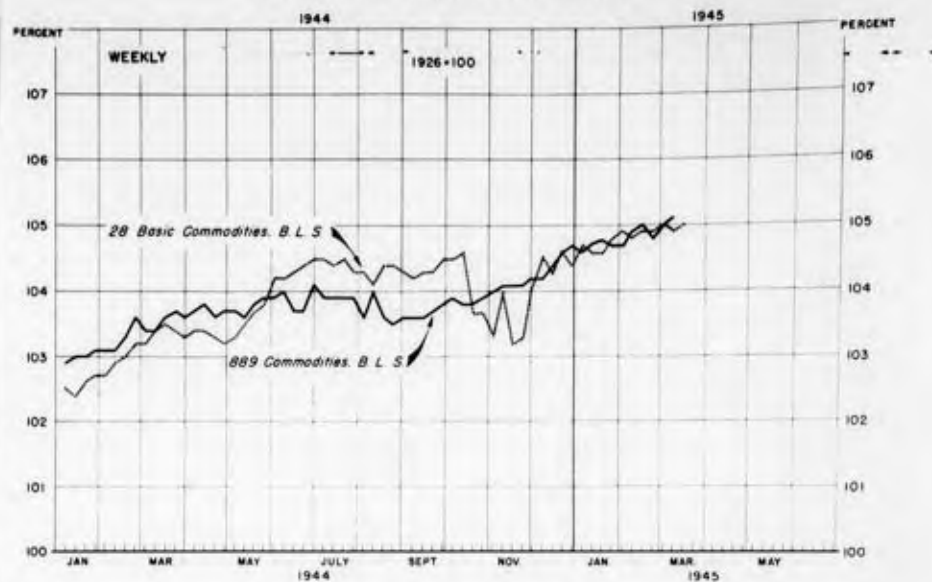
Daily



Office of the Secretary of the Treasury
Bureau of Economic Warfare

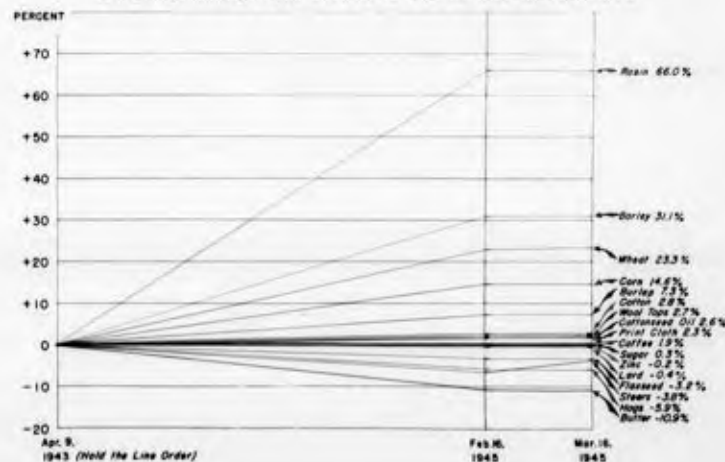
11-11-45

WHOLESALE COMMODITY PRICES



SELECTED BASIC COMMODITIES

Percentage Change April 9, 1943 to Feb. 16 and Mar. 16, 1945



Office of the Secretary of the Treasury
Bureau of Economic Warfare

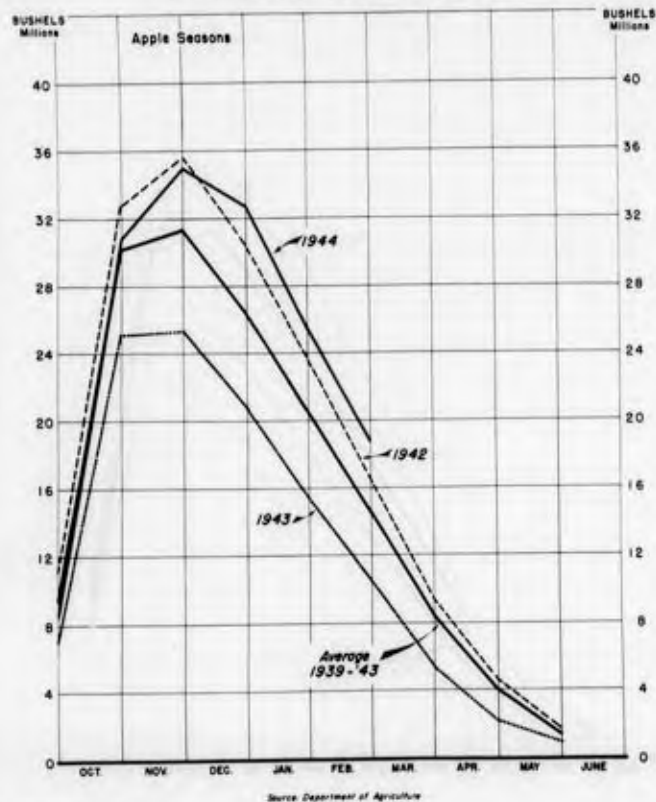
P-282-B
Chart 3

Regraded Unclassified

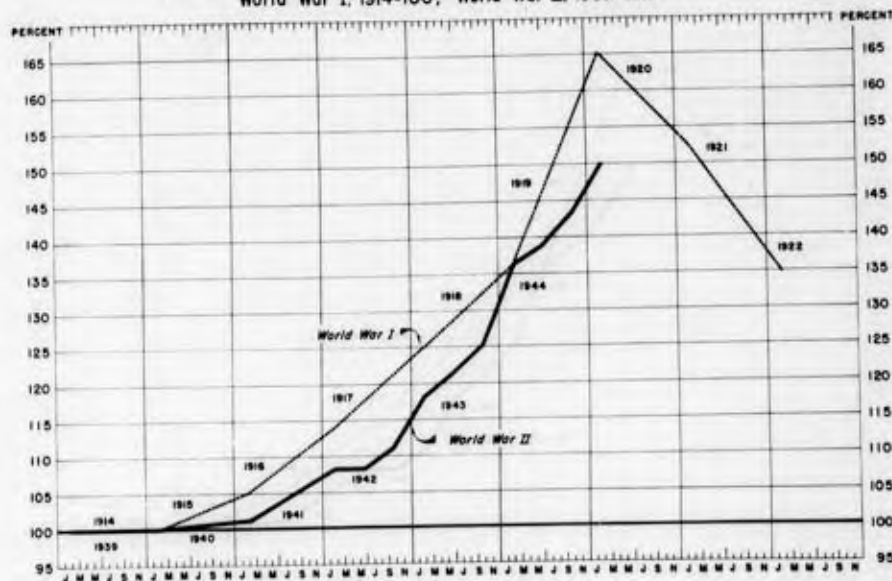
Chart 4

COLD STORAGE HOLDINGS OF APPLES

On 1st of Month, 1939-'43 Average, and 1942-'44

Office of the Secretary of the Treasury
Bureau of Research and Statistics

C-609

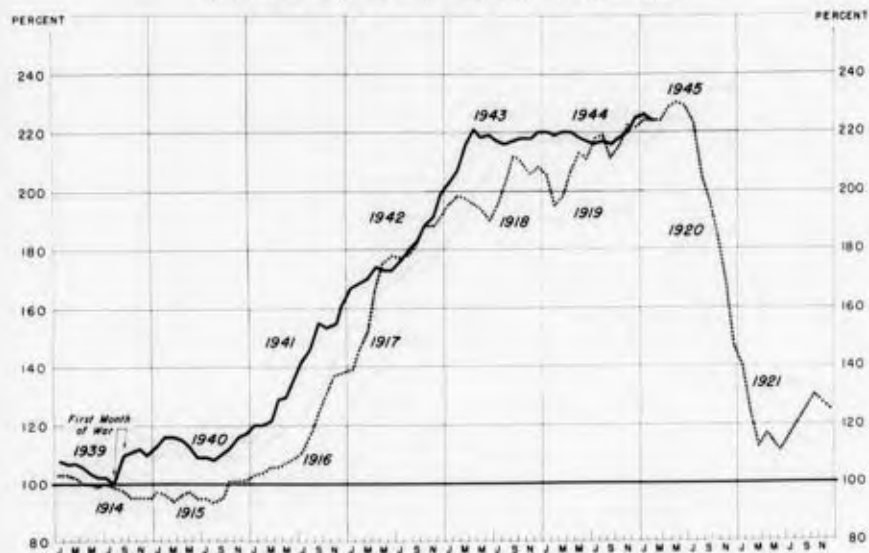
FARM REAL ESTATE VALUES IN TWO WORLD WARS
World War I, 1914=100; World War II, 1939=100Office of the Secretary of the Treasury
Bureau of Research and Statistics

C-615

Chart 5
304

FARM PRICES, 1939 TO DATE COMPARED WITH 1914 TO 1921

July 1914 = 100 World War Period; Aug. 1939 = 100 Present Period

Office of the Secretary of the Treasury
Division of Research and Statistics

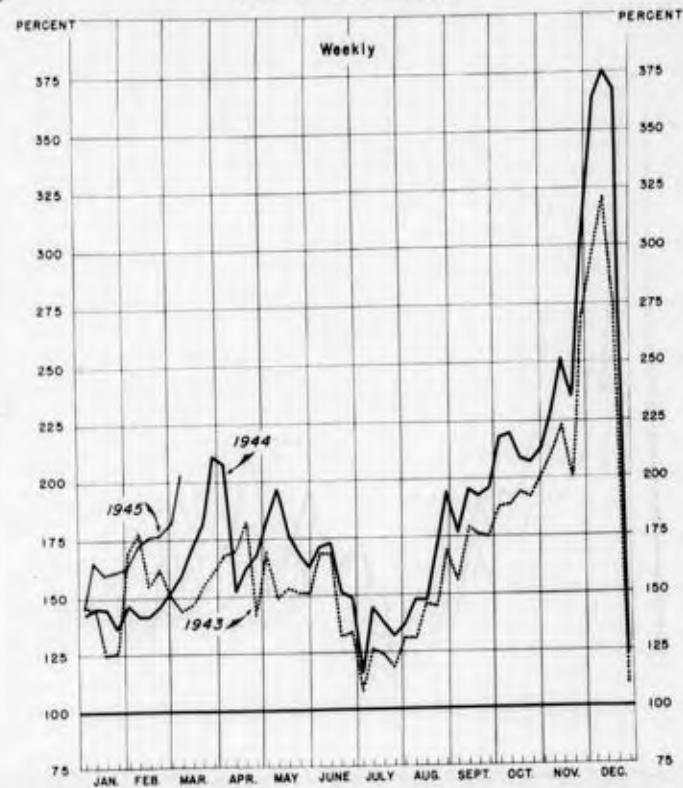
P-271

Chart 6

Chart 7 306

DEPARTMENT STORE SALES

1935-'39 = 100, Unadjusted

Office of the Secretary of the Treasury
Division of Research and Statistics

G-390-D

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3/18/45

Commissioner Nunan
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

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March 19, 1945.

MEMORANDUM FOR THE SECRETARY:

You ask, in your memorandum of March 19, whether we can or cannot discontinue the breaking of liquor bottles.

Early in 1934, the Treasury Department sponsored legislation designed to control the use and reuse of liquor bottles, which legislation was enacted into law on June 18, 1934. (Now Section 2871, Internal Revenue Code.) Regulations were immediately issued to carry this statute into effect. Section 175.42 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 empties 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 emptied 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 31, 1943, these regulations were amended (T. D. 5292) to permit either such assembling for destruction, or assembling for delivery for reuse to the bottler or importer entitled to package spirits in such bottles.

Section 175.42 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 empties the contents thereof, or the bottler or the importer as authorized under section 175.15, is prohibited: PROVIDED, THAT this shall not prevent

309

Memorandum for the Secretary.

Page two.

"the owner or occupant of any premises upon which such bottles or containers may lawfully be captioned 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 175.15."

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. Numan, Jr.

Commissioner.

310

3/19/45

Mr. White
Mr. O'Connell
Mr. Luford
Secretary Morgenthau

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.

311

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 Stodghill 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 secure 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. Morgenthau, Jr.

Major Robert McLean
President
The Philadelphia Bulletin
Philadelphia, Pennsylvania

SG1:cb:msk

(PB)

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MAR 19 1945

Dear Mr. Heffsiger:

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. Morgenthau, Jr.

Mr. W. D. Heffsiger
Vice President
Minneapolis Civic & Commerce Assn.
609 Second Avenue
Minneapolis, Minnesota

SG1:rmf

313
March 19, 1945

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) W. M. Mungenthal, Jr.

Mr. John Cowles
President
Minneapolis Star Journal & Tribune
Minneapolis, Minnesota

SCL:raf

314

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) Henry

Honorable William L. Clayton,
Assistant Secretary of State,
Washington, D. C.

AFL:mr - 3/19/45

March 19, 1945

Dear Nathan:

Many thanks for sending me a copy of Frank Kingdon's broadcast. This is one of the very best that has been made in behalf of Bretton Woods 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 Straus,
Station WJCA,
1657 Broadway,
New York 19, New York.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE 3/19/45

TO Mrs. Klotz
FROM Secretary Morgenthau

Nathan Straus sent me a broadcast from Frank Kingdon. I didn't bring it home with me and I would like to read it. I also would like to suggest that he be invited to our luncheon on Wednesday. He is an excellent commentator and should be invited. *Feltus has already invited this man.*

Dear Henry,
 Thank you very much for the
 information.

NATHAN NERACH

Reading this. Just think of
 the money it is.

Frank Lindgren - WGA - March 13 1946

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 World 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 committee 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. What is now 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 peoples 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, Russian bonds, Cuban bonds, bonds of the silver

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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 and banking got their pay-off. The man who lost was the ~~investor~~ 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 net of financial loss 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 \$ billion dollars. We, as the richest nation with most of the gold of the world in our possession, would provide 3 billions of the \$, and all other nations would provide in proportion to their ability. This means that all the member 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 loans, rather than having one country do all the lending and run the risk of having to take all the losses all countries would share.

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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 bonds issued in any country to finance constructive enterprises in another which private lenders might not want to finance. Loans will be investigated by competent committees, 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 have seen 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 do not much care where they hit as long as they hit it somewhere. But what is the World Monetary Fund which they are now attacking? It also is to have resources of something like 2 billion dollars of which the United States will subscribe 2 billions. Its primary purpose is to stabilize all international currencies. What this means is that if we agree that a British pound shall be worth four dollars and a half, or a French franc worth 25 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

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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

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his life to put across the idea that this nation pay off its loans ^{from} to foreign creditors before it negotiate for new foreign loans, and one of the chief arguments against him was that his proposal was unsound and unrepresented. Andrew Jackson's liveliest fight was against the United States Bank which then controlled our financial destinies, and his enemies said that he was leading us irresponsibly toward unblazed and dangerous paths. Woodrow Wilson and Carter Glass were denounced by every banking association in the country when they proposed the Federal Reserve System, which its opponents called revolutionary 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 Lumberton Oaks is to succeed. One plan that the American Bankers Association 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. One move in that direction is to complete the organization of ^{a permanent} ~~experimental~~ United Nations at San Francisco. 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 ~~smooth and firm~~ ^{smooth and firm} understanding about money. Without confidence, we face chaos.

MAR 19 1945

Dear Mr. Hannegan:

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 in this letter 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 post-war 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.

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I have tried to indicate to you how the Bretton 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.

RB:ec 3/19/45

DEMOCRATIC NATIONAL COMMITTEE

MAYFLOWER HOTEL

WASHINGTON

SQUE 2

ROBERT E. HANNEGAN
CHAIRMAN

March 15, 1945

Honorable Henry Morgenthau, Jr.
Secretary of the Treasury
Treasury Department
Washington, 25, 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,

Robert E. Hannegan

Encl.

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ROOSEVELT TRUMAN

HOLLYWOOD DEMOCRATIC COMMITTEE
1223 CROSS ROADS OF THE WORLD - HOLLYWOOD 28, CALIFORNIA - HOLLYWOOD 4822

March 13, 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 Bretton 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 Bretton Woods.

For this reason may we urge that you take this up with Mr. Morgenthau and any other sources 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


George Pepper
EXECUTIVE SECRETARY

GP:el

OFFICERS: • • • CHAIRMAN: MARC CONNELLY • VICE-CHAIRMAN: JOHN CROWWELL, GENE KELLY, E. K. HARRIDGE • SECRETARY: MARGAL CRITCHER • TREASURER: ALBERT DORRIS

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EXECUTIVE SECRETARY—GEORGE PEPPER

The motion picture industry faces a serious problem in connection with the sale of American motion pictures in Great Britain. The problem arises for the most part out of England's shortage of dollar exchange, and the necessity the British face for restricting imports of any commodity for which they cannot show a comparable export.

American motion picture companies face restrictions on the transfer of funds earned in Great Britain. They face quota limitations on the number of pictures which may be sold in Great Britain. Plans are also under consideration in Great Britain for the curtailment of the amount of money an American motion picture company can earn in the British Isles.

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 Bretton Woods 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 Bretton Woods agreements is to begin with a discussion of the British problem with the purpose of demonstrating how a plan like Bretton Woods might operate to the long-run advantage of the American companies.

Treasury Department
Division of Monetary Relations 29

Date March 19, 1945

To: Secretary Morgenthau

This is the letter from Adler
about which Coe spoke to you.

M.D.W.

MR. WHITE
Branch 2088 - Room 214-1/2

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1 Strictly Confidential
Letter IV

American Embassy
Chungking
February 12, 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.

I. 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

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more intransigent 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 may continue, which is a clear indication of how much they expect from the negotiations at the moment.

There are several points worth making about the recent negotiations:

1. Hurley's contribution has been a major fiasco and blow 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 badly bungled 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 no

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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 Davies), 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 Wedemeyer 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 tilts with the State Department on a few simple routine matters.

(The following story presumably 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 scouting 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 unwonted 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.

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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 may 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 when he sees the Secretary and people who share the Secretary's outlook tell them that the Kuomintang is no good and that the Chinese Communists are real democrats. 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 guess, and he may be more constant in Washington than he has been here. But his instructions to the Embassy staff and the staffs of other Government agencies are the best refutation of such double talk.

With respect to the attitudes of the different Chinese groups towards him, the Giso in a conversation, of which more anon, with some big Kuomintang mucky wucks referred to Hurley as a damned fool, while the Communists -- Jack Service tells me -- invented the contemptuous nickname of "Little Whiskers" for him. Incidentally, one of the Embassy names for him is Colonel Blimp.

2. T. V.'s role in the negotiations has definitely not been constructive. As you know, T. V. is double-faced and puts on a liberal front with Americans, but his whole influence has been thrown against reaching

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an agreement. He has led Hurley by the nose and isolated him from sound American advice. Hurley at one stage wanted to call Dr. Sun Fo, a much more genuine liberal than T. V., into the negotiations. It was T. V. who kept him out. T. V. has used to the utmost the Soong family flair for political intrigue designed to entrench its own personal position throughout the negotiations.

3. The Generalissimo is most anxious to avoid reaching a settlement. His attitude is best reflected in the talk he gave the Kuomintang bigwigs in which after launching on a long attack on the Russians and dismissing Hurley as a bone-head, he went on to assert that he had received power from Sun Yat-sen (this is a lie as Sun Yat-sen never had power; it also reveals the Generalissimo's attitude to political power as a piece of personal property) and that by God he wasn't going to share it with the Communists, or anyone else for that matter. The Generalissimo is hoping for
 - (a) A speedy defeat of Japan by American forces, preferably without the entrance of Russia into the Far Eastern war.
 - (b) Increased supplies for his armies from us via the Burma Road.
 - (c) An American landing in the part of South China which he controls such as Fukien. He also hopes to get increased supplies for his armies via this route.
 - (d) The Japanese evacuation of South and Central China as their general position deteriorates, with the possibility of the re-assertion of his control in these areas.
 From all these, he hopes to strengthen his position vis-a-vis the Communists. He knows he is too weak to wage civil war now but thinks

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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 armies when he has no little 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 his bailiwick 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, who is so weak, continue brazenly 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 fool 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

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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 Kuning 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 combatting 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 Turgot's attempted reforms. (Comparing T. V. with Turgot 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,

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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 wipeout 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 Chengtu 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.

Here 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

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a change in the direction of a coalition Government, it is futile to expect China to play any sizeable 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 cynicism bred by experience with the Kuomintang 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. Redemeyer 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.

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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 to our interest to encompass 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 itself can make in the defeat of Japan. The Russians must know not less than we that the Generalissimo is hoping for a class 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 some importance. The Generalissimo is hoping 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 Bretton Woods and Dumbarton Oaks 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

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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 it 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 bluntly, 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

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the hands of rascals like Hurley, the chances of China's making any significant contribution to the defeat of Japan or of 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 such point in remaining here. But as long as Hurley is allowed to muddle and fumble and as long as a more lively interest in our 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 in no way 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 nationalistic 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.

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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-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 combatting inflation.
- (b) We should be leery of any Chinese proposal to vest 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.

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- (c) We should be tough and tardy in making settlements for U.S. Army expenditures in China. There is no need to have too delicate a conscience on this matter, as the Chinese scuddle 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.
- (d) We should turn down Chinese requests for goods on civilian Lend-Lease for the ostensible purpose of combatting 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 memo on this subject in my last letter for a detailed analysis.)
- (e) 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 matured USG-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 Communists, in spite of Viscount Cranborne's fine statement. Sir Horace Seymour, the British Ambassador, said to Wedemeyer 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,

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American - and British - opportunities for business in China will not be very great. Fortunately, it is also true that British policy does not play an important part or exert an important influence in China, at present at any rate.

The Japanese have succeeded in cleaning up the Canton-Hankow railroad, the whole length of which they now possess. This was to be expected and comes as no surprise.

T. V. is anxious to become Minister of Finance, but the Generalissimo prefers one of his own henchmen there. Nevertheless, T. V. is taking an increasingly active part in the determination of financial policy. He has a certain ephemeral popularity at the moment, due to the belief that he has American support and to Kung's intense unpopularity.

While the Kuomintang's power is declining, the struggle among the various groups within the Kuomintang to strengthen their position in relation to each other is increasing. The Minister of Education, the Shampoa group, and the Kuomintang Youth Corps are uniting among themselves to fight the CC group, which still dominates the party apparatus and hopes to pack the 6th plenary session of the party with its representatives. The new Minister of War is also having a fierce fight with the Shampoa group, which resents the attempts he is making to reorganize the Ministry of War at its expense. The minor democratic parties have become more active, particularly among the students.

With best wishes and kindest regards,

Yours sincerely
(signed) Sol Adler

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 19, 1945

TO Secretary Morgenthau For Information

FROM Mr. Coe K

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 Fleven asks that you consider the report as personal and informal pending the completion of an official "yellow book" on the subject.

The report brings out the following significant overall figures:

Occupation levies in money.....	880 billion francs
(This is about equal to about 16 months' prewar national income)	
Permanent losses in population.....	800,000
Temporary losses in population.....	1,200,000
Buildings, wholly or partially destroyed.....	1,400,000
(927,450 in 1914-16)	
Population losing all or part of homes or other real property.....	5,000,000
(1/7 of present population)	
Property loss (buildings only).....	900 billion francs
Agricultural production in 1944.....	66% of normal
Industrial production.....	30% of 1938
Number of usable locomotives.....	25% of 1933
Number of usable freight cars.....	27% of 1933
Net mortality.....	7% increase
Infant mortality.....	14% increase
Morbidity due to diphtheria.....	300% increase
Morbidity due to typhoid.....	400% increase

A translation of the report is attached.

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TRANSLATIONMINISTRY OF FINANCES

February 15, 1945

PROCESSED

Memorandum for Mr. M. L. Hoffmann,-

Without awaiting the end of the investigations which are to produce a "Yellow Book" giving the cost of the enemy occupation in France, I am sending you herewith a series of data, in answer to the questions raised by your memorandum of November 23, 1944.

Mr. Morgenthau will kindly consider this a personal and informal communication, as the figures and estimates may possibly vary from those which will be produced by the investigation now in progress.

For the Minister
The director of the Cabinet

(signed) Galvet

Mr. Michael L. Hoffmann
U.S. Treasury Representation
United States Embassy
Paris

PROVISIONAL INFORMATION

QUESTION 1

EXPENSES OF WAR BORNE BY THE STATE
from September 1, 1939, to August 31, 1940

(in billions of Francs)

1°) 1939

a) Account of Capital investments (military expenses, of construction, equipment, provisioning, etc...)	37.6	
b) Portion of the general budget for 1939, of a military nature (balances, current maintenance)	33.	(1)

2°) 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)
	<u>159.4</u>	

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: 264)

PROVISIONAL INFORMATION 345

QUESTION 2

Estimate of the property of all kinds destroyed or damaged

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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 compares as follows with the damages of the war of
1914-1918:

	War 1914-1918:	Present war			
Number of buildings:		From September 1939 to June 1940 (1)	From July 1940 to May 1944 (2)	Since June 1944 (3)	Total
Totally destroyed	368,608	85,808	50,929	150,000	300,000
Partially destroyed (4)	559,022	317,989	228,663	550,000	1,100,000
Total	927,630	403,797	279,592	700,000	1,400,000

- (1) Campaign in France of May-June 1940.
- (2) Aerial bombardments 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.

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Granting a loss of value in 1939 of from 3 to 400,000 Frs. for each building totally destroyed and from 75 to 100,000 Frs. 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 movables.

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.

PROVISIONAL INFORMATION 350

QUESTION 3

Estimate of the total value of all property removed from France by the Germans

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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 import 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 despoiled by the Germans of all their refining apparatus (topping and cracking batteries).

2° - Lead chambers for sulphuric 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 port 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). Removals of other machinery were numerous at Matford, and the Peugeot and Sochau factories were completely removed to Germany.

5° - Machinery for the aeronautic industry :- The Germans have taken 3½ billion francs worth of this. The aeronautic industry estimates the diminution of its potential production at 30 to 35%.

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- 2 -

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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PROVISIONAL INFORMATION

QUESTION 4

The amount in currency and goods of the occupation levies of the Germans

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1° - 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 RM. 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 " " "

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 " " "

D) The French State was also required by the REICH to finance the deficit of the Franco-German clearing, that is to say, to pay against a credit in marks an advance to the German account of.....164 " " "

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 " " "

Total.....880 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

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- 2 -

of property, 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 frs.

Taking into account the monetary depreciation, this sum represents 18 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!

.....

2° - Levies in kind

The Germans drew on part of their allocations without, however, granting any compensation therefor, 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..... 28½ million quintals	Vegetables and fruits...1,400,000 tons
Oats..... 23½ " "	Wines.....10 million hectolitres (about 100 quarts)
Hay and straw... 30 " "	Champagne.....575,000 hl. (about 100 quarts)
Meat.....855,000 tons	Beer..... 3½ million hl. (about 100 quarts)
Milk.....13,600,000 hl. (about 100 quarts)	Wood for working....2½ million cubic yds.
Butter & cheese.....112,000 tons	Fire wood.....2 million standards

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Raw Materials (1)

Iron (mineral)..... 67,200,000 t.	Petrols and carburants.... 656,000 t.
Iron (finished products).3,450,000 t.	Potash..... 1,719,000 t.
Non-ferrous metals..... 510,000 t.	Phosphates..... 127,000 t.
Precious metals..... 70,000 Kg.	Textiles..... 305,000 t.
Coal.....97,646,000 t.	Paper, cardboard..... 240,000 t.
Tars and benzols..... 322,000 t.	Leathers..... 75,000 t.
Electric power..... 26,913 millions of kilowatts.	Rubber..... 87,000 t.
Industrial diamonds..... 90,000 carats	Cement..... 7,000,000 t.
	Glass..... 265,000 t.

- (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.

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9.

QUESTION 5

The number of laborers deported to Germany

Laborers deported 700,000

Memorandum

Prisoners of war	900,000
Political deportees	300,000 of whom 100,000 are Jews.
Total	1,900,000

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QUESTION 6

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 39,600,000 inhabitants, excluding the inhabitants of Alsace-Lorraine.

a) Deaths losses :

10- Normal excess of deaths over births :

Extraordinary mortality due to conditions of living
and lowered birth-rate due to the absence of the
prisoners and deported persons (1) 500,000

20- Soldiers killed 120,000 (2)

30- Civilians killed by acts of war 100,000 (2)

40- Deaths in Germany 20,000 (2)

50- Specified by the Germans (see question 7) 40,000 (2)

Total about 800,000

b) Prisoners losses :

10- Prisoners 900,000

20- Laborers deported (see question 5) 700,000

30- Political 300,000

Total 1,900,000

(1) The rate of legitimate fecundity (number of legitimate births divided by number of married women between the ages of 15 and 50), calculated to exclude wives of prisoners, has increased progressively, and in 1943 exceeded the figures of 1939 by 10 %.

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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.

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12.

QUESTION 7

Provisional dataNumber 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.

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QUESTION 8

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 1943, as compared to 1938 are:

General mortality	5%
Tubercular mortality	3 to 4%
Infant mortality	14%

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 1940, as the rationing assures only half of the human calory requirements (1200 calories a day) and a smaller proportions of lipoids and proteins.

This situation was aggravated at the end of the occupation by reason of the stopping 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.

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QUESTION 9

Statement of the extent to which German capital has directly or indirectly penetrated in 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 (principally dues and sums of information).

Doubtless there have also been secret purchase transactions or purchases through intermediaries: they can not be calculated.

More 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, Yugoslavia): They amounted to 4 million francs.

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QUESTION 10

Estimate of the depreciation in agriculture and industry due to the effects of the occupation and the fighting on French territory

- A -

Estimate of the decrease in productive capacity of agriculture due to the effects of the occupation and the war.

Here is the index, for the principal products, showing the relation to pre-war average of the production of 1944, and that forecast of 1945:

	1944	1945 (forecast)
Wheat	80%	45%
Other cereals	86	60
Sugar beets	87	50
Milk	80	60
Meat	88	88
Fats	84	88
Balanced (average) index	86	60 to 60

It should be noted that the index of the amount on hand for consumption is not equal to the index of production. Thus for the metropolitan sugar, the amount on hand is 34% because half of the last harvest of 1944 could not be processed, for lack of coal in the factories, and due to the lack of cars and locomotives for transportation purposes, and on the other hand the manufacture of alcohol was sacrificed. For fats, the amount on hand reached only 80%, because, before the war, more than half of the consumption of fats was derived from imports.

The year 1944 was extremely favorable for cereals; if the conditions of production had been the same as before the war, the index would probably have exceeded 100. It is thus possible to come to the conclusion that the average total productive capacity of agriculture is at present around 80.

The decrease of 42% of total agricultural production of France is due to two factors: the reduction of land cultivated and the lack of means of production which in the long run has brought about a decrease of fertility of the soil.

¹⁰ Reduction of land under cultivation. The fields under cultivation represent about one million hectares, or 3% of the area under cultivation (not including woods and forests); half of it may be restored to production in a year, the other half after a longer period.

The reduction of land under cultivation exceeds 50% at present, but this circumstance accounts for only about 4% of the reduction of production.

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- B -

²⁰ The greatest part of the decrease in production, more than 30%, is thus 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 wear and tear on the farm tools and means of transport which have not been renewed or pressed 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 encroachment of weeds (decrease of fertility).

-- the lack of fertilizers which has become total; lack of phosphates since the cutting off of North Africa; lack of potash and nitrogen since the transport crisis.

-- suppression of imports of barley, corn, rice and oleaginous grains (oil cakes) 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 hand but also of the decrease of production (transportation of manure, plants, seeds, cattle to the pastures for fattening, etc.).

- B -

Estimate of the decrease in capacity of production of industry due to the occupation and the war.

In 1945, the general figure of industrial production was fixed at around 60 (basis of 100 in 1935).

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 1935, 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 1945. Combining the two figures in the same proportions as in 1945 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 1945) and at 35 to 38 (basis 100 in 1935).

In the continued lowering of production of French industry since 1941 the bottlenecks have been successively power (blockade), labor (deportations to Germany), transportation (allied bombardments).

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More exactly the dominating need, persistent since the liberation, is that of locomotives: one extra locomotive, going to and fro between the Lorraine iron and the Pas de Calais coal, allows the extra production of 4000 tons of steel per month, that is 20 times its weight. When the number of locomotives is sufficiently increased, cars 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. When transportation is improved, other scarcities 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 scarcities persist and prevent the use of the productive capacity of the industrial equipment proper.

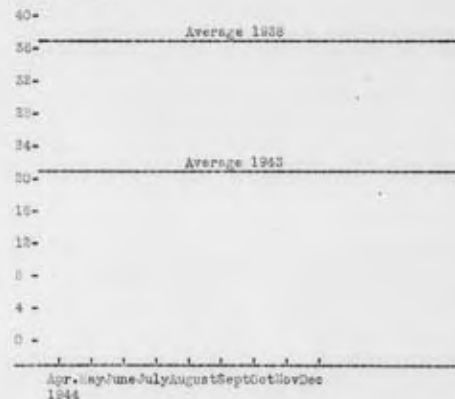
In the direct estimate of the depreciation of tool equipment of French industry, we should add to losses by destruction or pillage (see question 3) the lack of renewal for five years and especially the absence of care for it during that period.

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QUESTION 10
(SUPPLEMENT)

LOADED CARS
(daily average)
(not including military transport, nor Alsace-Lorraine)

In thousands



TRANSLATION

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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

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Granted the importance for the reconstruction of France of the means of transportation and of agricultural production, the following data appear particularly significant:

1°) Railway material:

	Stock 1939	German appropriations	Destruction and serious damages	Percentage utilizable in October 1944
Locomotives	16,614	3,300	5,300	35 % (1)
Freight cars	477,290	220,000	87,300	37 %
Passenger cars	29,103	10,000	7,100	34 %

(1) expressed in hauling capacity:

The cars taken by the Germans were principally heavy freight cars.

2°) 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.

3°) Horses:

Before the war, France had 2,700,000 horses.

There remain today only 2,000,000

4°) River boats

Before the war, France had 12,840 barges and lighters.

There remained in June 1944 only 8,941, i.e. a loss of nearly 25 %, which has certainly greatly increased since the resumption of hostilities on French soil.

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5°) 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 25 years old or more, and thus need replacement.

In particular, the oil fleet (633,000 tons weight gross registered) is today practically reduced to nothing.

6°) Maritime PortsPercentage Destruction

Marseille	99	{ Taking into account their respective traffic capacity, we can say that the French ports are destroyed in the proportion of 3/4
Rouen	60	
Le Havre	80	
Dunkerque	100	
Bordeaux	10	
Nantes & St-Nazaire	60	

7°) Civil Aviation:

Before the war, the Fleet of Air-France comprised 125 planes.

33 were destroyed by acts of war.

44 were appropriated by the Germans

8°) Agricultural Production:

555,000 hectares* (1/3 of the cultivated territory) have been withdrawn from cultivation (land mined, flooded, torn up terrain, etc....) of which 67,000 hectares are definitely out of cultivation.

Translator's note: about 2 1/2 acres.

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MAR 19 1945

Dear Mr. Dunn:

This is to acknowledge receipt of and to thank you for your letter of March 8, 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 Clement Dunn,
Assistant Secretary of State,
State Department,
Washington 25, D. C.

SP:as 2-15-45

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

March 13, 1945

TO Secretary Morgenthau (For Information)

FROM Mr. Coe FC

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 CCS 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
PMA

March 8, 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 445. This message expresses views in addition to those contained in MAT 554 which is a reply to TAM 445. I should appreciate it if this paraphrase received only very limited distribution.

Sincerely yours,

For the Secretary of State:

James Clement Dunn
James Clement Dunn
Assistant Secretary

Enclosure:

Paraphrase of cable.



The Honorable

Henry L. Morgenthau, Jr.,

Secretary of the Treasury.

Dist. 1-14-45

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rome
TO: Secretary of State, Washington
DATE: February 13, 1945
NUMBER: 368

SECRET

AFHQ G-5 officers came here during MacMillan's last visit to Rome for the purpose of discussing with AC a reply to TAM 445, 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 SACRED 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 AMPOLAB, No. 84, are known, the following paraphrase of the draft, based on text as agreed upon in the conferences 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 445 makes two main proposals. The 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 AM lire in circulation at the present time, whether for its own

use

- 2 -

for use or 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 changes should occur.

(3) In the difficult technique of exchange control, both experience and probity are required, and neither can be found easily in Italy at this time. At the present time some of the most expert persons are in that part of Italy controlled by Germany and the remaining ones are suspended and awaiting expatriation 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 Italians foreign exchange either at the present/^{time} or in the future in making sure that the little foreign exchange at the

Italian

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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 accounts, in the United Kingdom and the United States, has been urged by you in TAM airgram 24 and cables TAM 136 and 398 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

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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 appear to the Italians far from a welcome concession or as no advantage, since it means the open assumption of an obligation of the Armistice 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-eighteen 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 Banca d'Italia and budget charges of some five billions of lire would continue monthly.

(5) The dollar and/or sterling counterpart not only for all outstanding Allied military lire, but also to cover all payments which have been made or will be made by the Italian Government, for supplies, services, requisitions and work 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

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question of whether it is wise in the name of "decontrol" to compel the Italian Government and people resolutely 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 circumstance, 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 lire, 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

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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 445, I have been informed in the following sense by my experts at AC 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 as 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 it should have the right to use them in emergency.

(B) Some months will be required by the Finance Sub-
commission

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commission, including AFA, to complete the process already started of divesting itself of financial operations such as mentioned in TAM 445, paragraph L-A. Civilian supply and financial accounting and the financing of Advisory Council and AC-AMG are included among certain operations which AC must continue and which are in addition to those mentioned in TAM 445, paragraph L-C.

(C) 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 445 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 AC is concerned in varying degrees between advice and control with many other areas of financial operations such as those listed below:

(A) The government ^{in its own territory} is assisted by the AC in its own territory in the control of expenditure and, to a certain extent, the AC 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

- 8 -

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 LAW 417.

(E) The AC has been trying, in the field of property control and in the absence of any detailed instruction from OCS, to conserve the properties of Allied nationals in Italy and to arrange appropriately for the transfer to the Italian Government of this responsibility.

(10) Until otherwise instructed, I intend to continue as previously. Paragraph 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

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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 safe economy in Italy and which, if determined months ago, would have been realistic and practical.

The liberation of the north should not, to 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 may find it too drastic a dose 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 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

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execution, and that the American policy put into effect a more realistic status for Italy in place of the present armistice 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 now more easily than at the time of the real emergency upon the liberation of the northern part of the country.

KIRK

DO/L:IDB:AM
2-22-45

OFFICE OF STRATEGIC SERVICES
WASHINGTON, D. C.

19 March 1945

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SECRET

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.

SECRET

OFFICE OF STRATEGIC SERVICES
Research and Analysis Branch

FIELD MEMORANDUM 179 (PR-290)

21 February 1945

Paris, 1 February 1945

PARIS INTELLIGENCE WEEKLY NO. 20

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| 1. Political Regrouping in France | 3. Franco and Austria |
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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 factionalism of pre-war French politics must not reappear. The ebb and flow of unifying tendencies remain a constant preoccupation of politically conscious Frenchmen. But each of the old parties and even the new men "untainted by factionalism" continue to play their own game in an accelerated whirl of meetings.

Mouvement de Liberation Nationale (MLN): In a rising tide of appeals to Resistance Brotherhood, brutally frank criticism of the Front National, and sharp personal clashes, the MLN congress which began on 23 January (see Weekly No. 19) fought its way to a decision on the issue of resistance unification.

Two arguments were used to carry the day against fusion with FN (Front National). The most important was that FN was dominated by the Communist Party and that fusion would mean Communist domination of all resistance. This objection, it was said, would result from Communist skill in organization and maneuver rather than from general acceptance of their point of view. Communist domination would alienate from resistance the support of the mass of the people. The second argument was that FN was a catch-all of genuine resistance and of people who joined FN only to get a resistance label to hide their inactivity or collaboration during the occupation. The idea that MLN could join in an organization where real resistance might find themselves directed by men like Francois Mauriac, Louis Marin or ex-Poselists of the PSP, was held up to scorn.

The fusionist answer was that resistance could exercise a decisive influence on the future of France only if it was united. The MLN should come to regard clandestine activity as a permanent title of nobility and be realistic enough to admit that resistance ranks all men of good will. Resistance was already being ignored by the government; failure to reach unity would weaken resistance further. Partial resistance unity would be ineffective because it would either please the Communists and alienate the Socialists, or vice versa, and finally split the resistance.

The decision finally reached, the "Mauriac Resolution," rejected fusion. It called instead for action by all resistance movements and parties for the accomplishment of specific limited objectives of a socialist character. Resistance cooperation was to be achieved through a loose federation of the central organizations; federations at the regional and departmental levels were expressly prohibited. The MLN would not be a disguised party with a full-fledged doctrine, nor an amorphous, impotent, all-inclusive mass, but an autonomous movement with a program of its own, inviting the cooperation of all groups or individuals.

This memorandum contains information forwarded by R & A personnel in the field. Because of its timely interest it is distributed prior to analysis and processing.

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operation. The FN assembly was not a deliberating congress with important problems to settle but a four-day mass meeting. Its purpose was to allow the FN national leadership to state its position and the departmental delegates (numbering over 1,800) to give their whole-hearted approval.

In terms reminiscent of Thorez' Ivory speech (see Weekly No. 19) Villon, Communist Secretary-General of FN, called for complete national unity to win the war. In line with this position, speeches at the meeting stressed repeatedly the all-inclusive character of the FN, ranging from ex-PSP (Parti Social Francais, pre-war French fascists) to Communists. All criticisms of the Government were soft-pedaled, even on operation and food supply, on which the FN had only recently been launching the attack.

MLN rejection of FN's fusion offer was accepted as a fait accompli. Nevertheless, the determination to secure ultimate fusion was still obvious. The department delegates were instructed to accept the MLN offer of cooperation for limited time and to take the initiative in seeking specific action action. The congress greeted the visiting MLN delegation with chants of "Fusion" in much the same way that chants of "Unite-toi V-ni-té" greeted Socialist visitors at Communist meetings in the heyday of the Popular Front.

The Future of Fusion: In the present unstable situation the tendency toward complete unity receives its strongest support from both extremes of the political horizon. Neither the Communists on the one hand, nor the old "parties of the interests," the Fédération Republicaine and the Alliance Democratique, on the other, feel that they have sufficient popular support to take position openly on fundamental questions. Both want to postpone the inevitable division until they can better organize their support. Meanwhile they are content with the ambiguous unity which arises, on the one hand, from the general desire for patriotic unity behind the war effort, and on the other hand, from the inability of resistance to choose between all-inclusiveness and clear definition of aims. This common desire brings the two extremes together under the shelter of the same "front organizations," with the Right parties reverting the pre-war picture by infiltrating Communist positions.

Opposed to the "political neutrality" of the extremes are the Socialists and the many "new" men who expect to rally the unaffiliated mass of French people. Both the Socialists' desire to take advantage of resistance willingness to inaugurate drastic changes, to strike while the iron is hot, and the new leaders' desire to profit from anti-politician sentiments while they are still relatively strong, lead them to push toward division on social and economic questions even though such action in war time lays them open to attack. So far, handicapped by their own hesitation and by lack of active support from the mass of the people interested mainly in the struggle for existence, these groups have not succeeded in breaking out of the grip of "sham unity."

2. A Rich Norman Farming Community

Lunery, a town of 1,450 inhabitants near Dieppe, is one of those comparatively well-off Norman farming communities which help form the backbone of French political and social conservatism. A week's visit in mid-January found people concerned chiefly about the difficulty of getting enough food, fertilizer, seed, labor, and supplies to maintain agricultural production. The most profound trace of the German occupation is not to be found in their political thinking, but in the widespread black market practices which are taken almost for granted in the community. Politically, Lunery and the vicinity hold to their Center and Right party allegiance. But that is more from habit, a fear of Communism and a fear of sweeping economic measures by the Government than from any positive concern with political questions or party attitudes.

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The fusionists did not accept their defeat gracefully. Following the Friday night vote, liberation fusionist spokesmen in the HLM press, published (27 January) a blistering attack on the majority resolution and its supporters, claiming that the decision was contrary to the wishes of the rank and file; that it was an underground Socialist maneuver to destroy the HLM if they could not control it. In the storm that followed, the congress almost expelled the fusionist minority. Despite well-heeled apologies and promises of future good behavior by the latter, the majority on the newly elected Comité Directeur may yet exclude fusionists from the bureau politique which would represent the HLM in the contemplated federation. Harmony has been restored in the HLM, but only on the surface.

A loose coalition of Socialists, Catholic Progressives (Jeune République) and important local leaders without political affiliations defeated the well-organized minority of Communists and Communist sympathizers. The common purpose of the majority elements was to maintain the HLM as an independent organization which they could swing into politics with greater effect when political lines are clearer.

Within the majority coalition it was the unaffiliated leaders who were most nearly satisfied. They look upon the offer of a federation as enough of a compromise to keep the fusionists within the fold, but are prepared to expel the minority if it persists, as it may, in working for FM-HLM fusion at the departmental level. A few of these men fear that the balance of forces within the HLM may give its Socialist members control, but most of the unaffiliated leaders expect to keep control of the HLM out of the hands of the "politicians." They expect the movement to develop as the rallying point for the great mass of French men and women who, never having been party members and disliking party politics, will give their support to them, the "new men" born of resistance.

Socialist Party: The one-day closed meeting of secretaries of Socialist departmental federations held in the mairie of Montreuil on Sunday, 28 January, was also concerned primarily with relations with other groups. With respect to the Communist Party, the meeting came to a conclusion very similar to that reached by the HLM. The Comité Directeur with the Communists was authorized to continue its activities. Close cooperation on specific objectives was approved. In order to avoid Communist undermining of the party allegiance of rank-and-file Socialists, an ever-present danger in the minds of party officials, cooperation between the two parties on the local, departmental and regional level was to be strictly limited to specific actions authorized by the national committees. Even anti-Communists recognized, however, that working-class pressure for Socialist-Communist union made some caution action unavoidable.

With the HLM Congress, the Socialist leaders were relatively well satisfied. They would have been better pleased if the HLM had gone further toward accepting the broader principles of socialism; they would have preferred to see the HLM less determined to set itself up as an independent political movement. But despite a few grievances against local HLM branches, the majority of the departmental leaders quite clearly felt that the HLM was sufficiently close to socialism to serve as a rallying point for the hitherto unaffiliated mass of citizens who were thereby more easily to be reached by the Socialists. Some even went so far as to see in the HLM a possible Socialist "front" organization similar to the FM in its relationships to the Communist Party.

Front National (FN) In contrast to the capitulation, LHM drawn-out HLM session, the FN congress which opened on 30 January in the same hall was a harrowing, smooth-running

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People have enough to eat. They have no coal, but even those who have no woodlets of their own get enough wood so that in each home one room is heated all day. The worst consumer shortage is shoes, especially for growing children.

Dairying, Cattle and Crops: Dairy output is diminished by the scarcity of the alfalfa so important in the winter feeding of milk cows. The pennut cake which was the best and most widely used protein feed came from the colonies and is no longer obtainable. Some farmers are no longer feeding for winter milk production; some are even slaughtering their cows for meat. Large meat requisitions of the Germans seriously reduced the number of cattle, and forced a lowering of the slaughtering age. Over-optimism at the time of liberation and a temporary lifting of controls led to excessive slaughtering for local use, which is now generally regretted. For lack of transport, cattle must now be driven to the cities on the hoof, with consequent loss of weight. Farmers are raising little pork; they find concentrated feeds scarce, and they consider the price of pork too low.

Many farmers in the area say that they were able to sow only 60 percent or less of their normal acreage of winter wheat because of bad weather and lack of labor and draft power. Next year's crop will be small, especially if spring wheat seed cannot be imported. Some farmers are short of plows and other tools, and many have had their barns destroyed.

The sugar-beet crop has been largely wasted because of the demolition of the sugar factory. But some of the beets can still be used for making alcohol if the local distillery recovers coal with which to resume operations. The potato crops have been reduced through dependence on locally produced seed for several years.

The labor shortage varies widely from one community to another in the region, but many farmers are having a difficult time getting farm work done. Even before the war many farm workers were moving to the cities. Work on German coastal fortifications drew many workers to Dieppe and the vicinity, some of whom are staying there to work for the Allies.

A number of other shortages worry farmers. The Germans took over 100 draft horses. It is almost impossible to get the remaining horses properly shod, since there are insufficient nails and iron for shoes and no coal for forges. No chemical fertilizer is produced locally (must be imported), and none is available. Reduction in livestock feeding has diminished the quantity of manure. The shortage of salt restricts the conservation of butter, pork and hides. For lack of coal, all the local factories -- the linen factories, the shoe factory, the distillery -- are now shut down.

The "Moral Crisis": Sales to black market operators, illegal slaughtering, and failure to meet farm delivery quotas continue from the days of the occupation. People do not talk much about black market activity. Sometimes they excuse it on the ground that collection agencies created by Vichy (the "groupements inter-professionnels") make large profits on food sold through legal channels. Generally they do not condemn the black market, but since almost everyone is involved, it carries no social stigma. Even those Luneray residents who are not farmers barter food products in the towns for other scarce commodities.

The black market brings local frictions. Professional people in the community are indignant that they cannot buy food from their neighbors except at black market prices, and that the richer farmers bribe local officials with butter or meat to get favored treatment in such matters as the distribution of firewood.

The plight of families in the cities is realized dimly if at all, although in Dieppe, ten miles away, there is near-starvation.

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Political and Social Attitudes: A community of large farmers, Luneray has long been conservative. Before the war, representatives of the area in the Chamber and the Senate came chiefly from the Union Republicaine Démocratique, the Alliance Démocratique, and the Radical Socialist Party. In the coming elections, farmers will look for Right and Center candidates. Some of the richer young men of Luneray, who before the war were admirers of Colonel de la Roquette, 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 subscription to the liberation loan was low, as farmers were afraid that the loan might be a method of checking up on their writing practice. Fear of a currency exchange program which would confiscate or at least "freeze" part of their cash is causing a certain reluctance to sell property and even agricultural products.
- (3) Business about, and indifference toward, party programs and activities. Many people do not know the political affiliations of the Paris papers they read. Front National and Liberation-Ward representatives came in to Luneray and held meetings there last fall, but apparently decided it was not worth making any real campaign in the neighborhood.

Neither the occupation nor liberation has altered the conservative tone of this Western community. Even if Left currents should prevail in many of the cities, and in poorer agricultural regions or small farmholdings, the region around Luneray will remain a stronghold of French social and political conservatism.

3. France and Austria

The French Government is currently in active contact with both the Austrian underground resistance and the anti-Nazi Austrians in France. By aiding such groups, the French hope to win the gratitude of elements which will have influence in post-war Austria. The French consider that they are thereby furthering three legitimate aims of French foreign policy: (1) dismemberment of the Third Reich; (2) creation of obligations to France in small States bordering on post-war Germany; and (3) increase of French influence in the countries of the Danube basin.

As immediate steps, the French Government wishes to help in providing equipment and personnel for resistance work in Austria and to bring about a union among Austrians in France which would, among other things, facilitate formation of an Austrian unit in the French army. It is not prepared at this time to recognize any group or federation of groups, inside or outside Austria, as a provisional government.

The French have been in touch with the Austrian underground and have recently brought to Paris a representative of FOEB (Provisional Austrian National Committee), the newly formed political organ of the non-Communist military resistance body, FPGB (Freedom Front - Austria). This representative has privately declared himself well pleased with his conversations with highly placed French officials. The latter apparently raised no objection to representation of French workers in Austria on FPGB's military action committee. The Austrian made no claim, however, that the French Government wished to give exclusive support to his political organization, which included no representatives of the Communist underground army, OEF (Austrian Freedom Front).

With regard to Austrian groups in France, French policy resembles that toward Spanish Republicans: It makes no commitments to any one group but encourages unity among them. There are

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Shortages of coal during an abnormally cold January resulted in unheated homes, closed schools, shortage of gas in many regions, and cessation of day-time electric power and curtailment of street car service. The shortage was due to the reduction of pit prop arrivals from the Ardennes; to insufficiency of transport increased by the freezing of the canals; and to black market sales at the mines and popular raids on coal trains. Local strikes, fostered by the Communist-inspired trade union (Comité de lutte Syndicale), further reduced output. The Allied Military Officers and Belgian civil authorities have attempted to improve the situation by forbidding direct sale of coal at the mines and by taking over control of coal transport. The Belgian government has decided to mobilize part of the 1941 military class for service in the mines.

The fighting in the Ardennes rendered many people homeless. Loss of the Ardennes aggravated the coal shortage. Food and coal shortages were directly responsible for a strike of Antwerp shipyard and dock workers (10-15 January).

Criticism of the Government: Belgians feel that the Allies should do more to provide their supplies for them. But, much more vigorously, they accuse the Piéris Government of inefficiency in meeting these material problems. Socialist discussions over withdrawing support from the Piéris Government have been the most dramatic manifestation of a critical attitude shared by all parties. All parties blame the ministers and their departments for inefficiency in the distribution of coal and other commodities, for failure to build cold shelters in Antwerp and Liège. Many people who are free of suspicion of fifth columnism report that in many ways "it was better under the Germans."

As in every liberated country, the Left has continued to criticize the Government on the purge. Its attacks forced the Minister of Justice to revoke his announced intention of liberating those of the 40,000 Belgians interned for security reasons against whom no formal charges had been brought.

The Left was not appeased by the entry into effect on 1 January of a new social security law, with greatly increased benefits. The law was not given much publicity by the Government, and its advantages to workers will not be apparent for some time.

The Right has been violently attacking the Government's bill for steep taxation of capital required during the German occupation, the second of Finance Minister Butt's major anti-inflationary measures. The bill affects all increases between 2 May 1940 and 5 October 1944 in holdings of cash, bank deposits, securities and real estate. It exempts such "personal" property as clothing or jewelry and increases in the nominal value of property. Beginning with a tax of 70 percent on all increases of capital of over 50,000 francs, the tax rate would rise progressively to 100 percent on gains of over 500,000 francs.

The Belgian Government, generally regarded as more to the Right than the Provisional Government of France, is thus proposing a measure more drastic in both fiscal and social consequences than any the De Gaulle Government has sponsored.

The Rightist Catholics and Liberals claim that the tax is too complicated and is unfair to property holders of 1940, and above all, that it fails to distinguish between legitimate and "illicit" war profits. The Socialists are the bill's main defenders. They assert that an illicit profits tax would be equally difficult to administer as an insufficiently deflationary. The Communists have been neutral toward this measure of a type they would ordinarily support, since it comes from a Government to which they are in formal opposition.

The Government's failure to pass this financial measure over the strong opposition in Parliament and within the Cabinet itself, or its inability to make a more convincing showing against the Belgians' material hardships, may bring the fall of the Piéris Government.

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three Austrian groups at present organized in France. The Association pour la Libération de l'Autriche, which is not affiliated with any political party, is made up largely of bourgeois elements, is relatively well-off financially, and is the most conservative of the three. It developed out of the Massitsky Committee, which before the collapse of France took care of Austrian emigres, and its leaders are still Austrians who left their country ten or twenty years ago, many of whom will probably never return. The CAL (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 FNA (Austrian National Front), styles itself a branch of the Free Austrian World Movement associated with the OEPP 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 consuls 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 Association representatives, held in mid-January, France's readiness to grant some kind of status short of recognition as a Government-in-exile to a union of Austrian refugee organizations and encouraged them to believe that such a union would be allowed to broadcast to 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 FNA which, as a branch of a movement which claims to represent a front of all Austrian resistance, cannot accept union unless the other organizations agree to become part of FNA. The French may, however, be ready to back a federation of the Association and of CAL and to drop FNA entirely.

The French are both advantageously and disadvantageously placed for gaining influence in post-war 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 thousands; they are scattered, poor, and -- like other emigres -- afraid of the police because of irregularities in their papers. On the other hand, the French have had for a long time connections with Austrian resistance in France, and the latter had connections with resistance in Austria until the Germans were expelled from most of France last summer. More recently, the French have established direct contact with the Austrian resistance in the homeland. Unlike the exiles in England and the United States, who are repudiated by both the FPCE and the OEPP, a number of those whom the French are now attempting to unite have a record of active opposition to the Nazis.

4. January in Belgium

With the German offensive stopped, the chief worry of the Belgian people became the material difficulties of every-day life -- food, heat and -- in Antwerp, Liège and the Ardennes -- shelter. During January popular attacks on the Government, for its weakness in meeting all these problems rose in intensity and threatened to topple the Pierlot Cabinet. The Left criticized the Government sharply for its purge 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.

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March 19, 1945

My dear Lieut. Putzell:

This will acknowledge receipt of your letter of March 17th with which was enclosed a copy of radiotelephone message #208, from Berno. Thank you for sending this to me.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Lieut. E. J. Putzell, Jr.,
Acting Executive Officer,
Office of Strategic Services,
Washington, D. C.

Envelope stamped Confidential

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March 19, 1945

My dear Lieut. Putzell:

This will acknowledge receipt of your letter of March 17th with which was enclosed a copy of radiotelephone message #208, from Berno. Thank you for sending this to me.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Lieut. E. J. Putzell, Jr.,
Acting Executive Officer,
Office of Strategic Services,
Washington, D. C.

RESTRICTEDOFFICE OF STRATEGIC SERVICES
WASHINGTON, D. C.

387

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.
E. J. Putzell, Jr.
Lt. (jg), USNR
Acting Executive Officer

Attachment

RESTRICTED

12"

Form OS-10
(Rev. 10-1-45)

OFFICE OF STRATEGIC SERVICES

OFFICIAL DISPATCH

DATE 10 March 1945

FROM

Berno

TO

DIRECTOR, OFFICE OF STRATEGIC SERVICES

DISTRIBUTION

(FOR ACTION)

(FOR INFORMATION)

RECEIVED IN PLAIN TEXT

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GERMANY

1. The stubbornness of the German resistance in the neighborhood of Lake Balaton and the Danube, while the defenses are crumbling in the seemingly more vital areas in the East and West, has caused a good deal of comment. We have sought views of several experts 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 Reduit.

As I suggested some days ago, the actual evidence we had up to that time did not indicate that the Germans had really made very serious progress in the fortification of the Reduit 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 the Reduit will become a reality, I cannot predict, but their present military strategy seems to be built around the idea of a Reduit.

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 Reduit as a base, they are possibly planning to organize guerrilla bands in the mountains of Croatia and Serbia, Greece, Bulgaria and elsewhere.

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FORM OS-10

PAGE 11

OFFICE OF STRATEGIC SERVICES

OFFICIAL DISPATCH

REF. NO. 288

FROM Berno

TO DIRECTOR, OFFICE OF STRATEGIC SERVICES

RECEIVED

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To facilitate this plan, it is important for them that the Reduit 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 recognize 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 Reduit. 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 main Reduit, which will serve as a basis for supplies and for the despatch of parachutists and agents to foment trouble in minor acts of resistance to be (?) scattered far and wide in Southeastern Europe. This may well be the basic plan that they are now preparing the Reduit to serve as an arsenal of manpower and material to give it effect. In particular, preparations are reported to have been made to assure the possibility of manufacturing light, defensive arms and anti-tank guns in the Reduit.

2. Here is an interesting editorial that appeared in the Weltwoche last night. The Allied leaders, especially Churchill, appear to think 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.

What we are reporting is 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 deterred from the most terrible action 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 annihilation.

National Socialism arose as an anti-social movement from the ashes of the corrupt bourgeois world which remained after the last war.

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12"

PAGE 3

FORM 100-100

OFFICE OF STRATEGIC SERVICES

OFFICIAL DISPATCH

REF. NO. 288

FROM Bern

TO DIRECTOR, OFFICE OF STRATEGIC SERVICES

RECEIVED

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It was an outbreak from reality, it was a bloody and cruel world of Wagner's operas and the Germanic heroic sagas. At the same time, it was an outbreak into the world of gangsters. In so doing, the Nazis made themselves outlaws 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 removing the punishment of the Nazi leaders, or jeopardizing the lives of millions of decent human beings.

3. Here is a brief item from the Berlin correspondent of the Neue Zürcher Zeitung which appeared today. The whole German press quotes a Neuter Report from Washington to the effect that the President intimated 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 selling German soldiers to the Kremlin. 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 seizes on every utterance from the Allied camp which tends to show that dire disaster awaits the German people if they are finally defeated.

RESTRICTED

EXECUTIVE OFFICE OF THE PRESIDENT
WAR REFUGEE BOARD

INTER-OFFICE COMMUNICATION

DATE MAR 19 1945

TO Secretary Morgenthau

FROM Miss Hodel

For your information

General O'Dwyer and Mr. Fortas met with Attorney General Biddle on Friday, March 16, 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 internment-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.

Hodel

392

LPH
Distribution of true
reading only by special
arrangement. (SECRET W)

March 19, 1945

5 p. m.

US URGENT

AMERIDATION

Urm
1122
FOR HANNOVER

As no word has been received from McClelland 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 trucks 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 Interzones use returning POW relief trucks
for evacuation of detainees in Switzerland?

The above is WHB 465.

ACHURSON
(Acting)
(OLY)

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KRM-845

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

Rome

Dated March 19, 1945

Rec'd 4 p. m.

Secretary of State

Washington

744, March 19, 6 p.m.

TO MEMPHIS LEAVITT AND FROM JOSEPH SCHWARTZ 10.

LAUR Athens advises Jewish community baking
matzo for Passover and will provide for 500 Jews
Salonika provided we authorize them expenditure \$1,000
this purpose which will cover cost of materials and
transport. Athens community will advance the money
on our promise to repay later. Necessary authorization
has been sent. Expect to Athens next (4) days.

KIRK

18W
(*) apparent omission

WPD-1057

PLAIN

Rome

Dated March 19, 1945

Rec'd 8:55 a.m., 20th

Secretary of State,

Washington.

745, March 19, 6 p.m.

FOR MR. LEAVITT JDC FROM JOSEPH SCHWARTZ. 11

Regarding your message to Emerson. We assume that you are aware that the full amount for the last quarter 1944 and the first quarter 1945 has already been expended by Saluymer. Regarding second quarter 1945 after discussions with Emerson have requested same amount as for previous quarter because under their mandate inter-governmental committee can make funds available only for refugees these countries and not for native populations. Therefore no basis on which to make request for larger allotments.

KTHX

WTS

NOT TO BE RE-TRANSMITTED

COPY NO. 4

395

SECRET

OPTEL 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. 15th/16th (night). Allied coastal forces sank 5 F-lighters in Adriatic. 17th/18th (night). Three enemy destroyers or torpedo boats making sortie from Genoa were intercepted by two of H.M. Destroyers west of Lagnhorn when two sunk. Allied coastal forces also sank one of two escorted F-lighters in Adriatic.
4. ENEMY ATTACK ON SHIPPING. 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. U-boat possibly sunk off St. Abbe 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 S.E. Trier while armoured thrust from Moselle bridgehead now comprising two armoured divisions and one infantry division has continued make good progress with spearhead reported nearing Kaiserslautern from direction Bad Munster, while infantry division now reported holding 9 mile stretch 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 Zvolen along River Hron.
8. BURMA. Central Sector: Although pressure still continues against our forces Meiktila position now stabilised and strong thrust being made by brigade group to east from area of airstrip. Further north all main roads out of Mandalay now closed by encircling 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 cloud on two benzol plants at Hattingen and Langendreer in Bochum area. 1262 escorted U.S. heavy bombers (29 bombers and 5 fighters outstanding) dropped 2764 tons mainly by Pathfinder technique on two railway centres and two tank plants Berlin while 89 tons dropped on three other targets. Enemy casualties 21,1,5 in combat. SHAEF (Air) bombers 905 (7 missing) dropped 1282 tons 8 railway centres and communication targets, mainly central and southern sectors while fighters and fighter bombers 2990 (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 10,2,2. Fighter Command Spitfires 148 (1 missing) attacked rocket sites and communications Holland.
 10. MEDITERRANEAN. 17th. 470 tactical aircraft (1 missing) attacked communications Brenner route and in North Italy and Yugoslavia where several bridges damaged.
 11. BURMA. 17th. 70 Super Fortresses dropped 437 tons in clear weather on military stores Rangoon.
- HOME SECURITY (Up to 7 a.m. 19th)
12. FLYING BOMBS. 18th/19th (night). Two plotted. ROCKETS. 17th. Two further incidents reported. 4 incidents.

Regraded Unclassified