

DIARY

Book 830

March 20-21 1945

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MEMORANDUM FOR THE SECRETARY'S FILES

Conference on Treatment of Germany
Secretary's Office
March 20, 1945
9 A.M. to 1 P.M.

Present: Secretary Morgenthau
Assistant Secretary White
Mr. Coe
Assistant Secretary McCloy
General Hildring

Work of Meeting

In the course of this meeting the Secretary showed the War Department members drafts of the following documents (attached):

1. Memorandum to the Secretary of State on the March 10 Draft Directive on Germany.

2. Memorandum to the President on same.

3. Proposed Note from the President on the Issues of Decentralization, Controls and Heavy Industry.

These documents were substantially redrafted on the basis of the discussion, and copies of the final drafts (attached) were given to Mr. McCloy.

Mr. McCloy gave the Secretary a copy of the War Department's redraft of the March 10 document of the State Department. This was discussed in detail.

March 10 Draft Directive

The Secretary said that he was convinced that this Directive attempted to reverse basic policies of the President and this Government and that, though it purported to implement the decisions of Yalta, it seemed to him that on three major points it implemented policies long argued by the State Department and not agreed at Yalta. These were Centralization, Economic Controls and De-Industrialization.

The Secretary repeated the substance of his private conversation with Stettinius following the meeting of the day before. This was that the Directive prepared in the Department of State proposed to put together and maintain as a whole the German Reich, and that it was inconceivable that such a policy was agreed at Yalta. The Secretary said that Stettinius was

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badly shaken and stated that when he returned from his trip, tired, Jimmie Dunn had handed him this document and that he had really only glanced at it. The Secretary said that he had particularly asked Stettinius if he was sure that the President had read the document, and that Stettinius had not been sure.

Mr. McCloy said that Stimson had been told by the President that he did not remember the document and had not read it, to his knowledge.

The Secretary said that the policies of the document seemed to be those of Riddleberger and Despres of the Department of State and of Leon Henderson. They had been debated before and not been established. J.C.S. 1067 was a long-worked over compromise, but now it was abandoned, in the name of Yalta, although no chapter and verse from Yalta was cited as reasons for the change. The Secretary said that he was amazed at this handling of the most important issues of the time, and that he had ordered a memorandum drafted to indicate just how arbitrary and wrong this procedure was.

Mr. McCloy said that he agreed with the Secretary as to how this had happened. He said that Leon Henderson had a large share in it, for he had been talking all around town on these issues. Also Ambassador Winant had never liked J.C.S. 1067 and was constantly working against it. He said that as far as the War Department could see, policies seemingly well established had been tossed overboard, with no consultation, and with superior officers not even reading the documents.

Meeting with the President

Mr. McCloy wished to know if the Secretary was discussing this matter with the President at noon. The Secretary said "Yes". During the meeting, information was received from the White House that the President wished the noon appointment changed to luncheon and wanted to discuss Germany. The Secretary's memorandum to the President was discussed and changed. Mr. McCloy thought that if the three sentences in the proposed note from the President were agreed to, the basic confusion would be cleared up. However he thought that it would be unwise for the President to sign this without a full hearing.

War Department's Position

The Secretary said that he had interested himself in this matter again because Mr. McCloy had telephoned him on Thursday. Now that he saw what was being done he was determined to fight until the matter was cleared up. But he wished to know where Secretary Stimson stood.

Mr. McCloy replied as follows: Secretary Stimson had had definite views on Germany. But he was confronted, after the Quebec Conference, with a policy, with which he in part disagreed. Now, after Yalta, he finds a

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State Department policy document, initiated by the President, and with this he disagreed, in part. Secretary Stimson feels badly about these incidents. He has determined to keep quiet about basic policy and pay attention to his responsibility as head of the department which will administer the U.S. occupation. He finds, and has so told the President, that the policies of the State Department will prevent our soldiers from doing their job in Germany. In particular, the Army, which has been trained for a zone command, in Germany, cannot adapt to these vague ideas of centralized administration in Berlin. Stimson wants the zone commanders to have powers to act and complete residual authority until a matter is taken over and handled centrally by the Control Commission.

Accordingly, the War Department was leaving the basic economic questions to others. It would carry out any agreed policy on these matters. At this juncture it would concentrate on the administrative feasibility of the new proposals.

Secretary Morgenthau said that, although he sympathized with Secretary Stimson's position, he hoped that it would be changed. As a citizen and a Cabinet officer, the Secretary of War had a duty to express himself on these important matters.

Treasury Memorandum

Mr. McCloy's suggestion for changes related chiefly to more cautious statements concerning the "Yalta basis" for the State Department's draft. It was agreed that State's document relied much on the decision that reparation reparations were to be made. Practically all of Mr. McCloy's suggestions were accepted.

War Draft

Mr. White's suggestion for changes related chiefly to objections against assuming responsibility for internal economic conditions in Germany.

FC
Track One

Draft

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MEMORANDUM FOR THE SECRETARY OF STATE

Reference is made to the draft directive on the treatment of Germany, dated March 10, 1945 which was written by the Department of State to implement the decisions of Yalta.

Quite apart from the comments which follow, I would like to point out initially that, if a decision has been reached to dismember Germany or if there is a likelihood that such a decision will be reached, then this directive will, in my opinion, undermine this basic policy. The directive contains provisions designed to make sure that during the period of military occupation the various parts of the German Reich will be put together and kept together.

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 IndustryA. 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-working industries in the Ruhr and in the Saar is looking forward to converting Germany into a country primarily agricultural and pastoral in its character."

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B. Yalta.

At Yalta it was decided:

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

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

These provisions are obviously not inconsistent with the position adopted by the President and Prime Minister Churchill at Quebec.

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.

This program is contrary to the Quebec agreement and has no basis in the Yalta decisions.

II. Control of German Internal EconomyA. Prior to Yalta.

In the directive known as J.C.S. 1067 (revised), 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 nor (2) designed to maintain or strengthen the German economy. Except to the extent necessary (1) to

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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 will be left in German hands. You should, however, take such steps as may be necessary to assure that economic controls are operated in conformity with the above purposes and the general objectives of military government."

B. Yalta.

Nothing was decided on this basic question at Yalta, to my knowledge. It appears from paragraph 3 of section IV of the draft directive of March 10 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 direct, control and administer the German internal economy. Such a position, 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 Yalta decisions clearly did not contemplate that the collection of reparations requires the Allies to take steps designed to rehabilitate and strengthen the German economy and to control and develop German industry.

C. Draft Directive of March 10.

Paragraphs 3, 4 and 5 of section IV 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.

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"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 payment, (h) restitution and reparation, (i) treatment and movement of displaced persons, and (j) allocation of plants 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."

These provisions are diametrically opposed to the provision of J.C.S. 1067 and have no basis in the Yalta decisions.

III. Decentralization of Germany

A. Prior to Yalta

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. 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

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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."

This is a reiteration of what had been agreed upon prior to J.C.S. 1067 and was embodied in that directive. No change of policy was made here.

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."

These provisions completely reverse what had been agreed upon as the American view prior to Yalta, despite the fact that there was nothing in the Yalta decisions contrary to such American view.

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Conclusion

On the basis of the foregoing analysis and also of study of the other paragraphs of the draft directive of March 10, it is my firm belief that this draft directive is based in many of its parts upon policies which were not settled at Yalta and in some of its parts upon policies opposed to the decisions of Yalta. On the other hand, from what has been published and told us about the Crimean Conference all of its decisions seem to be consistent with the previous policies of this Government as embodied in J.C.S. 1067 (revised) or expressed by the President at the Quebec Conference.

In view of these conclusions, and in accordance with the President's request and your request that we assist you in implementing the decisions of Yalta, I would like to make the following suggestions:

A. That for the time being we allow J.C.S. 1067 to remain unchanged as the statement of policy for the U.S. forces during the first period of occupation, and that we attempt to get immediate agreement through the European Advisory Commission on this document.

B. That the draft directive of March 10 be withdrawn, with a view to thorough revision after further discussion.

C. That we immediately attempt to work out programs and policies in accordance with the decisions of the Crimean Conference on these three major matters:

- (1) Reparations;
- (2) Decentralization and dismemberment of Germany, and
- (3) The industries to be eliminated from Germany.

Draft

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THE SECRETARY OF THE TREASURY
WASHINGTONMEMORANDUM FOR THE PRESIDENT

The State Department directive on the treatment of Germany of March 10 makes decisions which I believe are opposed in their most fundamental implications to your views on Germany. These decisions are not required by and in my judgment are contrary to the spirit of the decisions taken at Yalta.

I am transmitting a memorandum to the Secretary of State, a copy of which is attached, which specifically supports my conclusion. Here in brief are the most fundamental points in this directive:

(1) Decentralization of Germany - It requires the Control Council to "utilize centralized instrumentalities for the execution and implementation of its policies to the maximum extent possible" and requires that for this purpose "central German agencies * * * shall be revived or replaced as rapidly as possible."

(2) Elimination of German Heavy Industry - It allows Germany to maintain "metal, machinery and chemical industries" with controls on exports; and forbids only "aircraft, synthetic oil, synthetic rubber and light metals" industries.

(3) Control of German Internal Economy - It states that "a substantial degree of centralized financial and economic control is essential" and requires the Allies to "direct, control and administer" the German economy in order to collect reparations and for other reasons. It requires the Control Council to formulate policies governing "public finance", "prices and wages", "rationing", "internal commerce", etc.

I feel sure that it was not decided at Yalta to build up a strong central German government and to maintain, strengthen and develop the German economy. I believe that this would be the tendency of these policies.



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And if it was decided at Yalta to decentralize or dismember Germany -- and Stettinius has referred me to you for complete information on Yalta -- then the State directive is not only contrary to the spirit of Yalta but can only be interpreted as an attempt by those who drew it to vitiate this fundamental decision.

I think that these are points on which further guidance from you is desirable.

Secretary of the Treasury.

Attachment.

Draft

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To Secretaries of

State
Treasury
War

It is my desire that the policies and programs being prepared, on the basis of the decisions at the Crimean Conference, for the treatment of Germany should be in accord with the following:

1. We should avoid assuming responsibility for the functioning of the internal German economy and its economic controls. The maintenance and rehabilitation of the German economy is a German problem and should not be undertaken by us for the sake of collecting reparations or for any other reason except the security of the occupying forces.

2. We should aim at the elimination of German heavy industry and should not be concerned with the maintenance of a standard of living in Germany higher than that of any other country in Europe.

3. During the period of military occupation policies in the separate zones should be coordinated through the Control Council, but the actual administration of affairs in Germany should be directed towards the decentralization of the political structure.

Final Draft

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MEMORANDUM FOR THE SECRETARY OF STATE

Reference is made to the draft directive on the treatment of Germany, dated March 10, 1945 which was written by the Department of State to implement the decisions of Yalta.

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. I understand that these views were advanced prior to Yalta within the State Department; they 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. Decentralization of GermanyA. Prior to Yalta

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

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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."

This is a reiteration of what had been agreed upon prior to J.C.S. 1087 and was embodied in that directive. No change of policy was made here.

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 will be revived or replaced as rapidly as possible."

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

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These provisions completely reverse what had been agreed upon as the American view prior to Yalta, despite the fact that there was nothing in the Yalta decisions contrary to such American view.

II. Elimination of German Heavy Industry

A. Prior to Yalta

At Quebec on September 15, 1944, the President and Prime Minister Churchill agreed upon a program designed to eliminate German heavy industry--the metallurgical, electrical and chemical industry.

B. Yalta

At Yalta it was decided:

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

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

These provisions are obviously not inconsistent with the position adopted by the President and Prime Minister Churchill at Quebec.

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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This program is contrary to the Quebec agreement and has no basis in the Yalta decisions, unless the reparations protocol requires the maintenance of some heavy industry-- and I doubt that it does.

III. Control of German Internal Economy

A. Prior to Yalta

In the Directive known as J.C.S. 1067 (revised) which was agreed upon after considerable discussion between State, War and Treasury, and was presented to and approved by the White House as representing the American view, it was provided that:

"Except for the purposes specified above, you will take no steps (1) looking toward the economic rehabilitation of Germany 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 will be left in German hands. You should, however, take such steps as may be necessary to assure that economic controls are operated in conformity with the above purposes and the general objectives of military government."

B. Yalta

Nothing was decided on this basic question at Yalta, to my knowledge. It appears from paragraph 2 of section IV of the draft directive of March 10 that the provisions of the protocol on reparations are being advanced as the basis for the argument that in order to collect reparations in the future it is necessary to direct, control and administer the German internal economy. Such a position, 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.

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The Yalta decisions clearly did not contemplate that the collection of reparations requires the Allies to take steps designed to rehabilitate and strengthen the German economy.

C. Draft Directive of March 10

Paragraphs 3, 4, and 5 of section IV 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 payment, (h) restitution and reparation, (i) treatment and movement of displaced persons, and (j) allocation of plants 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."

These provisions are diametrically opposed to the provisions of J.C.S. 1067 and have no basis in the Yalta decisions, except on the doubtful interpretation of the reparations protocol noted above.

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Conclusion

Quite apart from the comments above, I would like to point out that, if a decision has been reached to dismember Germany or if there is a likelihood that such a decision will be reached, then the directive will, in my opinion, undermine this basic policy. The directive contains provisions designed to make sure that during the period of military occupation the various parts of the German Reich will be put together and kept together.

On the basis of the foregoing analysis and also of study of the other paragraphs of the draft directive of March 10, it is my firm belief that this draft directive is based in many of its parts upon policies which were not settled at Yalta and in some of its parts upon policies opposed to the decisions of Yalta. On the other hand, from what has been published and told us about the Crimean Conference all of its decisions seem to be consistent with the previous policies of this Government as embodied in J.C.S. 1067 (revised) or expressed by the President at the Quebec Conference.

In view of these conclusions, and in accordance with the President's request and your request that we assist you in implementing the decisions of Yalta, I would like to make the following suggestion:

That for the time being we allow J.C.S. 1067 to remain unchanged as the statement of policy for the U.S. forces during the first period of occupation, and that we attempt to get immediate agreement through the European Advisory Commission on J.C.S. 1067.

I am informed by the Army that General Eisenhower can operate satisfactorily prior to collapse under directive 551 and that after the collapse of Germany initial operations by the Army can take place satisfactorily under J.C.S. 1067.

On reparations and other longer-run policies for Germany, the Treasury is of course prepared to meet with you and your representatives for further discussions.

Final Draft

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March 20, 1945

MEMORANDUM FOR THE PRESIDENT

At a meeting at the State Department Mr. Stettinius presented to a number of us a five-page Post-hostility Draft Directive for military control of Germany, dated March 10, which had your initials and those of Mr. Stettinius on it.

From many conversations that I have had with you as to how to deal with a defeated Germany, I am confident that this Directive goes absolutely contrary to your views. I would like to call your attention to some of the fundamental points contained in the March 10 Directive which seem to me to be contrary to the views you hold and the views that were contained in J.C.S. 1067 which I understand you collaborated on.

(1) Decentralization of Germany - It requires the Control Council to "utilize centralized instrumentalities for the execution and implementation of its policies to the maximum extent possible" and requires that for this purpose "central German agencies *** shall be revived or replaced as rapidly as possible."

(2) Elimination of German Heavy Industry - It allows Germany to maintain "metal, machinery and chemical industries" with controls on exports; and forbids only "aircraft, synthetic oil, synthetic rubber and light metals" industries.

(3) Control of German Internal Economy - It states that "a substantial degree of centralized financial and economic control is essential" and requires the Allies to "direct, control and administer" the German economy in order to collect reparations and for other reasons. It requires the Control Council to formulate policies governing "public finance", "prices and wages", "rationing", "internal commerce", etc.

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Carrying out the above directions would build up a strong central German Government and maintain and even strengthen the German economy. You, of course, would know whether or not it has decided at Yalta to move in that direction.

I strongly urge that the directive of March 10 be redrafted in accordance with the three principles indicated below which, in my opinion, reflect your views.

1. We should avoid assuming responsibility for the functioning of the internal German economy and its economic controls. The maintenance and rehabilitation of the German economy is a German problem and should not be undertaken by us in order to collect reparations or for any other reason except the security of the occupying forces.

2. We should aim at the greatest possible contraction of German heavy industry as well as the elimination of her war potential. The occupying forces should accept no responsibility for providing the German people with food and supplies beyond preventing starvation, disease, and such unrest as might interfere with the purposes of the occupation.

3. During the period of military occupation policies in the separate zones should be coordinated through the Control Council, but the actual administration of affairs in Germany should be directed towards the decentralization of the political structure.

Final Draft

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To Secretaries of

State
Treasury
War

It is my desire that the policies and programs being prepared, on the basis of the decisions at the Crimean Conference, for the treatment of Germany should be in accord with the following:

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2. We should aim at the greatest possible contraction of German heavy industry as well as the elimination of her war potential. The occupying forces should accept no responsibility for providing the German people with food and supplies beyond preventing starvation, disease, and such unrest as might interfere with the purposes of the occupation.

3. During the period of military occupation policies in the separate zones should be coordinated through the Control Council, but the actual administration of affairs in Germany should be directed towards the decentralization of the political structure.

March 20, 1945
10:00 a. m.

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Hassett: Hello, Mr. Secretary.

HMJr: Yes.

H: I just wanted to confirm that your luncheon will be off the record, and will be in the White House. John Boettiger is going to be there because, you know, the German business will be up.

HMJr: I see.

H: Yes.

HMJr: Oh, anybody else?

H: Anna. That's all.

HMJr: I see. Yes. You left me sorts in the air on that 11:30 business. The President didn't expect me at 11:30 --

H: Oh, no, no. The luncheon will take care of the whole thing.

HMJr: Oh.

H: Yes.

HMJr: You seemed to -- were you mixed up or were you --

H: No, no, I meant to convey that idea.

HMJr: Oh, but you left me kind of guessing. But the luncheon will be with those two people there?

H: Yes, that's it.

HMJr: Right.

H: At the White House.

HMJr: And off the record?

H: And off the record, yes.

HMJr: At one o'clock.

H: One o'clock, yes.

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HMJr: I see, thank you.

H: Yes, sir.

HMJr: Thank you very much.

H: Yes, sir.

HMJr: Bye.

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March 20, 1945
3:00 p.m.

TALK WITH THE PRESIDENT

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

H.M.JR: The President looked over this material, and everything was fine, everything was the way you wanted it. John Boettiger had to be there; he has waited for four months to give the President his ideas. He was there last night to see that I didn't put my ideas--after the President completely accepted what I wanted, he went to work and gave him Henderson's stuff, see? And his main thing is you mustn't let the poor Germans stew in their own juice, and you must control prices, and all the rest of that stuff. And he got the President so confused he didn't know what was going on, and I didn't know, either. It is a pretty darned hard way to work.

(To stenotypist) Make a note that Mrs. Boettiger kept a copy of everything I had.

I let the President read all this; everything was all right.

MR. WHITE: That is one way of getting advice to the President.

H.M.JR: I can't see anything in it; I mean, I just don't know what they are talking about. I told them that if a professional soldier like General Hildring is satisfied, I am satisfied. I don't think--I wanted him to sign this thing, and that is one document on which he would have done anything I wanted.

(Discussion off the record.)

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MR. WHITE: Was Boettiger supporting the March 10 draft?

H.M.JR: No, he wants to withdraw that.

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

March 20, 1945
3:02 P.M.

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MMJr: Hello

Secy. to Mr. Grew: Hello, Mr. Secretary, I'm sorry Mr. Grew is engaged right now. May I have him call you back as soon as his visitor--

MMJr: Well, now look, I've just come from the President. I've postponed going to New York and I must get this to Mr. Grew before I go. I don't know who his visitor is, but please tell him it is urgent, will you?

S: Will he want to talk to you, Mr. Secretary, in front of his visitor?

MMJr: No. Is it an Ambassador or something?

S: Yes, it is.

MMJr: Well, ask him if he couldn't excuse himself for five minutes, because I was supposed to go at one o'clock. I think he will want to know this.

S: Yes. Just a moment.

MMJr: Can't you write it out on a slip of paper?

S: Yes, I'll do that. Will you hold the phone, or shall I call you back as soon as Mr. Grew does come out of his office?

MMJr: I'll be glad to hold the phone.

S: All right. Just a moment.

Operator: Shall I hold the phone?

MMJr: No, I'll hold it.

(pause)

S: Mr. Secretary?

MMJr: Yes.

S: Here's Mr. Grew.

MMJr: Hello.

Mr. Joseph Grew: Hello, Mr. Secretary.

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MMJr: Thank you so much. I was supposed to go to New York at one, and then the President sent for me.

G: Yes.

MMJr: And I did want to take a few minutes to tell you what happened. This is just for you on the basis of what Ed Stettinius told us. I was invited over there for lunch, and John and Anna Bottiger were there.

G: Yes.

MMJr: And they told me the subject matter was going to be Germany. I was ready to take it up because, as you know, I don't know, I had a telephone conversation with Ed Saturday, and asked for some of the information that happened at Yalta, and he said I would have to go to the President, he wasn't free to tell me. So I had a formal memorandum which I prepared for Ed.

G: Yes.

MMJr: And which I showed to the President. Also two other documents -- all of which I'm going to send you. I'm going to send you everything that I showed the President.

G: Thank you.

MMJr: Now, the President's thought was this--that he'd like something along the lines which I prepared as a draft, if we could come to an agreement. He wants to withdraw this memorandum that he and Ed signed as of March 10th, see? Hello?

G: He wants to withdraw it?

MMJr: Yes. Definitely, and he wants us to come to an agreement as to what we do from there on. Hello?

G: Yes.

MMJr: And if you have any opportunities to talk with him in the next day or so, I'm sure he will tell you, and I hope you will ask him. But the thought is that this committee of Clayton, White and McCloy should prepare something to take the place of this

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HMJr:(cont) March 10th memorandum. Hello?

G: Yes. I see, that puts me in a very difficult position, of course, with the Secretary away.

HMJr: I know.

G: But --

HMJr: I know where he is because the President told me and I suppose he has a telephone down there --

G: Well, I'll have to clear with him, of course, but I won't be able to do it today--

HMJr: No.

G: I probably can tomorrow.

HMJr: But won't you be seeing the President in the next --

G: Well, I suppose I will. I haven't asked for an appointment yet. I've just got back myself, I've been away for four days. I'm just picking up the threads now.

HMJr: Well, I'm going to send you over everything that I showed the President, so that there can be no possible misunderstanding, you see? And I felt that in as much as -- in the first place I was sent for, but I was going to see him anyway because Ed told me to see him.

G: Yes.

HMJr: And Ed said he felt he couldn't tell me everything that happened at Yalta.

G: Yes.

HMJr: See? Well, the President did tell me one particular thing I wanted to know about Dismemberment, see?

G: About what?

HMJr: Dismemberment.

G: Dismemberment?

HMJr: Yes. So he -- in talking with him -- he hoped that

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HMJr:(cont) between the time -- today and when he went away Saturday, we could get something which War, State and Treasury could agree on.

G: Well, that's quite a problem, I --- I'll go into it, of course, well --. Can you send me over those papers this afternoon?

HMJr: They will be there within 15 minutes.

G: Right. Sent right to my hands.

HMJr: I'll have a secret service man bring them over.

G: Right.

HMJr: To you, and as I say, I'm sending everything that I showed the President.

G: Well, now, among those papers, have you sent the President a draft? A counter-draft to our proposal, or what?

HMJr: Well, what I've got is this: I prepared a lawyer's brief, based on our statement that you had the other day.

G: That's right. That's what you wanted to talk over with me at lunch.

HMJr: Yes.

G: I see.

HMJr: And this was precipitated by my being sent for --

G: I understand.

HMJr: And, as I say, it was an off-the-record luncheon at which John and Anna wanted to be and me there. They evidently had a preliminary talk last night on this thing.

G: I see.

HMJr: For reasons I don't know. Talking with the President about this, they wanted to be there and they wanted me there.

G: Yes.

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WMJr: I was working on these things, and fortunately, I had them. So that's my story, and I'm going up to New York this afternoon, but I'll be back Thursday morning.

G: I see. So the problem is, as I understand it, the President wants some compromise draft between the one that we had and the one that you have submitted, is that it?

WMJr: That's the idea.

G: I see.

WMJr: In other words, the way we see it, and I think you'll see it too, carrying out what the President has in mind -- things done -- Yalta, Teheran, and Quebec, going back over all of that background.

G: Well, did he find points in our memorandum which he had approved, which he now does not approve, does not like, is that the idea?

WMJr: Yes.

G: And he --

WMJr: All of this is just for you, Mr. Grew.

G: Yes, of course.

WMJr: He has absolutely no recollection of having seen it or signed it.

G: Amazing.

WMJr: Now I wouldn't -- you know, Stalinists said I should talk to you the way I would talk to him.

G: Yes. Of course, you can. Absolutely.

WMJr: He has absolutely no recollection of it.

G: Amazing.

WMJr: Now -- I'm placing myself in your hands.

G: All right. I'll get at it and, you'll be back on

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G:(cont) Thursday morning, you say?

WMJr: Yeah. And White is here and has --- White and Co., Frank Coe.

G: Yes.

WMJr: And they've been assisting us. You know I put White on this committee.

G: Do they know the whole story?

WMJr: They know the whole story.

G: Well, that's -- the whole story you've just told me.

WMJr: Yes -- no, no, well, White knows it, yes --

G: Yes. All right.

WMJr: White is the only person that knows it.

G: Well, I want to know who to deal with if I have --

WMJr: No, only White.

G: Yes, I see.

WMJr: And if something could be pushed along with this subcommittee, that's what I would hope, between now and the time you and I saw each other.

G: I see. Well, I'll get at it and see what can be done. I'll look into it right away.

WMJr: If you want --

G: No, I myself haven't been handling it at all.

WMJr: I understand.

G: But I'll get at it and find out how the land lies.

WMJr: But, you've got, I've been completely frank with you, I assure you.

G: Well, thank you very much.

WMJr: And this stuff about Anna and John, and all the rest

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H.M.Jr:(cont.) of that stuff is only for you and Ed.

G: Well, I'll get at it right away, and thanks very much.

H.M.Jr: Thank you.

G: All right. Goodbye.

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H.M.JR: The President has absolutely no recollection of it.

MR. WHITE: I don't see why you feel low.

MR. COE: It sounds to me as though you did the job.

MR. WHITE: It may have been a tough time, but the result was good.

H.M.JR: No, no, listen. I have been around the Roosevelt family personally, and I am very low--oh, yes, one other thing. I think Riddleberger should be transferred. John agreed with me on that. He asked, "Who else?"

I said, "I don't know."

(Discussion off the record.)

H.M.JR: Where was I?

MR. COE: You were talking about Riddleberger being transferred.

H.M.JR: He agreed on Riddleberger and that something should be done with Jimmy Dunn. On Matthews--he wouldn't know anything about this. But this is much tougher than you think. I am going to give them everything.

MR. WHITE: There are only two things.

H.M.JR: No, I am going to give them this.

MR. WHITE: Have you showed that to the President?

H.M.JR: I am not going to put it on White House stationery--just like this.

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MR. COE: Mr. Secretary, that last one doesn't contain a word different from what is in your letter, does it? That one to the three Secretaries contains exactly the same thing which is in your letter.

H.M.JR: No, I want to give--

MR. WHITE: The President didn't want to sign that?

H.M.JR: I didn't ask him.

MR. WHITE: Why give it to the State Department?

H.M.JR: I told him I would show it to them. Anna has a copy of everything. I said I would give them everything.

MR. WHITE: Otherwise they will interpret it as if you asked him to sign it, and he didn't.

(Miss Chauncey enters the conference temporarily.)

H.M.JR: I showed this to the President as a sample-- as a sample, or as a model, would you say?

MR. COE: As a proposal.

H.M.JR: As a draft of a proposal.

MR. WHITE: As a suggested draft.

H.M.JR: As a draft of a proposal?

MR. WHITE: Yes, but the interpretation would be that not having signed it, he turned it down.

H.M.JR: I am going to put it on there that I showed this to the President as a proposed draft, but not for action on this matter.

MR. WHITE: Not for action on his part.

H.M.JR: Not for any action on his part. This should go by Secret Service over to Mr. Grew.

MR. COE: We have a ribbon copy?

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H.M.JR: These are ribbon copies; let them go.

MRS. KLOTZ: You better make a record of everything you send.

H.M.JR: It must be put in his hands, and nobody else's.

MISS CHAUNCEY: All right, sir.

H.M.JR: Now, I can't give you the flavor of the thing, but I had my day in court. The President read all this stuff carefully and read the first and last page-- the State Department did everything I asked for--and said this was perfect, fine. Then, bingo, in comes Boettiger with this stuff, can't let them stew in their own juice, mine coal--we've got to put prices on, got to tell them how much they can eat and do, and all the rest of this stuff.

MR. WHITE: Did the President respond to that?

H.M.JR: I don't know. He did and he didn't. He said, "Let them have soup kitchens." He would say one thing, and I would remind him of the money, and he said, "Let their economy sink."

John said, "You don't want them to starve."

The President said, "Why not?"

He took me on the sofa when I left and said, "I want to say something to you nobody else can hear. I implore you and beg you to change number one, which is about the German economy, because you are going to start the whole thing all over again. And look at the mess you are going to get the President in."

So I said, "Listen, John, if the President got in it, it was because a Cabinet Member talked, and you are asking me to change my principles in order that the President shouldn't get in trouble when the person who should be chastised is the Cabinet Member." He said, "It wasn't a Cabinet Member," and I said, "A Cabinet Member, or his assistant." I said

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"I won't change my principles. If the town is too small to hold me and the other Cabinet Member, I will go home."

He said, "Look what you are going to do to the President."

I said, "I am not doing it. I will not change my principles."

MR. WHITE: What did he have reference to?

H.M.JR: I said--that thing, number one, he wanted that removed, and he put the screws on me, you know, the way nobody can, and I won't change.

"Well, it is terrible," he said.

"Well," I said, "it is just too bad. I can go home."

MR. WHITE: Tell him to convince the President.

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

March 20, 1945
3:05 P.M.

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WMJr: Jack?

John McCloy: Yeah. How did you make out?

WMJr: Well, I don't know.

Mr: Yeah.

WMJr: This is sort of embarrassing, but, everything is embarrassing.

Mr: Yeah.

WMJr: I gave the President the documents we prepared.

Mr: Yes.

WMJr: He read them very carefully.

Mr: Yes.

WMJr: And he was in thorough agreement when he read them.

Mr: Yes.

WMJr: And then Boettiger evidently had a talk with him last night.

Mr: Yes.

WMJr: And to my amazement -- it's at least three months since he's been abroad.

Mr: Yes.

WMJr: And he hadn't had a chance to talk with the President about this until last night, and he was there today to take up the thing again, and, of course, to keep us from making any case as it turned out.

Mr: Yes.

WMJr: Now the thing that Boettiger is talking about so earnestly is that we must regulate prices, we must tell the Germans how much they get --

Mr: Yeah.

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HMJr: We must tell them how much coal they mine, and all the rest of it.

Mo: Yes.

HMJr: Using, as he says, the Henderson philosophy.

Mo: Yes.

HMJr: -- and kinda got the President confused.

Mo: Yes.

HMJr: I told Boettiger in front of the President that I had spent four hours with you and Hildring.

Mo: Yes.

HMJr: And that Hildring said that - I used that expression - as a professional soldier that he was satisfied with 1967.

Mo: Yes.

HMJr: And that General Eisenhower was satisfied, that Bevell Smith was satisfied --

Mo: Yes.

HMJr: Well, Boettiger kept saying that people down the line didn't understand it, and it wasn't workable, and Winant wouldn't accept it, and had all this trouble. And how when he was in Anchen they were feeding the people too much and all the rest of that.

Mo: Yes.

HMJr: So we got all kind of mixed up.

Mo: Yes.

HMJr: But the thing ended this way: that I -- Boettiger wanted the President to call the three cabinet members together. And I said, "No, we have a committee."

Mo: Yes.

HMJr: And this committee should go to work and make recommendations to the three cabinet members, and then from that to the President.

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Mo: Yes.

HMJr: Now, if I had been alone with the President, and if I had asked him -- which I would not do --

Mo: Yes.

HMJr: Because I said I wouldn't. And I told him I didn't want to pull on him what the State Department pulled on us. He was perfectly ready to sign that document.

Mo: He was?

HMJr: Oh, yes. I didn't ask him.

Mo: Yes, yes.

HMJr: Now, he, in his own mind, has crossed the bridge to recall March 10th.

Mo: Oh, he has.

HMJr: Definitely.

Mo: Ahuh.

HMJr: Definitely, and he can't remember ever having seen it. He said he couldn't remember having seen it.

Mo: Ahuh.

HMJr: Now I have sent to Grew -- and I just got through talking to him. I never mentioned to Grew that you and I were together.

Mo: Yes.

HMJr: See? You just didn't exist.

Mo: Yes.

HMJr: I have sent him all three documents, and told him that the President wanted the March 10th brief withdrawn and something to take its place, and hopes to have it by Saturday nite.

Mo: Ahuh.

HMJr: And that seemed to shock Grew very much, and I said

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HMJr:(cont) Well, I hoped that he would see the President in the next 24 hours and talk to him.

Mc: Yes.

HMJr: So he said that he couldn't do anything like this without talking to Stettinius. And I said, "Well, I know where Stettinius is, you get him on the phone."

Mc: Yes.

HMJr: Which he said he would do. Boettiger begged me afterwards that I change my philosophy of letting the Germans stew in their own juice. But I said I couldn't -- that I was very sorry but I believed in it.

Mc: Yes.

HMJr: Then consequently the President talked on his own and that's what he believed in.

Mc: Yes.

HMJr: Now I'm not saying that if from the field you people find there should be corrections of 1067 -- well, let's correct them.

Mc: Yes.

HMJr: That's all right, isn't it?

Mc: Sure, sure.

HMJr: Because, I don't -- it seems -- I don't know how to put it, if Boettiger is seemingly taking a different position than you and Hildring take.

Mc: Yes. He is -- well, he has, you know as we told you, that he was more on the control side than we were.

HMJr: Well -- it was my bad luck today.

Mc: Yeah.

HMJr: Yeah -- but I stuck by my guns, and I think I did --

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HMJr:(cont.) I did accomplish this -- the March 10th is to be cancelled and something new in its place.

Mc: Ahuh. Well, that's something.

HMJr: What?

Mc: That's something.

HMJr: In talking and bringing you in, I only brought you in on the military side.

Mc: Good. Well, I'm glad of that.

HMJr: I didn't -- and I said this, that you and Hildring are for this.

Mc: Yeah.

HMJr: and----- also Bedell Smith, and as far as they are concerned that 1067 has enough elasticity that it could work.

Mc: Yeah.

HMJr: Is that right?

Mc: That's right, subject to the reparations debate we had this morning, and White says he thinks that you don't need to change it even under the Yalta decisions. I don't know enough about -- I'm not ready to say whether we ought not modify a paragraph here and there in the light of the reparations business.

HMJr: Well, the President -- what he's saying is he hasn't given it much thought. When they were talking about coal, he said, "All right, I'll appoint a committee of three German Business men to run the coal mines, and we'll supervise them in Washington. If they don't get out the coal, we'll tell them."

Mc: Yeah.

HMJr: "And if the fellows don't mine enough, we'll shoot them."

Mc: Yes.

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8 HMJr: But, I can't explain it any better than, you know as well as I do, that Boettiger was pleading for this control.

Mo: Yes.

HMJr: Now he's not pleading for centralization.

Mo: That's what I wanted to get to. Now about central administration?

HMJr: I didn't get that.

Mo: Oh, you didn't.

HMJr: From him.

Mo: Not from him -- what did the President say about that?

HMJr: He didn't say anything and he read my documents very, very carefully. Boettiger is all right on dismemberment.

Mo: Ahuh.

8 HMJr: He's for that. See?

Mo: Yes, well, he must be for decentralization.

HMJr: Well, I don't think--if you fellows could get him and get through his head that if you are going to have dismemberment you got to have decentralization, you'll do a wonderful job. I wasn't successful.

Mo: Yeah. I got you.

HMJr: But, I mean -- he is absolutely for dismemberment, but on the other hand, he wants to control the German economy through an OPA.

Mo: Yes, I see.

HMJr: Now, he is over there in your own shop and you ought to be able --

Mo: Yeah, we'll have a talk with him, but I---

HMJr: Did you want to question me any further?

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8 Mo: No, I think that is the upshot of it, I guess. But the central administration -- the use of a central Germany agency -- did you get a definite impression as to how the President felt on that?

HMJr: No. I said this -- I said if General Eisenhower goes to Germany, you people felt that if he had this in his pocket he could operate.

Mo: Yes. That's right.

HMJr: Now, what Boettiger wants was to have 1067 supplemented so that they would say how much the Germans -- to direct the people indirectly -- how much they could eat, what prices they could pay, and all the rest of it.

Mo: Yeah.

HMJr: And I was pleading that in the clause where it says that we have given them enough elasticity so that there should be no trouble behind the lines to affect the troops.

Mo: Yes.

8 HMJr: That any Area Commander could vary that.

Mo: Yes, that's right.

HMJr: See?

Mo: That's right.

HMJr: And the President, I gathered, was for the minimum of direction.

Mo: Ahuh.

HMJr: But I don't think-- I think that by the time you talk to Boettiger he's going to tell you that the President was in complete agreement with him.

Mo: Yeah.

HMJr: He said he was going to say that. But I can assure you that when the President read these things calmly, the way a judge would, he said everything in this was all right.

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Mo: Ahuh.

HMJr: Now I've sent this thing over to Grew. I've given Grew everything, and he is going to call Stettinius. That's what he said.

Mo: What did he say about the -- when you told him that he wanted March 10th withdrawn?

HMJr: He gasped.

Mo: He did.

HMJr: I think he said, "My God". I don't know. I guess they don't say that in the State Department.

Mo: Yeah, no.

HMJr: Well, he was flabbergasted in other words. I guess I did accomplish something in --

Mo: Well, now how long are you going to be out of town?

HMJr: Only until Thursday morning.

Mo: Well, why don't we get going with this committee right away.

HMJr: Well, that is what I suggested very strongly to Grew, and I said White knew everything that I was doing.

Mo: Yeah.

HMJr: Then I begged him between now and Thursday at 3 o'clock that we have a meeting.

Mo: Yes.

HMJr: Grew and I should call this committee.

Mo: Yeah, that's right. Well, let's move towards that then. I'll call up Grew myself and tell him that I have talked with you, and that I think that is what he ought to do and that he ought to get right to work on it.

HMJr: O.K.

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HMJr: O.K.

Mo: All right, thanks very much.

HMJr: Now, I needn't point out to you this Boettiger thing is a delicate thing.

Mo: Oh, I know it is.

HMJr: And will you protect me?

Mo: I will.

HMJr: Please.

Mo: I will.

HMJr: I protected you at the White House.

Mo: Good. Fine. I'll do the same.

HMJr: Will you? It is very delicate.

Mo: I understand.

HMJr: Right.

Mo: O.K.

HMJr: Right.

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H.M.JR: What do you think after listening to me?

MR. WHITE: I think you are low because of the fight with Boettiger and he put the pressure on you. I can see the strain and unpleasant experience of having been booted around and having that pressure put on you, and your feelings have been hurt badly, but I don't think you ought to feel badly with what you accomplished.

H.M.JR: He said, "Sit down with me," and what he practically said to me was, "You are going to get the President in trouble if you don't withdraw your position."

MR. WHITE: I think you should have told him to tell that to the President; he is old enough.

H.M.JR: I told him if it gets embarrassing to the President, he knows what he can do as far as I am concerned. I said, "Any time I am embarrassing the President, he knows what he can do."

He said, "Nobody is suggesting that."

I said, "Well, I am."

MR. WHITE: I think if you analyze why you feel low, it is because of your arguments with Boettiger, and because he was there, and, of course, he had no right to be there. Because a fellow is a member of a family it doesn't mean he can get in discussions of high policy when he doesn't represent anybody.

H.M.JR: Here is a man who is a lieutenant colonel. He comes in to see the President with the Secretary of the Treasury officially because you can't do it any other way, and he argues against what an assistant secretary and his superior officer wants.

(Secretary leaves the conference temporarily.)

H.M.JR: Now look, just so as to keep my stuff together.

MRS. KLOTZ: This press conference today at four o'clock or three o'clock of the President's--

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H.M.JR: Today?

MRS. KLOTZ: That is what--

H.M.JR: I didn't know he was going to have a press conference.

MRS. KLOTZ: Whenever his press conference is--and I doubt if it is today--

H.M.JR: Coe has been hanging on.

MR. COE: We still need those copies.

MRS. KLOTZ: Copies were made of that original.

MR. COE: That we didn't make.

H.M.JR: What original?

MR. COE: These two State documents--we only have these copies. We didn't make copies.

MR. WHITE: No wonder you are there so frequently; look at the view you have got.

H.M.JR: Haven't you ever heard my joke?

MRS. KLOTZ: You wanted to send Grew a directive on Germany.

H.M.JR: What do you think, Joe?

MR. DuBOIS: I think you accomplished as much as anybody could have expected to accomplish. I don't know what more you can expect. You had that withdrawn.

H.M.JR: Frank?

MR. COE: The only other thing you could have gotten was the one page thing signed, and I think they would have fought tooth and nail and we would still have to sit down.

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H.M.JR: I wouldn't ask the President--I wouldn't ask him to sign it because I would be doing to State just what they did to me. I think it would have been wrong.

MR. COE: The only bad thing was the argument with Boettiger, who will soon be off the scene.

MR. WHITE: Where is he going?

H.M.JR: Was I too bold with McCloy about Boettiger?

MR. WHITE: You were very careful, I thought.

H.M.JR: All right. Well, I am much obliged. I hope I did a better job than I think I did.

MR. COE: We are, too.

H.M.JR: That is a tough combination.

MR. WHITE: Did she take any part, Anna Boettiger?

H.M.JR: Why, yes.

MR. WHITE: She sided with her husband?

H.M.JR: Yes. I got a little dirty, and she jumped on me.

MR. WHITE: She came to the support of her husband?

H.M.JR: Sure, on everything I told him. He was there to prompt the President in case I said something he didn't know about--she did before we went in.

MRS. KLOTZ: Then you answered her.

MR. WHITE: Facetiously.

H.M.JR: Seriously.

MR. WHITE: You let her have it, so what?

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H.M.JR: One thing tickled me. If a professional soldier like General Hilderling says it is all right, I am willing to take his word for it. (Laughter) I didn't give anyway; I just felt sorry for the President to be caught between us.

As a matter of fact, when you stop and think, here is Boettiger pleading with me not to get in a row with Cabinet, and he gets in a row with the President right over his lunch.

MR. COE: Was the President calm?

H.M.JR: Very. I think the President feels this so deeply--I don't think Boettiger made any impression on him.

MR. WHITE: I am sure that must be so, because if it weren't Boettiger wouldn't plead with you, he would plead with the President. He must have presented his views to the President with no success, or thought he wouldn't have any success in the future.

H.M.JR: They had their day in court last night, and got nowhere.

MR. WHITE: That is why he is pleading with you.

H.M.JR: And just imagine the tactics! I am going to get the President in wrong so I should change my principles, and when I told him, "Well, if it is annoying the President, I can get out of town," then he got scared. Well, you may read all about it in the columns.

MR. WHITE: If they are not correct--

H.M.JR: That is the way they will fight me.

MR. WHITE: No question about it.

H.M.JR: If I said anything to the President about the book, Boettiger immediately would have said no.

MR. WHITE: Oh, yes. No, you have got to pick a propitious time for that.

H.M.JR: Bad luck--much obliged--thank you.

STRICTLY CONFIDENTIAL

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March 20, 1945

MEMORANDUM FOR THE PRESIDENT

At a meeting at the State Department Mr. Stettinius presented to a number of us a five-page post-hostility draft Directive for military control of Germany, dated March 10, which had your initials and those of Mr. Stettinius on it.

From many conversations that I have had with you as to how to deal with a defeated Germany, I am confident that this Directive goes absolutely contrary to your views. I would like to call your attention to some of the fundamental points contained in the March 10 Directive which seem to me to be contrary to the views you held and the views that were contained in J.C.S. 1007 which I understand you collaborated on.

(1) Decentralization of Germany - It requires the Control Council to "utilize centralized instrumentalities for the execution and implementation of its policies to the maximum extent possible" and requires that for this purpose "central German agencies" shall be revived or replaced as rapidly as possible.

(2) Elimination of German Heavy Industry - It allows Germany to maintain "metal, machinery, and chemical industries" with controls on exports; and forbids only "aircraft, synthetic oil, synthetic rubber and light metals" industries.

(3) Control of German Internal Economy - It states that "a substantial degree of centralized financial and economic control is essential" and requires the Allies to "direct, control and administer" the German economy in order to collect reparations and for other reasons. It requires the Control Council to formulate policies governing "public finance", "prices and wages", "rationing", "internal commerce", etc.

-2-

Carrying out the above directions would build up a strong central German Government and maintain and even strengthen the Germany economy. You, of course, would know whether or not it was decided at Yalta to move in that direction.

I strongly urge that the directive of March 10 be redrafted in accordance with the three principles indicated below which, in my opinion, reflect your views.

1. We should avoid assuming responsibility for the functioning of the internal German economy and its economic controls. The maintenance and rehabilitation of the German economy is a German problem and should not be undertaken by us in order to collect reparations or for any other reason except the security of the occupying forces.

2. We should aim at the greatest possible contraction of German heavy industry as well as the elimination of her war potential. The occupying forces should accept no responsibility for providing the German people with food and supplies beyond preventing starvation, disease, and such unrest as might interfere with the purposes of the occupation.

3. During the period of military occupation policies in the separate zones should be coordinated through the Control Council, but the actual administration of affairs in Germany should be directed towards the decentralization of the political structure.

51

52

THE WHITE HOUSE
WASHINGTON

To Secretaries of

State
Treasury
War

It is my desire that the policies and programs being prepared, on the basis of the decisions at the Crimean Conference, for the treatment of Germany should be in accord with the following:

1. We should avoid assuming responsibility for the functioning of the internal German economy and its economic controls. The maintenance and rehabilitation of the German economy is a German problem and should not be undertaken by us in order to collect reparations or for any other reason except the security of the occupying forces.
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3. During the period of military occupation policies in the separate zones should be coordinated through the Control Council, but the actual administration of affairs in Germany should be directed towards the decentralization of the political structure.

MEMORANDUM FOR THE PRESIDENT

The State Department directive on the treatment of Germany of March 10 makes decisions which I believe are opposed in their most fundamental implications to your views on Germany. These decisions are not required by and in my judgment are contrary to the spirit of the decisions taken at Yalta.

I am transmitting a memorandum to the Secretary of State, a copy of which is attached, which specifically supports my conclusion. Here in brief are the most fundamental points in this directive:

(1) Decentralization of Germany - It requires the Control Council to "utilize centralized instrumentalities for the execution and implementation of its policies to the maximum extent possible" and requires that for this purpose "central German agencies . . . shall be revived or replaced as rapidly as possible."

(2) Elimination of German Heavy Industry - It allows Germany to maintain "metal, machinery and chemical industries" with controls on exports; and forbids only "aircraft, synthetic oil, synthetic rubber and light metals" industries.

(3) Control of German Internal Economy - It states that "a substantial degree of centralized financial and economic control is essential" and requires the Allies to "direct, control and administer" the German economy in order to collect reparations and for other reasons. It requires the Control Council to formulate policies governing "public finance", "prices and wages", "rationing", "internal commerce", etc.

I feel sure that it was not decided at Yalta to build up a strong central German government and to maintain, strengthen and develop the German economy. I believe that this would be the tendency of these policies.

- 2 -

And if it was decided at Yalta to decentralize or dismember Germany -- and Stettinius has referred me to you for complete information on Yalta -- then the State directive is not only contrary to the spirit of Yalta but can only be interpreted as an attempt by those who drew it to vitiate this fundamental decision.

I think that these are points on which further guidance from you is desirable.

Secretary of the Treasury.

Attachment.

- 12 -

March 20, 1945

MEMORANDUM FOR THE PRESIDENT

At a meeting at the State Department Mr. Stettinius presented to a number of us a five-page post-hostility draft Directive for military control of Germany, dated March 10, which had your initials and those of Mr. Stettinius on it.

From many conversations that I have had with you as to how to deal with a defeated Germany, I am confident that this Directive goes absolutely contrary to your views. I would like to call your attention to some of the fundamental points contained in the March 10 Directive which seem to me to be contrary to the views you hold and the views that were contained in J.C.S. 1067 which I understand you collaborated on.

(1) Decentralization of Germany - It requires the Control Council to "utilize centralized instrumentalities for the execution and implementation of its policies to the maximum extent possible" and requires that for this purpose "central German agencies" * * * shall be revived or replaced as rapidly as possible.

(2) Elimination of German Heavy Industry - It allows Germany to maintain "metal, machinery, and chemical industries" with controls on exports; and forbids only "aircraft, synthetic oil, synthetic rubber and light metals" industries.

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- 2 -

Carrying out the above directions would build up a strong central German government and maintain and even strengthen the German economy. You certainly know whether or not it was decided at Yalta to move in that direction.

I recommend that the directive of March 10 be redrafted in accordance with the three principles indicated below which, in my opinion, reflect your views.

1. We should avoid assuming responsibility for the functioning of the internal German economy and its economic controls. The maintenance and rehabilitation of the German economy is a German problem and should not be undertaken by us for the sake of collecting reparations or for any other reason except the security of the occupying forces.

2. We should aim at the greatest possible contraction of German heavy industry, and should not be concerned with the maintenance of a standard of living in Germany higher than that of any other country in Europe.

3. During the period of military occupation policies in the separate zones should be coordinated through the Control Council, but the actual administration of affairs in Germany should be directed towards the decentralization of the political structure.

- 2 -

57

of course, would

Carrying out the above directions would build up a strong central German government and maintain and even strengthen the German economy. You ~~certainly~~ know whether or not it was decided at Yalta to move in that direction.

I strongly urge
I ~~recommend~~ that the directive of March 10 be redrafted in accordance with the three principles indicated below which, in my opinion, reflect your views.

*indirect
sloganeering*

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3. During the period of military occupation policies in the separate zones should be coordinated through the Control Council, but the actual administration of affairs in Germany should be directed towards the decentralization of the political structure.

- 2 -

Second draft

Carrying out the above directions would build up a strong central German government and maintain and even strengthen the German economy. You certainly know whether or not it was decided atalta to move in that direction.

I recommend that the directive of March 10 be redrafted in accordance with the three principles indicated below which, in my opinion, reflect your views.

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3. During the period of military occupation policies in the separate zones should be coordinated through the Control Council, but the actual administration of affairs in Germany should be directed towards the decentralization of the political structure.

12"

To Secretaries of

State
Treasury
War

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To Secretaries of

State
Treasury
War

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3. During the period of military occupation policies in the separate zones should be coordinated through the Control Council, but the actual administration of affairs in Germany should be directed towards the decentralization of the political structure.

FC:lr 3/19/45

FC:lr 3/20/45

FILE COPY

THE WHITE HOUSE
WASHINGTON

To Secretaries of

State
Treasury
War

It is my desire that the policies and programs being prepared, on the basis of the decisions at the Crimean Conference, for the treatment of Germany should be in accord with the following:

1. We should avoid assuming responsibility for the functioning of the internal German economy and its economic controls. The maintenance and rehabilitation of the German economy is a German problem and should not be undertaken by us for the sake of collecting reparations or for any other reason except the security of the occupying forces.

2. We should aim at the greatest possible contraction of German heavy industry, and should ~~not be concerned with the maintenance of a~~ standard of living in Germany higher than that of any other country in Europe. *as well as the elimination of her war potential*

3. During the period of military occupation policies in the separate zones should be coordinated through the Control Council, but the actual administration of affairs in Germany should be directed towards the decentralization of the political structure.

Handwritten notes:
L.C. = ...
6. ...
5. ...

3/20/45

62 ✓

Sent to Mr. Grew.

"Memorandum for the Secretary of State, signed Henry Morgenthau, Jr., and dated in lower left hand corner by him "March 20, 1945." After last word in last paragraph, page 6 "discussions", H.M., Jr. inserted in his handwriting the word "further".

"Memorandum for the President," dated March 20, 1945, signed "Henry Morgenthau, Jr."

Carbon copy of memo to Secretaries of

State
Treasury
War

H.M., Jr. wrote on bottom of this "I showed this to the President as proposed draft, but not for any action on his part.
H.M., Jr."

Taken by S.S. Sgt. Wyle 3:35 to be delivered personally to Mr. Grew.
Mr. Wyle phoned from State at 3:18 to say he delivered the envelop into Mr. Grew's hands.

March 21, 1945

- 2 -

MEMORANDUM FOR THE SECRETARY OF STATE

Reference is made to the draft directive on the treatment of Germany, dated March 10, 1945 which was written by the Department of State to implement the decisions of Yalta.

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. I understand that these views were advanced prior to Yalta within the State Department; they 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. Decentralization of Germany

A. Prior to Yalta

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. 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."

This is a reiteration of what had been agreed upon prior to J.C.S. 1067 and was embodied in that directive. No change of policy was made here.

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."

- 3 -

These provisions completely reverse what had been agreed upon as the American view prior to Yalta, despite the fact that there was nothing in the Yalta decisions contrary to such American view.

II. Elimination of German Heavy Industry

A. Prior to Yalta

At Quebec on September 15, 1944, the President and Prime Minister Churchill agreed upon a program designed to eliminate German heavy industry -- the metallurgical, electrical and chemical industry.

B. Yalta

At Yalta it was decided:

- (1) To "eliminate or control all German industry that could be used for military production."
- (2) That the removal of Germany's national wealth in the way of reparations "be carried out chiefly for the purpose of destroying the war potential of Germany."

These provisions are obviously not inconsistent with the position adopted by the President and Prime Minister Churchill at Quebec.

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.

- 4 -

This program is contrary to the Quebec agreement and has no basis in the Yalta decisions, unless the reparations protocol requires the maintenance of some heavy industry -- and I doubt that it does.

III. Control of German Internal Economy

A. Prior to Yalta

In the Directive known as J.C.S. 1067 (revised) which was agreed upon after considerable discussion between State, War and Treasury, and was presented to and approved by the White House as representing the American view, it was provided that:

"except for the purposes specified above, you will take not steps (1) looking toward the economic rehabilitation of Germany 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 will be left in German hands. You should, however, take such steps as may be necessary to assure that economic controls are operated in conformity with the above purposes and the general objectives of military government."

B. Yalta

Nothing was decided on this basic question at Yalta, to my knowledge. It appears from paragraph 2 of section IV of the Draft Directive of March 10 that the provisions of the protocol on reparations are being advanced as the basis for the argument that in order to collect reparations in the future it is necessary to direct, control and administer the German internal economy. Such a position, 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.

- 5 -

The Yalta decisions clearly did not contemplate that the collection of reparations requires the Allies to take steps designed to rehabilitate and strengthen the German economy.

C. Draft Directive of March 10

Paragraphs 3, 4 and 5 of section IV 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 payment, (h) restitution and reparation, (i) treatment and movement of displaced persons, and (j) allocation of plants 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.

These provisions are diametrically opposed to the provision of J.C.S. 1067 and have no basis in the Yalta decisions, except on the doubtful interpretation of the reparations protocol noted above.

- 6 -

Conclusion

Quite apart from the comments above, I would like to point out that, if a decision has been reached to dismember Germany or if there is a likelihood that such a decision will be reached, then the directive will, in my opinion, undermine this basic policy. The directive contains provisions designed to make sure that during the period of military occupation the various parts of the German Reich will be put together and kept together.

On the basis of the foregoing analysis and also of study of the other paragraphs of the draft directive of March 10, it is my firm belief that this draft directive is based in many of its parts upon policies which were not settled at Yalta and in some of its parts upon policies opposed to the decisions of Yalta. On the other hand, from what has been published and told us about the Crimean Conference all of its decisions seem to be consistent with the previous policies of this Government as embodied in J.C.S. 1067 (revised) or expressed by the President at the Quebec Conference.

In view of these conclusions, and in accordance with the President's request and your request that we assist you in implementing the decisions of Yalta, I would like to make the following suggestion:

That for the time being we allow J.C.S. 1067 to remain unchanged as the statement of policy for the U.S. forces during the first period of occupation, and that we attempt to get immediate agreement through the European Advisory Commission on J.C.S. 1067.

I am informed by the Army that General Eisenhower can operate satisfactorily prior to collapse under directive 661 and that after the collapse of Germany initial operations by the Army can take place satisfactorily under J.C.S. 1067.

On reparations and other longer-run policies for Germany, the Treasury is of course prepared to meet with you and your representatives for discussions.

March 20, 1945

MEMORANDUM FOR THE PRESIDENT

At a meeting at the State Department Mr. Stettinius presented to a number of us a five-page post-hostility draft Directive for military control of Germany, dated March 10, which had your initials and those of Mr. Stettinius on it.

From many conversations that I have had with you as to how to deal with a defeated Germany, I am confident that this Directive goes absolutely contrary to your views. I would like to call your attention to some of the fundamental points contained in the March 10 Directive which seem to me to be contrary to the views you hold and the views that were contained in J.C.S. 1067 which I understand you collaborated on.

(1) Decentralization of Germany - It requires the Control Council to "utilize centralized instrumentalities for the execution and implementation of its policies to the maximum extent possible" and requires that for this purpose "central German agencies" shall be revived or replaced as rapidly as possible.

(2) Elimination of German Heavy Industry - It allows Germany to maintain "metal, machinery, and chemical industries" with controls on exports; and forbids only "aircraft, synthetic oil, synthetic rubber and light metals" industries.

(3) Control of German Internal Economy - It states that "a substantial degree of centralized financial and economic control is essential" and requires the Allies to "direct, control and administer" the German economy in order to collect reparations and for other reasons. It requires the Control Council to formulate policies governing "public finance", "prices and wages", "rationing", "internal commerce", etc.

Carrying out the above directions would build up a strong central German Government and maintain and even strengthen the German economy. You, of course, would know whether or not it was decided at last to move in that direction.

I strongly urge that the directive of March 10 be redrafted in accordance with the three principles indicated below which, in my opinion, reflect your views.

1. We should avoid assuming responsibility for the functioning of the internal German economy and its economic controls. The maintenance and rehabilitation of the German economy is a German problem and should not be undertaken by us in order to collect reparations or for any other reason except the security of the occupying forces.
2. We should aim at the greatest possible contraction of German heavy industry, as well as the elimination of her war potential. The occupying forces should accept no responsibility for providing the German people with food and supplies beyond preventing starvation, disease, and such unrest as might interfere with the purposes of the occupation.
3. During the period of military occupation policies in the separate zones should be coordinated through the Control Council, but the actual administration of affairs in Germany should be directed towards the decentralization of the political structure.

69-A

10

To Secretaries of

State
Treasury
War

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2. We should aim at the greatest possible contraction of German heavy industry as well as the elimination of her war potential. The occupying forces should accept no responsibility for providing the German people with food and supplies beyond preventing starvation, disease, and such unrest as might interfere with the purposes of the occupation.
3. During the period of military occupation policies in the separate zones should be coordinated through the Control Council, but the actual administration of affairs in Germany should be directed towards the decentralization of the political structure.

March 20, 1945

I just talked to Winant and asked him if he could find out who sent Boothby here, who asked for him to come, and who paid his expenses. I said if the people whom I suspect did it it would be most useful on the Hill. He said he got what I meant. (I suspect it is the ABA.).

Then Winant told me had done what I had asked him to do the other day and he thinks that that man will go - which means that he asked for Cherwell and that he will go to Moscow.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

March 20, 1945

TO Secretary Morgenthau - For Your Information

FROM Mr. Doe

Subject: Articles published in the London "Economist" about settlement for Germany.

The "Economist" feels that Germany should not be treated more severely than public opinion in the United States and England will stand for. However, it should not be in accordance with the way public opinion feels now, but rather the way public opinion will feel 5 or 10 years hence, on the theory that we should not start a program that we are not sure to carry out fully.

The "Economist" advocates:

1. The one permanent penalty for Germany should be long-period and complete disarmament. This is to be accomplished by putting the heavy industry of the Ruhr in the hands of controllers who could be relied upon not to use it for aggressive purposes. Thus, the German problem would be largely solved.
2. The Morgenthau Plan is rejected because of the subsequent decline in the German standard of living and the loss to Europe's material wealth.
3. Merging the new Germany into a European Federation is considered to be ideal, but is politically impossible.
4. Therefore, the only practical method of "disarmament" is the creation of an independent Ruhr-Rhineland in which the Rhinelanders would be contented and prosperous. The Rhineland would have to be rebuilt, if necessary with outside help. Continued prosperity in the new Rhineland state in which the heavy industries would function as before would be its integration into a European, or at least a west European, structure. In this western bloc there should be division of labor and freedom of goods and men.

The "Economist" understands that the reparations bill will be about \$30 billion spread over 20 years. The "Economist" obviously rejects reparations since they would conflict "with any constructive attempt to build a new stable equilibrium in Europe."

DEPARTMENT
OF
STATE

INCOMING
TELEGRAM

73
DIVISION OF
CENTRAL SERVICES
TELEGRAPH SECTION

LFG-688

PLAIN

London

Dated March 18, 1946

Rec'd 10 a.m.

Secretary of State,
Washington.

US URGENT

2803, Eighteenth

FOR SECRETARY OF TREASURY FROM HANN

Reference to your 2102, March 17, 1946 FROM SECRETARY OF TREASURY TO TAYLOR there are quoted herewith complete text of article entitled "the German problem" appearing in March 10 and March 17 issues of the ECONOMIST which you requested for use Monday March 19.

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

-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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-S-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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-S-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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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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need not be further discussed.

*Indubitably
in fact
true*

If federation is impossible the "constructive" policy can make an approach from the economic angle. Germany's strength for war lies in its industry particularly its heavy industry. This heavy industry could of course be destroyed or removed and its replacement prohibited as the Morgenthau plan proposed. But a plan that would drastically reduce the standard of living not merely of Germany but of all those parts of Europe that have over the decades been integrated with German industry could hardly be called "constructive" and would be likely to be repudiated by Mr. Morgenthau's countrymen within a very few years. The Ruhr is the source of German's 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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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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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 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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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, 87 million tons of brown coal, 16 million tons of pig iron, 18 million tons of steel in its 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, 29 per cent of its brown coal, 84 per cent of its pig iron, 87.5 per cent of its steel ingots, and 40 per cent of its electricity.

All these figures, however, have been made rather meaningless by 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 Bitchun. The Nazis are said to be adding to the ruin by flooding and

firing the

-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

men back

-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

-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 3,388 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 Rump 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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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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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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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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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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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.

MINANT

EDA

COPY

March 20, 1945.

The Treasury will open the Seventh War Loan Drive on May 14, 1945, with a goal of \$14 billion. One of the primary objectives of this Drive will be the sale of \$7 billion of Government securities to individuals. This is the largest quota that has ever been set for individuals in a war loan drive. As a part of the campaign to raise this amount, an intensive program for the sale of Series A bonds in the plants and factories of the country will begin on April 9.

The Seventh War Loan will be a continuation of the Treasury's intensified war bond sales program. It is clear that Federal expenditures are going to remain at a high level for some time to come. It is also apparent that funds in the hands of non-bank investors will continue to increase sharply under present conditions. It is highly desirable to channel as much of these funds as possible into Government security investment, and to put them to work in the prosecution of the war.

To the extent that this objective can be accomplished, the amount of money obtained from the commercial banking system can be reduced. The basket of securities selected for the Seventh War Loan Drive is designed to accomplish maximum investment of non-banking funds, and to hold indirect participation of commercial bank funds to a minimum. With this in mind, the following changes in the pattern and procedure followed in previous drives have been made:

- (a) The corporation quota has been reduced from the \$9 billion that was assigned in the Sixth Loan to \$7 billion. This will reduce State and county quotas in proportion and will cut down excessive subscriptions previously entered for speculative or quota-making purposes.
- (b) The basket of securities offered to corporations does not contain the 1-1/2 percent bond that will be available to individuals during the Drive. It was in the corporate basket and on issues of this type that speculative subscriptions were entered in previous war loans, and substantial purchases of these issues were made with the proceeds of the sale of securities already owned.

- (c) Non-bank investors have been requested to refrain from selling securities now owned solely for the purpose of obtaining funds with which to subscribe for the securities offered in the Seventh War Loan Drive. This request is not intended to preclude normal portfolio adjustments.

I earnestly request your cooperation in the coming Drive, (1) in declining to make loans for the speculative purchase of Government securities; (2) in declining to accept subscriptions from your customers which appear to be entered for speculative purposes; and (3) in declining to make loans for the purpose of acquiring the Drive securities later for your own account. If you have any doubt as to the propriety of accepting a subscription for a marketable issue presented through your bank, please submit the circumstances and all available information to the Federal Reserve Bank of your District. That bank, in its capacity as fiscal agent of the United States, will advise you as to the disposition to be made of the subscription.

I further request your cooperation in declining to purchase outstanding securities from non-bank investors on the understanding or condition that a subscription for a substantially like amount of Treasury securities offered during the Drive will be made through your bank with payment to be made through the War Loan account.

The Treasury is in favor, of course, of loans to facilitate permanent investment in Government securities provided such loans conform to the provisions of the Joint Statement issued by the National and State Bank Supervisory Authorities on November 22, 1942. This statement, you will recall, reads in part as follows:

"...subscribers relying upon anticipated income may wish to augment their subscriptions by temporary borrowing from banks. Such loans will not be subject to criticism but should be on a short-term or amortization basis fully repayable within periods not exceeding six months."

We in the Treasury realize the difficulties that the Federal Reserve Banks and banking institutions generally have experienced in their efforts to handle subscriptions in accordance with our objectives during past drives. We also realize that it is impossible to apply absolutely uniform standards to the hundreds of thousands of subscriptions for the marketable securities which are received in the course of a big war loan drive. What is desired and expected is a cooperative effort to make the program as effective and equitable as possible.

Another matter, with respect to which I should appreciate your continued cooperation is that of holding transfers of funds for the purchase

-3-

of Government securities to a minimum. Statistical credits will, of course, be given to localities desired by the purchaser in the Seventh Loan as in previous drives.

I wish to take this opportunity to thank you for the real service that you and the other banks of the country have rendered in connection with the War Loans, the issue of Savings Bonds, and our financing operations generally. I bespeak your continued help in the coming Drive, to the end that we may obtain maximum investment in the securities offered of the type of funds we are most anxious to secure.

Sincerely,

/s/ HENRY MORGENTHAU, JR.

Secretary of the Treasury.

THE SECRETARY OF THE NAVY
WASHINGTON

Abstract 4, 100
Mr. Gault 2/4

3/20/45

Dear Henry:

I fully appreciate the tremendous task faced by the Treasury Department in raising fourteen billion dollars during the Seventh War Loan, and I pledge you the full cooperation of the Navy Department during the forthcoming drive.

As you requested in your letter of 13 March, I am issuing the following directive to the Chiefs of all Bureaus and Heads of all Divisions and Offices of the Navy Department; the Commandants of the Coast Guard and the Marine Corps; the Commandants of Naval Districts, Sea Frontiers, River Commands and Air Functional Training Commands; and the Commanding Officers of Major and Minor Shore Stations in Continental United States:

"TREASURY DEPARTMENT WILL CONDUCT SEVENTH WAR LOAN DRIVE DURING APRIL MAY AND JUNE X PARTICULAR EMPHASIS BEING PLACED ON INDIVIDUAL PURCHASES MAKES THIS DRIVE A MOST DIFFICULT TASK X ADDRESSEES SHOULD COOPERATE FULLY WITH WAR FINANCE DIVISION, TREASURY DEPARTMENT X REQUESTS FOR NAVAL PERSONNEL AND MATERIAL FOR USE IN THE SEVENTH WAR LOAN SHOULD BE GRANTED EXCEPT WHERE SUCH ACTION WOULD IMPERE THE WAR EFFORT X"

Sincerely,

Jim

James Forrestal

Honorable Henry Morgenthau, Jr.
Secretary of the Treasury
Washington, D. C.

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March 20, 1945

MEMORANDUM FOR THE SECRETARY

From: Mr. Blough

At this morning's meeting of the Joint Committee on Internal Revenue Taxation, the attached report "Suggested Revision of Corporate Taxes for the Transition Period" was read. Senator Vandenberg asked if you had read the report and I replied that it had been discussed with you. He then asked whether you were in favor of it and I replied that I was authorized to say that the Treasury supported the report.

Chairman Doughton raised the question of whether tax relief in the transition period would be recommended also for individuals. I pointed out that this report made no recommendations for tax reduction until after the war was over, although it did provide for some adjustments before that time. I said that the treatment of excess profits taxes after the war was singled out for discussion because of the stress which business men and others had placed on the importance of knowing what was to be done with that tax; that with respect to other taxes this consideration was not so important and that the amount and timing of relief could be judged better at a later date; however, that further reports with tax suggestions would be made.

Congressmen Knutson, Woodruff and Reed (all House Republicans) spoke on the large and wasteful expenditures which they say are being made and will be made abroad.

Perhaps the only disquieting thing about the presentation of the report, which was well received, was the compliments paid to it by Senators Taft and Vandenberg!

Roy Blough

[CONFIDENTIAL]

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PRELIMINARY PRINT
STUDIES IN POST-WAR TAXATION

SUGGESTED REVISION OF CORPORATE
TAXES FOR THE TRANSITION PERIOD

Pursuant to resolution of the
JOINT COMMITTEE ON INTERNAL REVENUE
TAXATION

By the Technical Staffs of the
JOINT COMMITTEE ON INTERNAL REVENUE TAXATION
AND TREASURY DEPARTMENT

MARCH 29, 1945

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JOINT COMMITTEE ON INTERNAL REVENUE TAXATION FOR POST-WAR TAXATION

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SUGGESTED REVISION OF CORPORATE TAXES FOR
THE TRANSITION PERIOD

I. INTRODUCTION

The suggestions for corporate tax revision presented in this report relate solely to the transition period beginning with the defeat of Germany and extending until shortly after the defeat of Japan. A major objective of tax policy in this period is the encouragement of rapid reconversion to high-level peacetime production. Primary emphasis is given to those features of corporate taxation which if not adjusted would be most likely to interfere with a rapid reconversion from wartime to peacetime production.

It is believed that present tax rates should be retained and that no major changes in taxation should be made until after the defeat of both Germany and Japan. The more important reasons for this position are:

1. Federal expenditures can be expected to remain at a high level even after victory in Europe, and thus the need for revenue will not be lessened. With the war continuing on one front, it has been estimated that the Federal Government would spend for war alone at the annual rate of about \$71 billion.

2. It appears unlikely that there will be any serious general unemployment during the period of the Pacific war. This period can be expected to be one of reasonably full employment since the pent-up demand for goods and services is expected to offset the anticipated cut-back in war production. Such unemployment as does exist will largely be caused by unavoidable delays in the reconversion of plants to peacetime production. It is likely to be limited to a few areas in which large cut-backs in war production are made. General tax reductions could do little to help these isolated areas.

3. Inflation will continue to be a danger during the period of the Pacific war. Tax reductions at this time might be an important factor in starting a run-away inflation, since they would increase demand for civilian goods and services already in excess of limited production. Furthermore, tax reductions might weaken other anti-inflationary controls.

4. While the armed forces are still called upon to endure personal and economic hardships, tax reduction would impair morale.

The specific suggestions, especially as to timing, are contingent upon when victory is achieved in Europe and in the Pacific. It is assumed throughout this report that victory in Europe will occur in 1945.

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II. OUTLINE OF SUGGESTED TAX CHANGES

A. CHANGES EFFECTIVE IN 1945 (AFTER VICTORY IN EUROPE)

Although tax reductions do not seem advisable after victory in Europe, tax revisions to improve the cash position of business for reconversion may be made without decreasing ultimate tax liabilities. Four proposals are suggested to take effect after victory in Europe:

1. Speed up refunds attributable to carry-backs of net operating losses and of unused excess-profits credits;
2. Speed up refunds resulting from the recomputation of amortization deductions for emergency facilities;
3. Make the post-war credit of 10 percent of excess-profits taxes currently available for tax liabilities of 1944 and subsequent years;
4. Advance to January 1, 1948, the maturity date for outstanding post-war refund bonds.

B. CHANGES FOR THE REMAINDER OF THE TRANSITION PERIOD

If all major hostilities end in 1945, the following suggestions are made:

1. Reduce the excess-profits tax to 65 percent and increase the specific exemption from \$10,000 to \$25,000 for 1946;
2. Repeal the excess-profits tax, including the carry-back of unused excess-profits credits, as of January 1, 1947;
3. Repeal the loss carry-back as of January 1, 1948;
4. Repeal the capital stock tax effective for the payment in 1946 and repeal the related declared-value excess-profits tax.

If the Pacific war ends in 1946, the following suggestions are made:

1. Continue the excess-profits tax at its present rate, and increase the specific exemption from \$10,000 to \$25,000 for 1946;
2. Repeal the excess-profits tax, including the carry-back of unused excess-profits credits, as of January 1, 1947;
3. Repeal the loss carry-back as of January 1, 1948;
4. Repeal the capital stock and declared-value excess-profits taxes as to capital stock tax payments due after the cessation of hostilities.

If the Pacific war ends in 1947, the following suggestions are made:

1. Continue the excess-profits tax at its present rate and increase the specific exemption from \$10,000 to \$25,000 for 1946 and 1947;
2. Repeal the excess-profits tax, including the carry-back of unused excess-profits credits, as of January 1, 1948;
3. Repeal the loss carry-back as of January 1, 1949;
4. Repeal the capital stock and declared-value excess-profits taxes as to capital stock tax payments due after the cessation of hostilities.

* If major hostilities should cease in the first half of 1945, it is suggested that the excess-profits tax be repealed as of January 1, 1946, but that unused excess-profits credits arising in 1945 be carried back.

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It should be noted that the speed-up of refunds, the increase in the specific exemption under the excess-profits tax, and the repeal of the capital stock and declared-value excess-profits taxes would be especially beneficial to small corporations.

III. DISCUSSION OF SUGGESTED TAX CHANGES¹

A. SPEED-UP OF REFUNDS AND CREDITS

1. Refunds resulting from carry-backs.

Under existing law, refunds of taxes resulting from the carry-back of net operating losses and unused excess-profits credits are made a considerable length of time after the loss or unused credit arises. The claim cannot be filed until after the year of loss or unused credit; for example, a claim arising from a loss on 1945 operations cannot be made until after the close of the year, when the amount of the loss can be determined. Following the filing of the claim early in 1946, many months are usually required for auditing the returns for all years affected and for reviewing the claim before a refund can be finally made. In the immediate post-war period, a more than ordinary delay may result because of the heavy administrative burden imposed by the numerous adjustments in returns for the war years.

After cut-backs of war production, many businesses will need to make large reconversion outlays at a time of reduced income, which will give rise to a loss or unused credit. To this drain on liquid assets will be added tax payments on liabilities accrued on income earned in the preceding year. These tax liabilities must be met despite the fact that the loss or unused credit will ultimately result in tax refunds. In some cases the financial solvency of the firm may be endangered or its planned level of production sharply curtailed.

It is desirable, therefore, to change the refund procedure with cessation of hostilities in Germany so that a taxpayer may secure the benefits of the carry-backs in the period when they are most needed. The details of this change will be set forth in a subsequent part of these studies.

2. Refunds resulting from the recomputation of amortization deductions.

Under existing law emergency facilities certified as necessary for national defense may be amortized over a 5-year period. If, within the period, the emergency period is terminated, or a particular taxpayer's facilities are certified to be no longer necessary for national defense, the taxpayer may elect to have the amortization deduction recomputed on the basis of the shorter period. Shortening the period of amortization will result in additional deductions in the returns previously filed, and, consequently, will give rise to tax refunds. These claims for refunds must be handled through the usual administrative procedure involving unavoidable delay at a time when the taxpayer will be in need of funds for reconversion operations.

It is suggested that, with cessation of hostilities in Germany, refunds resulting from issuance of non-necessity certificates or from ending of the emergency period be speeded up. The details will be set forth in a subsequent part of these studies.

¹ Suggested changes which assume the end of hostilities in 1947 are not specifically discussed below. They relate to the end of the war, however, as do the suggestions assuming final victory in 1945.

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3. Current allowance of the post-war credit and advance payment of post-war bonds.

Starting with taxable years beginning in 1941 and ending after June 30, 1942, corporations which pay an excess-profits tax are credited with an amount equal to 10 percent of the tax imposed. Bonds are issued to the taxpayer for this credit to the extent the credit is not taken currently for 40 percent of net debt retirement. These bonds carry no interest, are nontransferable, and are redeemable at the option of the United States on 3 months' notice or, if not redeemed, they mature as follows:

| Bonds purchased with credits for taxable years beginning— | Number of years after cessation of hostilities before maturity of bonds |
|---|---|
| In 1941 and 1942..... | 2 to 3 |
| In 1943..... | 3 to 4 |
| In 1944..... | 4 to 5 |
| In 1945 and subsequent years..... | 5 to 6 |

For example, if the war should end in 1946, bonds based on 1941 and 1942 credits would not mature until December 31, 1948. However, the bonds become negotiable upon cessation of hostilities.

One of the purposes of post-war credits is "to provide a fund that will be available for the conversion of production facilities after the war to peacetime demands."² The present law fails, however, to achieve this purpose. Businesses facing reconversion after victory in Europe will not be able to negotiate these bonds until victory has been achieved in the Pacific. In addition, these bonds will not be fully available after the cessation of hostilities in the Pacific. For example, if the final cessation of hostilities were to occur in the middle of 1946, the taxpayer's excess-profits tax refund bonds for the tax year 1945 could not be issued prior to full payment of the excess-profits tax, which in general would be December 15, 1946. Accordingly, this taxpayer could not depend on using his 1945 bonds as a means of providing the necessary capital during 1946.

To make the refunds available when they are needed, it is proposed that after victory in Europe the post-war credit be allowed currently with respect to unpaid taxes of 1944 and subsequent years. It is also suggested that the maturity date of bonds issued for prior years be advanced to January 1, 1946. This latter proposal is believed to be a more satisfactory alternative than making the bonds negotiable after cessation of hostilities with Germany. It will considerably reduce the problems of tax and renegotiation administration. At present, bonds must be canceled or issued with each change in tax liabilities of the war years. It has been indicated by those connected with the fiscal operations of the Treasury that this change in maturity could be managed satisfactorily. The details of this plan will be set forth in a subsequent part of these studies.

B. EXCESS-PROFITS TAX

1. General considerations.

The excess-profits tax was enacted in 1940, effective for taxable years beginning after December 31, 1939. Its purpose was to recapture a substantial part of the increased profits resulting from the

² Report of the Senate Committee on Finance on the Revenue Bill of 1942.

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large expenditures then being made for defense purposes. With our entry into the war, the rates were increased sharply and credits modified. The tax became an essential part of the wartime stabilization program and an important source of revenue.

The 1940 act provided for the taxation of profits, above the excess-profits credit and a \$5,000 specific exemption, at graduated rates ranging from 25 to 50 percent. These rates were raised by 10 percentage points in 1941. The 1942 act replaced the graduated rates with a flat 90-percent levy, but provided for a post-war refund of 10 percent of the tax, and an over-all income and excess-profits tax limit equal to 80 percent of corporate net income. The 1943 act raised the rate to 95 percent and increased the exemption to \$10,000 but without altering the post-war credit or the 80-percent tax-limit provisions.

While the excess-profits tax is recognized as an essential feature of war finance, it has also been suggested as a method of recapturing peacetime monopoly profits and windfall gains. Although a case can be made for such a tax, the isolation of those particular types of profit for purposes of taxation would be very difficult. In an economy of free enterprise, the amount of profit necessary to encourage production varies from industry to industry, depending on the degree of risk involved. The development of satisfactory standards for the measurement of excess profits applicable to all types and sizes of businesses would be an extremely difficult task, and the administration of such standards would pose insuperable difficulties. Yet, an excess-profits tax without such standards is likely to discourage risk taking. Moreover, high profits often serve a useful purpose in attracting enterprise into industries of growing demand. In such cases, if there is reasonably active competition, the high profits tend to be temporary, since the expansion of production usually results in lowered prices. To tax such temporary "excess" profits would discourage rapid adjustment of production to changing conditions of demand and cost.

2. The timing of repeal.

If the excess-profits tax is not to be a part of the post-war tax structure as suggested in the above considerations, the problem arises as to when it should be repealed. Because there are important arguments both in favor of a late repeal and in favor of an early repeal, the suggestions take into account the considerations on both sides.

(a) *Considerations in favor of a late repeal.*—It is argued that, as an instrument for the recapture of war profits, the excess-profits tax should be retained throughout the war and then should be repealed only after war-caused profits have largely disappeared. During the reconversion period and after, many concerns will be able to earn abnormal profits as a result of the large deferred demands for their products. This will be particularly true of firms which may be fortunate enough to reenter the civilian market ahead of competitors. Such profits may be regarded as war-caused gains and therefore properly subject to the excess-profits tax.

If serious inflation threatens, it is said that this tax should be continued as an integral part of the stabilization program. So long as the production of civilian goods is insufficient to meet demands, the economic situation is potentially inflationary. The excess-profits tax is an important anti-inflationary device, not only because it absorbs a considerable volume of otherwise spendable funds but also because it helps to make wage controls feasible.

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For some time after the end of the war, Government expenditures will continue at a higher than peacetime level. Revenue needs may, therefore, justify the temporary retention of all wartime taxes.

(b) *Considerations in favor of an early repeal.*—Although, from the standpoint of recapturing war-caused profits, of stabilizing prices, and of meeting revenue needs, it might be sound policy to retain the excess-profits tax until the need for it had clearly disappeared, other considerations have been advanced in favor of an earlier repeal.

First, it is argued that the possibility of the indefinite continuation of this tax would weaken the incentive of businessmen to formulate and carry out plans for the post-war period. This would apply not only to the reconversion and expansion of existing firms but also to the organization of new firms. Therefore, from the point of view of hastening reconversion and providing a business environment favorable to the expansion of new and growing enterprises, early repeal is essential. In view of the fact that plans for post-war business operations will be made well in advance of the end of the war, it is also desirable to announce at the earliest opportunity that the tax will be removed at some reasonably definite time in the near future. Once the war is over, however, the promise of early repeal—even when stated in unequivocal terms—may fall short of giving businessmen the confidence needed to assure a speedy conversion of the economy to a high level of peacetime production. Complete confidence may come only with the actual repeal of the tax.

Furthermore, the longer the excess-profits tax is retained, the less certain it becomes that the profits which will be taxed under it are true war-induced profits. With the passage of time, base-period earnings inevitably become a more inaccurate standard of normal profits. The presence of these and other inequities on a substantial scale would constitute an argument for early repeal of the excess-profits tax.

(c) *Conclusions concerning repeal.*—The weight which should be given to these arguments for and against early repeal of the excess-profits tax depends upon the circumstances under which the war finally comes to a close. If, for example, the Pacific war were to continue on a declining scale for several years after the end of hostilities in Europe, the end of major hostilities would find reconversion substantially completed and few firms still earning war-induced profits. Under these circumstances, the case for early repeal of the excess-profits tax following the cessation of hostilities would be a strong one.

If the war with Japan should, however, continue to require large Government expenditures for, say, 6 to 18 months after victory in Europe, and, if few of the plants now engaged in the production of war goods were permitted to reconvert to civilian production during this period, primary emphasis would have to be placed on the need for keeping inflationary pressures in check and for maintaining revenues from war taxes. Under these circumstances, the case against early repeal of the tax would be a strong one.

Should the war in the Pacific, as well as the war in Europe, end in the first half of 1945, it is suggested that the tax be repealed as of the first of 1946. If the war in the Pacific should end in the last half of 1945, 1946 would be a year in which substantial reconversion would take place and substantial war-caused profits would be earned. If the war in the Pacific should end in 1946, substantial reconversion

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would have taken place in that year. Under either of these latter assumptions, therefore, it is suggested that the tax should be repealed as of the first of 1947.

5. *Changes in rate and exemption.*

Prior to the repeal of the excess-profits tax, incentive for business expansion can be secured by some reduction in rates and an increase in the specific exemption. These changes would still permit the retention of control over inflationary pressures and the recapture of the greater part of war profits.

(a) *Tax rate.*—Reductions in the rate of the excess-profits tax would be important from the standpoint of encouraging business expansion, not only because they would actually reduce business taxes but also because they would indicate to the businessmen a trend away from high wartime taxes. This psychological effect would probably be favorable to business expansion, especially if the rate reductions were made at the time business was making its plans for the post-war period.

Rate reductions would also stimulate efficient peacetime production. Very high tax rates encourage unnecessary expenditures and laxity in controls over costs. It is, therefore, important that the influence of tax considerations on business decisions should be reduced as rapidly as possible.

If all major hostilities cease in the second half of 1945, it has been suggested that the excess-profits tax not be repealed until the first of 1947. Although 1946 would be a year of reconversion and a time of business planning for the post-war period, repeal would not be desirable because demands for consumer goods could not be met and inflationary pressures would still persist. Reduction in the rate of the tax to 65 percent, instead of repeal, would seem appropriate under these conditions.

If major hostilities cease in Europe in 1945, and in the Pacific in 1946, it has again been suggested that the excess-profits tax not be repealed until 1947. It would appear that no rate reduction should be made for 1946. This year would be one of continuing war-induced profits and of serious inflationary pressures.

(b) *Specific exemption.*—The suggestion to increase the specific exemption from \$10,000 to \$25,000 for the year 1946 is intended to provide incentives for the expansion of small and especially new enterprises during the period when it is necessary to continue the excess-profits tax. The increase in specific exemption would (a) remove a large number of smaller corporations from liability under the excess-profits tax; and (b) reduce the burden on those corporations still subject to the tax, the reduction being relatively more important for smaller corporations. Experience with the excess-profits tax has shown that it tends to be relatively burdensome for many small corporations.

The suggested increase in the specific exemption would probably free from liability under the excess-profits tax more than a third of all companies now subject to the tax, with no considerable loss of revenue.

C. *CARRY-BACK OF NET OPERATING LOSSES AND UNUSED EXCESS-PROFIT CREDITS*1. *General considerations.*

There are two types of carry-backs: (1) the carry-back of net operating losses and (2) the carry-back of unused excess-profits credits.

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A net operating loss in any year may be carried back and deducted from income earned in the 2 preceding years. The effect of such a carry-back, in the case of corporations, is to reduce the amount of income subject to the excess-profits tax or, if there is none, the amount subject to the normal tax and surtax.

The carry-back of unused excess-profits credits for corporations arises in any year when the credit is greater than excess-profits net income. In that case the unused portion of the credit may be carried back and added to the total credit of the 2 preceding years. The effect of this increase in the credit is to reduce the amount of income subject to the excess-profits tax and to increase correspondingly the amount of income subject to the normal tax and surtax.¹ The resulting net reduction in taxes is refunded.

The carry-backs were introduced in 1942 to provide a method of charging war-induced post-war expenses and losses against wartime income. At that time attention was focused on the possibility that the deferment of normal expenditures on maintenance and repairs and the appearance of inventory profits would result in an overstatement of income subject to heavy wartime rates.

Since the principal function of the carry-backs is to correct the overstatement of income subject to high wartime tax rates, it would be appropriate to repeal these provisions of the tax law as soon as the bulk of war-related post-war expenses and losses have been incurred. To continue them longer would unduly impair the wartime tax base by permitting ordinary peacetime expenses and losses to be deducted from wartime income.

It has been urged that the loss carry-back be retained as a part of the post-war tax program. It is believed, however, that for the peacetime tax structure a longer loss carry-over would be more satisfactory than the present combination of carry-backs and carry-overs.

2. The timing of repeal.

Ideally, it might be desirable to repeal the carry-backs for each firm individually at the time when its war-related post-war costs had ceased. Or it might be desirable to segregate war-induced post-war costs for each firm and apply only such costs against wartime income. The administrative difficulties of these procedures would, however, be very great. Another possibility would be to continue the carry-backs until practically all firms had completed reconversion. Such long retention would enable many firms to charge normal peacetime costs against wartime income and would enable them to secure unused excess-profits credits even though their income might be substantially higher than in the pre-war period. Moreover, extended carry-backs would reduce the incentives of firms to adopt aggressive production policies, and war-created firms would be induced to postpone liquidation in order to receive substantial refunds by keeping the corporate shell alive.

Since, therefore, an ideal solution is not feasible, the length of time the carry-backs should be retained will depend on the period within which the bulk of war-induced post-war expenses and losses will be incurred. This period will depend on the timing of contract termination and on the speed with which reconversion can be accomplished.

¹ A carry-back of a net operating loss may produce an unused excess-profits credit in the year to which it is carried, which credit may then be carried back. Under such circumstances a net operating loss may give rise to a refund of taxes paid for the fourth year prior to the year in which the loss occurred.

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If a considerable volume of contracts should be canceled following victory in Europe and the rest of war production concentrated in Government-owned plants, it is obvious that considerable reconversion could take place prior to cessation of all hostilities. Assuming, for example, a protracted war with Japan on a decreasing scale, it is not unlikely that the bulk of reconversion costs would be incurred while the war was still going on. On the other hand, if the wars in Europe and the Pacific should end abruptly and at approximately the same time, little or no reconversion could take place prior to cessation of hostilities.

The bulk of war-induced post-war expenses and losses will probably be incurred within 6 months to a year after contract termination. Somewhat more time, perhaps more than a year, might be required to allow for inventory losses suffered through obsolescence and price decline. It should be noted, however, that the possibility of such losses has been reduced by (1) the success of the Government price stabilization policy and (2) increased use of a method of valuing inventory—the last-in-first-out method—which substantially mitigates the effect of price fluctuations on inventory book values and income.

It has been suggested, under two assumptions in regard to the end of the war, that the carry-back of unused excess-profits credits be retained until the end of 1946 and that the carry-back of net operating losses be retained until the end of 1947. In the event hostilities cease in 1945, this permits the carry-back of unused excess-profits credits for a year or more after the end of the war—the time when practically all contracts would be terminated. If hostilities on one front continue into 1946, it is believed that a considerable portion of reconversion expenses will have been incurred before the end of the war. In this case it would not be necessary to retain the carry-back of unused excess-profits credits beyond the end of 1946.

In order to provide an adjustment of wartime taxes in cases where the reconversion period embraces a year or two of severe losses, it is suggested that the carry-back of net operating losses be continued for a year longer than the carry-back of unused excess-profits credits.

D. CAPITAL STOCK AND DECLARED-VALUE EXCESS-PROFITS TAXES

1. General considerations.

The present capital stock tax and the related declared-value excess-profits tax have been part of the corporate tax structure since 1933, when provisions for these taxes were enacted as part of the National Industrial Recovery Act. The capital stock tax is payable in July and is imposed on the value declared by the corporation. This value may be any amount, or zero. It is presumably determined in accordance with estimates of income to be earned in the current taxable year, since the declared-value excess-profits tax is levied on the amount of income in excess of a specified ratio of the declared value of the capital stock.

As originally conceived, the declared-value excess-profits tax had two purposes—(1) "to induce corporations automatically to declare a true value for their corporate stock" and (2) "to subject to a somewhat higher rate of tax abnormal profits which are out of proportion to the capital of the corporation."² When these taxes were first

² Report of the Committee on Finance on the National Industrial Recovery Bill.

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enacted, it apparently was contemplated that the amount declared as the value of a corporation's capital stock would remain unchanged for a period of years (except for accumulated earnings, additional capital invested, or capital distributions). Thus, the capital stock tax would be substantially the same year after year, regardless of changes in income. By successive revenue acts, however, new valuations of capital stock were permitted. Beginning with the Revenue Act of 1942, the law has provided for annual declarations of value.

2. *The timing of repeal.*

Originally these taxes constituted an ingenious device for avoiding the difficulties attending the more usual methods of evaluating capital stock. But with annual declarations of value, the capital stock tax has ceased to be a tax on capital stock in the ordinary sense. The declared value need have no relation to the money and property paid in, to the cost or the present value of the assets, or to the long-term average earning power. Under existing law, the minimum combined tax (1.25 percent of taxable income)* will result if the amount declared as the value of the capital stock is exactly 10 times the taxable income of the current income tax year. Both the declaration of and the tax on capital stock tend, therefore, to vary with variations in corporate income.

Although the capital stock tax has thus become a kind of income tax, it is not a true income tax because it is largely determined not by actual income but by prospective income. If the capital stock is to be valued so as to minimize the combined capital stock and declared-value excess-profits taxes, income must be estimated in advance for a period up to 12 months. If the actual income of the year is much greater than the estimated amount, the corporation will be subject to a declared-value excess-profits tax; if income falls below the estimated amount a disproportionately large capital stock tax will be paid.

Therefore, corporations which have relatively stable or predictable incomes generally pay substantially smaller amounts in proportion to their incomes than corporations whose earnings fluctuate widely. Since the incomes of small corporations tend to vary much more than the incomes of large corporations, small corporations are at a special disadvantage.

Discrimination also exists among corporations with different fiscal years. Corporations with fiscal years ending in the last half of calendar year are not required to forecast income for as long a period as those with fiscal years ending in the first half of the calendar year.

Repeal of these taxes would simplify the corporate tax structure, since one return would be eliminated and the present income-tax return somewhat condensed.

In view of these considerations it is suggested that these taxes be repealed as to capital stock tax payments due after cessation of hostilities.

This report is to be followed by reports on other tax problems, including the individual-income tax

* Since this tax is deductible in computing income and excess-profits taxes, its net burden may be as low as one-fourth of 1 percent of income.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Date
MAR 20 1945TO SECRETARY MORGENTHAU
FROM MR. O'CONNELL

In re: New York League of Women Voters

You handed me the attached letter to Mrs. Morgenthau from Mrs. Heming concerning the income tax status of the New York League of Women Voters.

Since the League is going to request a reconsideration by the Bureau of Internal Revenue and, presumably, all the facts will be presented there, I see no need for a reply on this question by Mrs. Morgenthau.

Joseph J. O'Connell

Attachment

NEW YORK LEAGUE OF WOMEN VOTERS 104
NEW YORK 16, N. Y.

441 FOURTH AVENUE



Telephone: MUney MB 3-2846

President
MRS. CHARLES E. HEMINGSecretary
MRS. JOSEPH F. PALMERTreasurer
MRS. DONALD HUTCHINSONExecutive Secretary
ETA H. MOORE

Vice Presidents
MRS. KNIGHT SUBBAREFF
MRS. W. E. COMBES
MRS. FRANCIS DONALDSON
MRS. STONEY M. KATE
MRS. JOSEPH N. WEISS
MRS. FRANK W. ROSS
MISS ANNA LORD STRAUSS
MRS. HARRY C. WEBB

March 8, 1945

Mrs. Henry Morgenthau, Jr.
Shoreham Hotel
Washington, D.C.

Dear Lily,

Thank you ever so much for answering my question so promptly and efficiently. It seems to me it should be simple to prove to the Bureau of Internal Revenue that it is ~~not~~ true that "a substantial part of the activities of the League was devoted to influencing legislation." The purpose for which the League was founded and which is adhered to in all of our 600 locals, is to educate citizens for intelligent and active participation in government and, as you know, our activities are strictly nonpartisan. Naturally, no education in the field of government could overlook the legislative branch and so we have given some attention to legislation. This is always a very minor and secondary part of League work. Furthermore, even that legislation on which we do act is strictly limited to what is in the public interest and to further the welfare of all the people. We are never a pressure group to promote the interests of any special group. You know the kind of legislation the League has endorsed: the merit system, pure food and drugs, protection of women and children - and especially, working for world peace through international cooperation.

We could produce for the Bureau of Internal Revenue quantities of educational material giving pros and cons of controversial subjects and devoted to fields of government other than legislation, such as electoral processes, voting procedures, constitutional conventions, budgets, county government reorganization, municipal charters, civic responsibilities of citizens in all fields, etc.

The best proof of this is in our budgets. The New York State budget for the current year totals \$41,186, of which only \$100 is budgeted for legislation. (We pay \$50 for the State Legislative Index). Of course a small percentage of our general overhead on postage and correspondence has to do with legislation, but this could not by the wildest stretch of the imagination be considered a "substantial part" of the total. The National budget total is \$87,800, of which only \$100 is budgeted for legislation. The National budget contains many items for an executive staff of nine people and a clerical staff of twelve people. We have only one Congressional secretary to represent the League on the Hill, and keep our members informed about legislation, but we have three program secretaries, two organization secretaries, a finance secretary, etc. The reason I am mentioning National and State budgets is because even though contributions are made to the local Leagues these go to the support of State and National. For example, a contributor to the New York City League is indirectly supporting the State and National.

Page 2 of letter from Mrs. Hening to Mrs. Morgenthau

We are going ahead requesting a hearing and hope we shall be able to convince the Bureau of Internal Revenue that contributions to the League of Women Voters should be tax exempt.

Yours,

mc

Mrs. Charles E. Hening
State President

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE 3/20/45

TO Mr. Luxford

FROM Secretary Morgenthau

Sunday night Drew Pearson said quite a bit on the air about our wasting bottles through insisting that they be broken. I wish you would let Dave Carre read the attached memorandum from Commissioner Nunan, which shows that the destruction of bottles is purely optional.



OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESS ONLY TO
COMMISSIONER OF INTERNAL REVENUE
AND NUMBER TO

TREASURY DEPARTMENT
WASHINGTON 25

March 19, 1945.

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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 16, 1934. (Now Section 2671, Internal Revenue Code.) Regulations 13 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

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Memorandum for the Secretary.

Page two.

"the owner or occupant of any premises upon which such bottles or containers may lawfully be emptied from assembling the same upon such premises (a) for the purpose of destruction or (b) for delivery to a bottler or importer who maintains a storage place for used liquor bottles authorized under section 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.

*Respectfully,
Commissioner.*

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Photostat of
Mr. McHenry
3/23/45
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THE WHITE HOUSE
WASHINGTON

March 20, 1945.

Dear Mr. Secretary:

Upon the completion of my mission to Switzerland, I cannot commend in too high terms the work of Mr. Orvis Schmidt. He carried the main burden of all negotiations on financial matters and our complete success in attaining our objectives in this field is due in large measure to his ability, knowledge and skill in negotiating. He made an excellent impression on the other Allied delegations and on all Swiss officials with whom he came in contact. Finally, he made a major contribution to the happy personal relationship that prevailed in my delegation.

I am most grateful that you made his services available for this mission.

Yours sincerely,


Leuchlin Currie
Administrative Assistant
to the President.

Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D. C.

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March 20, 1945

My dear Mr. Mers:

I would like to suggest, if you haven't already done so, that you take time to read the report of CED.

With kind regards,

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Charles Mers,
The New York Times,
New York, New York.

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March 20, 1945

MEMORANDUM FOR THE FILES

Chairman Spence gave me the line-up of opposition witnesses for the rest of this week. It is as follows:

Wednesday - Randolph Burgess

Thursday - Leon Fraser, W. L. Hemingway

Friday - General Leonard Ayers,
W. Latimer Gray, Vice President of the
First National Bank of Boston
Randolph Burgess

WR

Cc: Mr. White
Mr. O'Connell
Mr. Feltus
Mr. Brenner
Mr. E.M. Bernstein
Mr. Leroy
Miss Bassett

1 BANQUE DE GRÈCE
LE GOUVERNEUR

Athens 20th March 1945 .-

C.G. 78 .-

My Dear Mr. Secretary ,

I hereby acknowledge receipt of your letter of the 22nd ulto. with enclosed copy of your most interesting article about the Bretton Woods Agreements, for which I thank you .-

May I take this opportunity to express to you my sincerest congratulations for the excellent, orderly and methodical way in which the work at Bretton Woods was carried out under your enlightened direction .-

I also deem it my duty to express my sincerest thanks to the United States Government for the great courtesy and engaging attentions which they displayed to us during our sojourn in your most hospitable country .-

With the assurance of my highest consideration,
I remain ,

Sincerely yours,

K. Varvaressos

K. Varvaressos,

The Honourable Henry Morgenthau Jr.
Secretary of the Treasury
Washington D.C.
U.S.A.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE March 20, 1945

TO Secretary Morgenthau
FROM Mr. Feltus

Attached herewith are photostats of two items which were discussed in your office on Friday and which you asked me to send you. The New Republic editorial grew out of our meeting in New York at which White had talked to a group of writers and radio people. The Mallon column, contrary to appearance, was not written by me.

R.F.

NEW WORLD BANK AND MONEY PLAN

—BY PATTI MALLON

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If this is not

Bretton Woods: Now or Never

If this is not done, if the world is not put back again on its feet, the alternative is all human problems in a war. If we do not have international order, we will have international anarchy. In any country poverty and misery, if they continue for a certain length of time, lead almost surely to political revolution. Fascist elements would then get control, even though, as the world is going nowadays, they may find it convenient to call themselves anti-fascists. Self-defense, or in imagined self-defense, these countries will go in for economic warfare of the sort practiced by Germany throughout the decade of the 1930's. They will use "multiple currency" devices which

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money in one (favored) situation than in another (unfavored) one; they will resort to barriers to trade and exchange control. It does not require much intelligence to see that a world of international conflict is a world headed for international distrust, suspicion, hatred and war.

To prevent these evils or mitigate them as much as possible, the Bretton Woods proposals were made. Over a period of many months, delegations from many countries came successively to Bretton Woods for bilateral talks with American experts. Simultaneously, similar talks were held in London between spokesmen for the British government and for a number of other countries. Then in the summer of 1944, more than 300 experts representing 44 countries met at Bretton Woods, and worked out the agreements for the International Bank and the International Monetary Fund. These proposals now need to be ratified by all the participating powers. Hearings are under way for this purpose before the Banking Committee of the American House of Representatives, and will soon begin before a committee of the Senate.

Ignoring technical detail, the chief purpose of the International Bank is to make or insure loans across international boundaries. Suppose, for example, that Yugoslavia wanted to install a big hydroelectric power project like the TVA. If the International Bank did not exist, she would come to the money market in London or New York and try to borrow the money from private sources. These sources, with no control, or practically no control, over internal conditions in Yugoslavia, and seeking, naturally, all the profit that the traffic would bear, might impose very difficult or impossible conditions, as to interest rates, amortization and collateral. The loan might or might not be made; if made, it might subsequently go into default, and the investors in it might lose all or part of their money.

Suppose on the other hand that we have the International Bank in existence. The would-be borrowers come to the lending committee of the IB and ask for their money. The IB proceeds to ask three questions: 1. Is this loan for productive purposes? 2. Is it, or could it be, used for war purposes? 3. Does the Yugoslav government guarantee the loan? If the answer to the first and third is yes and to the second is no, the bank will make the loan, or, more probably, will guarantee it, exactly as the FHA guarantees your loan with which to buy or build a house. If the loan is guaranteed, the money would probably come from private sources. The bank, for its participation, would get a fee of one percent per year to go into its income fund.

The International Monetary Fund serves a very different purpose. Its aim is to prevent wild fluctuations, whether involuntary or deliberate, in the currencies of any country. When currency is depreciated, the result is the same as though other currencies, in international exchange transactions, became more dear. Temporarily, at least, to depreciate the currency makes it easier for a country to export and harder for it to import. (This is true only temporarily, because other countries are almost certain to take reprisals, either cheapening their own currencies, raising their tariffs, or putting exports from the depreciating country under a quota or embargo.)

The International Monetary Fund will have a capital of \$8,800 million, of which the United States' share is \$2,750 million (the bank's capital is \$9,100 million, of which our share is \$3,175 million). The fund will be used to correct small and temporary inequities in exchange rates, as has been done in the past with stabilization funds of the various countries. (The United States now has a stabilization fund of about \$2 billion which has been in existence for the past eleven years and has earned a handsome profit.) In addition, the fund will have control over the deliberate actions of the participating governments in changing the value of their currencies. These governments pledge themselves in the agreement to maintain their currencies at the stipulated values, within a margin of one percent, to devalue their currencies in terms of gold, and to make no restrictions on payments in settlement of current trade balances. If they intend to change the value of their currency by 10 percent or less, they agree to consult the fund in advance on such



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We Don't Learn—Even the Hard Way

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THE NEW REPUBLIC

action. A change of more than 10 percent can be made only with the approval of the board of the IMF.

You sometimes hear it said that the Bretton Woods proposals are in the interest of foreign countries and that the United States should either reject them on that account or should accept them only for philanthropic motives. Nothing could be farther from the truth. We have as great an interest as any other nation in seeing the world become prosperous and remain so. If we are to make loans abroad—and it is perfectly certain that we shall, in one form or another—it is greatly to our advantage that the credit of 43 other nations be placed behind these loans, and that these nations, collectively, shall put up roughly two-thirds of the money.

Moreover, the plan for the monetary fund represents a concession by the rest of the world, and especially by Great Britain, to the United States. We are the only important country on earth which wants a return to the gold standard. Great Britain and most other countries want a managed currency whose value can be adjusted from time to time, not merely, or even primarily, for an advantage in foreign trade, but for the maintenance of high prosperity at home. It was a great concession for these countries to give way to the United States and base their currencies on gold. Indeed, there is a powerful minority in Great Britain which feels the sacrifices to the United States have been too great, and that the international fund should be rejected. These countries get some reward, of course, in that on notification to the fund they can alter the value of their currency by 10 percent in either direction.

Who opposes ratification of Bretton Woods? So far as we know, it is just two groups: the political isolationists, who want to let Europe stew in its own juice, and a small group of powerful bankers in New York or greatly influenced by it, who, however sincere they may be, believe they can profit enormously by a continuance of the anarchic conditions of the recent past. They are like private policemen who earn fat fees by conducting wealthy travelers through a bandit-ridden country: naturally they are opposed to the coming of law and order which would make their chaperonage no longer necessary. You may have read that the American Bankers' Association is opposed to the monetary fund, although with some amendments it favors the bank. This is not true; a report to that effect was made by a committee of the ABA, but it has not been ratified by the membership. The Independent Bankers' Association on the other hand is in favor of both the bank and the fund. If you should read that such groups as the National Association of Manufacturers or the Chamber of Commerce of the United States are opposed to part or all of Bretton Woods, you may be sure it is the same little group of wealthy and powerful bankers who have marauded

behind the scenery, hastily changed their costumes and have now appeared again as another committee.

Nobody pretends that the Bretton Woods proposals are perfect. No doubt they can be modified advantageously in future years in the light of experience. But it is a mistake to reject something that is 90-percent good because it is not 100-percent good. If history serves, there were about 160 proposed amendments to the United States Constitution when it was up for consideration. Plenty of people proved to their own satisfaction that it should be rejected, yet we all see today what a disaster rejection would have been. The enemies of Bretton Woods do not dare admit that they want to scrap the whole thing. They are in favor, so they say, of the bank, but they do not like the fund—although the bank could not operate successfully unless the fund had first worked to smooth the international waters. A short time ago, they favored the fund and not the bank. What they really want is neither fund nor bank.

If the American Congress begins amending the Bretton Woods plan, it will never go into effect. Forty-four nations took weeks to write it, after preliminary negotiations lasting years. At the conference even now, including the United States, tried to get modifications in its own interest; one by one, these efforts were slapped down. If we now insist on amendment, so will everyone else, and the cause is lost. With it goes most of the hope of the Dumbarton Oaks plan for world peace. If the United States will not live up to its pledges on a simple matter of international banking which is tremendously in its own interest, what hope is there that it will assume the far more onerous obligations of a new organization for world security? Let the members of Congress beware: if they vote against Bretton Woods in substantially its present form, they are voting for long continued worldwide poverty and misery, and the likelihood of another world war.

THE NEW REPUBLIC

A Journal of Opinion

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TREASURY DEPARTMENT

118 ←

INTER OFFICE COMMUNICATION

DATE March 20, 1945

TO Secretary Morgenthau - For Your Information

FROM Mr. Feltus

JA

I thought you might like to see the attached marked copy of Executive War Digest which shows how conservative business interests can be reached through their own media.

The Digest is published by Thomas A. Edison, Inc. and goes to a select list of top business executives. It is prepared for Edison by a friend of mine. In fact, my wife used to provide the Washington coverage and news analysis for it.

R.F.

Wallace's first act in his new job was to announce intended appointment of a series of committees to help find ways "to produce even more for the public than we have learned to produce for war." Committee No. 1, he named from Commerce's Business Advisory Council--a "conservative" group. Objective: maximum postwar employment in small business.

Appointment of Davis in Vinson's place spurred solution of the curious deadlock which had developed between their two offices on the matter of OPA approval of "fringe" wage increases. Such increases involve items like vacations with pay, shift differentials, time for changing clothes, preparing tools, etc. Under Vinson, OPA was asked to certify that fringe increases would not increase prices. Vinson's last OES act was to leave positive authority with WLB to make certain specified fringe increases.

Far more important is the issue of whether the Little Steel Formula is to be modified. Last fortnight WLB's long-hatching "Cost-of-Living" report finally saw the light of day. Public members, in the report, recommended to FDR that the Formula be kept as is. At once industry members concurred, labor members (APL & CIO) rose in unanimous protest. Length of report: 110 pages.

Later members challenged figures on which report is based, charging that cost-of-living has gone up higher than report indicates. Both APL & CIO will send supplemental reports to the President. Meanwhile some officers of CIO's United Automobile Workers urged that CIO's representatives be withdrawn from WLB, and that a new war labor agency be set up by FDR--proposals not favored by the majority. (Note: UAW members voted 2 to 1 to retain no-strike pledge.)

In the report, public members of the Board declared that the HCL has hurt "with disproportionate severity" lower-income workers. Substandard wages should therefore be corrected, said they. Hardly a week later the Board issued an order upping substandard wages to 55¢ an hour for all industry--where employers (or union and employer) voluntarily make the request. The report had recommended a statutory increase in minimum wages.

As for postwar wages, the report stated flatly: "The Little Steel Formula will have to give way to wage and price adjustments which definitely raise the general level of real wages."

Most serious labor situation in the country was precipitated when Miss Barker's dear John L. Lewis took advantage of the Smith-Connally Act and filed notice of intent to strike, unless.....Unless a long list of demands was granted, largely on fringe issues. Lewis' strike maneuvers were viewed with dismay by large sections of labor itself, and voices were immediately raised urging the Government to "take over the mines....to guarantee a continuous flow of coal for winning the war"---in the words of one of CIO's largest industrial union councils. Others concurred.

WFB has just released figures to show that last year, in plants with wage-incentive schemes, production was increased an average of 40% per man hour. Increase was measured during first 90 days after plans begun operation. Write WFB's Management Consultant Division, Washington 25, D.C. for details, if interested.



Newspaper headlines have been no more confusing on the status of warpower legislation than the actual situation on the Senate floor. Declined one Senator warily, "If the lawyers in the Senate can't agree, then God help the constituents!"

Amendments, proposals and counter-proposals have flown thick and fast--with events on the European fronts daily watering down Senate enthusiasm for any new warpower legislation at all. Penalties were one of the most controversial issues preceding final passage of the Kilgore-O'Mahoney substitute for the May-Bailey measure. After voting down penalties, the Senate next day restored them: \$10,000 fine or a year in jail, directed at employers (though there was confusion as to whether these provisions also applied to workers). The Senate bill is very similar to the draft first reported from the Military Affairs Committee (DIGEST #83). Hill's lot in conference is not likely to be a happy one, say unbudging supporters of May-Bailey bill, passed by House.

Rapid-fire shifts in recent Selective Service regulations have left employers gasping. For example, some men under 30 MAY be deferred--but a new procedure (and form) is involved. Men must be listed in order of need, and certified by a Gov't agency. The 30-35 age group is also tightened up. WFB has rushed to employers' relief with a hot-off-the-griddle publication titled, "Advice to Employers Regarding Selective Service." It explains procedures on deferments. Ask local WFB office for INFL 484, and new draft Form 42-A.

Hearings on the Nation Woods Agreement opened with optimistic backing from the State Department--on the grounds that both the Reconstruction Bank and the (un)utilization Fund were long steps toward international stability and cooperation. Some bankers also came forward to defend the entire agreement--(American Bankers' Ass'n had objected to the Fund). Speaking "for Main Street," the Independent Bankers Ass'n opined: "Common sense would dictate that when we are confronted with an international economic disaster it is nonsense to quibble over details."

Wonders of the big push on war production. WFB has established a new Conservation and Salvage Division. You can expect the types of salvage activities to be stepped up. Write the new Division, in Washington, for help or information.

Burdens by a series of requests. GDT's War Committee on Conventions has ruled that groups with out-of-town attendance of 50 or less are OK. The Graphic Arts Victory Committee has a useful new booklet called, "How to Conduct Your Convention by Mail." Free to executives. Address Committee at Nat'l City Bank Bldg., 42nd & Madison Avenue, New York 17, N. Y.

V. - HELP YOUR RED CROSS! V. -

TIF: The Office of Contract Settlement has issued two new regulations: No. 13, dealing with 'the suspension or modification of the penalty for overstating claims in connection with interim financing'---and No. 14, dealing with Termination Cost Memorandums. Get full texts from Office of Contract Settlement, Washington 25, D.C.

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SECOND MARCH EDITION
1 3 4 5

Issue: #84

On the ante Cologne fell, the War Production Board began once more to talk officially about V-E Day and what comes after. "Cuthacks" and "reconversion"---words taboo for months---again slipped easily into the on-the-record conversation of WPB officials. BUT: reconversion plans are very different from those outlined last year.

Says WPB Vice Chairman Wm. L. Batt, in discussing the original plans for a 40% cutback, "Our most optimistic figure for post V-E Day reconversion is 20%, and I certainly don't see that ahead for many months." Thus Batt publicly confirms the reconversion picture WAR DIGEST has been filling in bit by bit from well-informed Washington sources. Officially, too, Batt confirms that most of our material in Europe will not be shipped to the Pacific (WAR DIGEST #82). Says he: "Our Army and Air Force will have to be pretty completely re-equipped."

WPB has now set up the machinery it will follow in "Adjustment Period No. 1," new official term for the time interval between V-E and V-J days. Machinery revolves around a Production Readjustment Committee (DIGEST #83), staffed with representatives of WPB, Army, Navy, WMC and other key agencies. Committee will clear all "major" cutbacks, then channel new war business into areas or plants afflicted. Committee is definitely to be informed in advance of all cutbacks proposed by any war agency; in turn, contractors will be notified in advance. A major cutback is one involving contracts exceeding \$100,000 a month. Both management and labor (along with WMC, of course) will be "consulted" in every case involving sizeable layoffs. Note: civilian production will be placed in cutback plants only in order of urgency. Also, reports on U.S. manufacturing capacity will be issued twice monthly---a new service.

Meanwhile, WPB amended the post authorization plan (PR 25), and promptly followed amendments with a new order suspending the plan for another 90 days. Changes in PR 25 are designed to make it more flexible by permitting civilian production not prohibited or limited by L or M orders. As before, suspensions apply only in Group I and II critical labor areas.

Confirmation of Henry Wallace as Secretary of Commerce was the signal for a series of top-flight personnel shifts in the Administration. FDR, in a move widely popular in Congress, appointed Fred M. Vinson as head of the Commerce-divorced Federal Loan Agency. Next step was to put WLB Chairman Wm. Davis into Vinson's Economic Stabilization shoes---and George W. Taylor (WLB Vice Chairman) into Davis'.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE MAR 20 1946

TO Secretary Morgenthau
FROM Mr. Hase
Subject: Reduced meat allocations to England.

In response to your request of March 19, we have obtained the following information regarding the cut in shipments of meat to England from Mr. Glenn H. Craig, Assistant Chief of the Requirements and Allocation Control Branch of the War Food Administration.

Lend-lease shipments of meats are to be reduced sharply in the second quarter of this year, owing to a 6 percent drop in our total supply of meat (due largely to the decline in hog production) and to increased requirements for the armed forces. The reduction will affect only the United Kingdom. Meat shipments to that country are to be cut to 25 million pounds from 207 millions in the first quarter. The only other lend-lease meat shipments during the second quarter will be 300 million pounds to Russia (mostly a canned pork, beef and lard product) on previous commitments for the Russian Army, which will be slightly larger than in the first quarter. However, to fulfill the President's protocol with the Russians, according to Mr. Craig, shipments of 413 million pounds in the second quarter would be required. None of this goes to civilians. The need of meat by the Russian army was made clear to Mr. Olmstead, then Deputy Director of the Office of Food Distribution, when he was in Moscow last August. According to Mr. Craig, he was told that unless the United States could ship 100,000 tons of meat for the army, there was doubt whether the Russians could mount an effective winter drive. The shipments were made and shortly afterward the drive was launched.

For Great Britain, the 25 million pounds of meat allocated for the second quarter is more than had been previously planned. Tentative allocations made last December provided for a complete cessation of meat shipments to that country. The reduced lend-lease shipments will probably, though not necessarily, cause some reduction in the British meat rations. This will depend largely upon whether the British Government is willing to release some of the meat products held as a

military reserve. The present British meat ration amounts to 110 pounds per person, as compared with a prospective United States ration of 115 pounds for the second quarter. The Canadian ration is about 134 pounds. A meeting is now being held with the Canadians to try to work out a plan for sharing their meat supplies with the British.

Current newspaper stories of huge British stocks of food, some referring to figures as high as 100 million tons, were called fantastic by Mr. Craig. He said that total British stocks of all foods on January 1 amounted to 7.1 million tons, and that on April 1 the figure will be about 6.1 millions. These compare with a pre-war figure of roughly 4.5 million tons. He felt, however, that present food stocks in Great Britain were a little higher than necessary, and that with the reduction in meat shipments the total stocks would be reduced to about 5.5 million tons by June 1.

Practically no meat is now going for relief in liberated areas, according to Mr. Craig. The British are holding some earmarked for relief uses, but that is expected to be used largely in Holland, where conditions are most serious, as soon as the German-occupied areas can be liberated.

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DEPARTMENT OF STATE
DIVISION OF CENTRAL SERVICES
DISTRIBUTION AND LIAISON SECTION
MEMORANDUM

With reference to the Secretary of State's letter of January 1, 1944, there is transmitted herewith a paraphrase of a telegram from Moscow continuing Ambassador Harriman's interpretive comment upon developments in and respecting the Soviet Union as reflected in the Soviet Press.

March 20, 1945

FROM:
TO:
DATED:
SUBJECT:

PAT. MEM. OF TELEGRAM RECEIVED
American Embassy, Moscow (via Army)
Secretary of State, Washington
March 15, 1945
757

SECRET

The following is for the Secretary's information, and has been repeated as No. 13 to Chungking, as No. 15 to Ankara, as No. 44 to Cairo, as No. 31 to Rome, as No. 37 to Paris, and as No. 119 to London for Vincent, Schoenfeld, Patterson and Murphy, code text to be forwarded to Stockholm.

My interpretative report, No. 11, with regard to developments in Soviet policy for distribution as proposed in my No. 2215 of December 12, 1943 is given below. This report is based on the press for February.

This report No. 11 follows:

In the main, developments last month were focused against the background of the Crimea Conference. The Conference was hailed by the Russian press as an additional step ahead on the path of cooperation between Russia, Britain and United States and as proof of their wish to cooperate after the war as well as to attain victory over Germany. As to agreement reached with regard to treatment of liberated nations of Europe, postwar control of Germany, international security organization, and settlement of the Polish matter, particular satisfaction was indicated. The fact that it was considered conference decisions gave substantial recognition to viewpoint of Russia was clearly indicated from tenor of editorial remarks. Soviet diplomacy proceeded to use decisions reached at Conference to implement and support Soviet foreign policy goals promptly upon Conference's conclusion.

an aggressive

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An aggressive attitude was followed by the press both prior to and following the Conference; British and American supporters of a "soft" peace and those expressing views as to treatment of Germany (especially the Vatican) were assailed with especial relish. The press steadily urged an offensive by the Allies in the west to complement the drive of the Russians in the east and clearly indicated in the first days following the meeting that it was not considered that the Allied air raids on Germany fulfilled the agreement reached at the Yalta Conference as to concerted attacks. The Russian moves in all eastern Europe by Russian troops were defended staunchly by the press and critics of any phases of Soviet policy in these areas were dealt with hardly.

(1) The question of Allied policy toward vanquished Germany seemed to be foremost in minds of leaders of Russia on the eve of Crimea Conference.

A series of major articles concerning German plans for a third world war clarified their stand on this question in broad outline. It was argued that ruling classes of Germany (having bid for world domination) are laying plans already for the preservation of their industrial, territorial, and manpower resources for aggression in the future. The premise for a campaign of fierce condemnation of all factions favoring lenient terms for Germany was furnished by this proposition. Persons opposing such actions as reduction of German territory, punishment of German leaders, heavy reparations, transfers of German population, and complete economic disarmament of Germany were charged with wishing a new Versailles and thus of cooperating with Germans in their plans. Various organizations and persons in America and Britain (ranging from journalists such as Dorothy Thompson and business groups represented by National Association of Manufacturers to certain German Social Democratic

enigres) were

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122-C

(1) enigres) were primarily the objects of this line of attack. An unceasing campaign of criticism against Vatican (especially in reaction to appeal of Pope in his Christmas message for mercy to the conquered) was also comprehended by it.

(2) Interpretation of agreements reached at Yalta as pledge of Allied solidarity in period after the war and satisfaction at restatement of Allied solidarity in prosecution of war were the dominant themes in treatment given Crimea Conference. Confidence was indicated that the agreements reached would bring confusion to all those in other countries who might favor the development of elements opposed to the aspirations of the Soviet or who might view Soviet policies with ill will or suspicion.

(3) The convocation of Council of Russian Orthodox Church to elect Alexis Patriarch of Moscow and all the Russian was treated in such a way by the press as to accentuate the international political implications of this apparently national religious matter. Foreign appeals for mercy to the instigators of the war were described as monstrous distortion of Christian teaching by Council, addressing itself to Christians of the world. A protest against those seeking to guard Germany from responsibility for her crimes, especially the Vatican, was made in a message by visiting representatives of eastern Orthodox churches to the peoples of the world. The underlying significance of the Council as an effort to mobilize worldwide Christian opinion against supporters of merciful peace with Germany and to contest place of the Pope as spokesman for world Christianity, was disclosed by these documents.

The extent

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The extent to which the Government of the USSR has begun to show respect for the Orthodox Church is underlined by the warm message to Stalin, the participation of an official government representative in Council meeting, and the publicity given the proceedings even in the party press. A number of plays now being shown in the theaters of Moscow which treat the clergy and the church in a sympathetic and reverent manner reinforces this move toward a revival of church prestige.

(4) The decision of the Crimea Conference as to Poland was given special attention; this decision was interpreted as being a victory for the present regime in Warsaw and as a conclusive defeat for the Poles in London. It was reported in the press that decisions on Poland were received with great satisfaction by the public of Poland. At first Mikolajczyk was mentioned as a likely candidate for the expanded Government of Poland but he was reported subsequently to have aligned himself with Ardiszewski in opposition to the decisions reached in the Crimea. There was a bitter attack in the press on the Emigre Poles, along with their supporters in America and England, because of their waging a hopeless campaign against the solution of the Polish question reached in the Crimea.

Soviet assistance to the people of Poland, especially to the Soviet undertaking to send a commission of experts to Warsaw and to contribute one-half of the cost of rebuilding Warsaw, has given extensive publicity. It was indicated by matter published on the situation in newly liberated Polish areas, that the Warsaw Government was proceeding in a vigorous manner to implement its policies and program there especially with regard to state ownership of industry and land reform.

(5) Detailed but highly selective coverage which was chiefly devoted

to the

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to the presentation of the Soviet point of view was given to proceedings of the "World Trade Union Conference in London. Considerable satisfaction with the results of this conference, which it was stated have laid the foundations for trade union collaboration on a world-wide scale, was registered in official comment. However, bitter accusations were levelled against leaders of the AFL for endeavoring to prevent formation of the new world federation and Citrine was criticized also for opposing the Soviet proposal to invite trade unions of the former satellite nations and liberated Poland to send representatives to the conference. "ALL AM AND THE WORKING CLASS made vehement protests against the participation of Stanskyk as the Polish trade union delegate and especial disappointment was expressed over the failure to invite representatives from trade unions of liberated Poland.

(6) An important article in "ALL AM AND THE WORKING CLASS" discussed problems of civil aviation after the war. This article contended that the absence of the Soviet Union doomed the Chicago Civil Aviation Conference to ineffectiveness and that owing to basic divergence between American and British points of view no results of a tangible nature were achieved at that conference. This article stated that only by joint efforts of powers bearing the brunt of the war against Germany can problems of civil aviation be solved. In this sphere the creation of an international organ vested with plenary powers on economic and political matters was stated not to be feasible, and, as a more realistic goal, an organ with technical and advisory functions was proposed. In the proposal that national air lines of nations with large expanses of territory be incorporated into the network of international lines on a border to border basis, the determination that no foreign planes should be allowed to fly over territory of the USSR was made plain.

(7) All other

122-F

(7) All other developments in satellite countries were overshadowed by the evolution of events leading to the fall of Radescu's government in Rumania. Through the publication of a declaration by the National Democratic Front of its intention to form a new Rumanian Government under a comprehensive program faithfully reflecting the line for Eastern Europe sponsored by Moscow, the press launched its buildup for a radical change in Rumania. Reports of a growing crisis, with mass demonstrations demanding a Democratic Front Government, promptly followed this. Forces of Rumanian reaction, centering in leadership of the National Peasant Party, were charged with sabotage of internal regimes and terms of the armistice by "MR AND THE WORKING CLASS". The Radescu government had proved to be, (first?) incapable of establishing firm state order in Rumania by democratic means, PRAVDA declared. Since Rumania constitutes a part of the rear of the Red Army, this was portrayed as being more than just an internal affair of Rumania, and it was stated that the domination of pro-Fascist elements in this rear could not be endured. To justify this contention, decisions reached in the Government were advanced. With accusations that the forces of Radescu had on February 24 fired on a crowd of half a million demonstrators in Bucharest, the campaign reached its peak. With the resignation of the Cabinet of Radescu on the day after the arrival of Vyshinski in Bucharest, the cabinet attained successful issue.

(8) The goal of Soviet policy in Finland with Parliamentary elections in the offing, seems to be the elimination of Social Democratic politicians (who supported war against the Soviet Union) from public life. After the exclusion from the list of Social Democratic candidates Soja, of Salovaara, Heikkila, and Tanner,

by raising

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122-G

by raising the objection that many of the supporters of Tanner still remained on the list, the press continued its drive. Manifesto in which Social Democratic opposition, headed by Keto, formally disavowed the policies of Tanner leadership and came forth as an independent group in an electoral bloc with other organizations supported by the Soviet, was prominently published in the press.

(9) Russian approval of the course pursued by the Provisional Government of Hungary was reflected by press coverage of affairs in that country. It is probable that a systematic purge of active Hungarian collaborationists is foreshadowed by the first reports of minor war criminal trials. Speech by premier Miklos, who declared that the foreign policy of Hungary will be oriented in the future toward the east and that Hungary will make an effort to establish trade relations with the USSR, was featured in the press.

(10) Unceasing pressure was maintained for the punishment of those who are classified as war criminals by Moscow. Favorable comment was given to a statement made by Undersecretary Clegg on U. S. determination to bring war criminals to justice. Certain elements in the London War Crimes Commission were criticized for being irresolute in dealing with this matter, by "MR AND THE WORKING CLASS". Favorable review of the results of the trials in Sofia was published with those of Italy, Rumania and Finland. Additional expression was given to the Soviet view that insufficient steps were being taken to root out Fascist elements in the public life of Italy.

(11) A careful report was made of developments in the Yugoslav government situation. A statement by the Executive Committee of the Croatian Peasant Party criticizing forces of Yugoslav reaction, with which Dr. Tichok, head of the Croatian Peasant Party, was identified, was cited in the press. A declaration in which the Serbian church delegation (which

- 8 -

delegation (which had visited Moscow for the Russian Church Council) proclaimed the sincere love of the people of Yugoslavia for mother Russia, was given a prominent place.

(12) Press publication of a Tass despatch from Athens which alleged that Greek Right Wing Extremists planned to exploit the amnesty agreement in order that all Left elements in Greece might be destroyed, constituted the sharpest expression of Soviet displeasure over the situation in Greece to the present time. In account of the speech of February 27 in Commons made by Prime Minister Churchill, his favorable characterization of achievements of British policy in Greece was omitted.

(13) Statements made by Bones, regarding his intention to go to Czechoslovakia by way of Moscow and to set up a new coalition government, to include members of Czechoslovak resistance movement, were cited by the Press. A tendency to play up Czech-Soviet friendship with development in the offing was evident.

(14) A steady flow of material on France, for the greater part factual in content and in tone, was published by the Press. Critical attitude of French resistance movement on progress of the purge was reflected by coverage of debates in Consultative Assembly. The alleged concern for local people and efficiency exhibited by Soviets in countries occupied by the Red Army was contrasted with the reported failure of the Allies to furnish adequate relief supplies to Belgium and to France. Satisfaction was expressed by the French people at the fall of the Pierlot Government but the new government was treated with very great caution and it characterized as an unfavorable omen the inclusion of Spaak. No comment was made on the formation of a new Dutch Government, report of which was published.

(15) By the

- 9 -

(15) By the attention given in the press to a statement by the President of the Danish Freedom Council, Christian Møller, Soviet interest in northern Europe in general and in Denmark particularly was shown. This statement offered Danish cooperation in the event post-war security organization desired to establish on Danish soil, Allied Air bases. The German claim to Baltic supremacy was contested (not only on historical grounds but also on grounds of northern European security) by an important RED STAFF article and this article hinted the determination of the Russians to rule the Baltic Sea after the war's end.

(16) Into the theme of German preparations for a third world war were integrated long attacks upon the Governments of Switzerland, Sweden and Spain, to lesser extent Portugal and Argentina. For purpose of establishing post-war Fascist headquarters on their territories, these governments were all accused of collaboration with the Nazis in such plans. It was reported by the press that during the Ardennes offensive, large Spanish forces had been concentrated in the Pyrenees. MUSSA charged, in response to a rumor that Miguel Maura is forming an exiled Spanish Government to replace Franco, that Maura's connections with Spanish landowners and churchmen and his past record of non-participation in Spanish Civil War render him as a candidate for heading democratic Spanish Government totally unacceptable.

(17) The decision of Turkey to declare war was characterized acidly as a belated measure motivated by the wish to take part in peace settlement and devoid of military significance. A like view was taken toward similar decisions on part of Egypt and other former neutral countries.

(18) The war in the Pacific was given considerable coverage.

Entry of

- 10 -

Entry of the Americans into Manila was called a great Allied Victory and THE STAR stressed the far reaching military importance of American carrier-based raids in Iwo Jima and landing on that island. In MANILA a four column Tokyo article reported the internal political situation in Japan, analyzing efforts of the Koiso Government to cope with increasing military and economic burdens of a war in which Japan will not be victorious and to reconcile various factions in Japanese society.

(19) A major article on China was carried in IRRESISTIBLE which attributed the critical military situation there to the pro-Fascist policy of reactionary Kuomintang figures at the helm of the Government of China. The desire of the Soviet to enhance the world standing of Communist China was evident in the demand made by Tred for representation in the new World Trade Union Federation of labor movement of China's special border region.

(20) Increased interest in Latin American affairs was manifested by the press. Particular attention was paid to reports of subversive Fascist agents' activities. The Department of State was obliquely criticized for not bringing enough pressure to bear upon the Governments of Latin American countries to suppress activities of the Axis there. The press sharply attacked the alleged Vatican propaganda activities in Latin America. Without comment, the proceedings of the Mexico City Conference were reported, although hope was expressed that plans would be elaborated there for action against the current regimes of Argentina and Spain.

(21) Winter offensive continued to claim the major share of attention in the press, although Soviet military successes were less impressive than the spectacular gains registered during January. Pointing out that offensive is not yet to reach its peak and referring

often to

- 11 -

often to substantial German troop transfers to the eastern front, press reacted cautiously to first reports of present Allied offensive in the west. An Allied commentator's suggestions that current Anglo-American air operations against eastern Germany had been undertaken in pursuance to Crimean decisions or that they represented an important contribution to the war on the eastern front were flatly denied, notwithstanding their confirmation by the President in his report to Congress on the Conference in the Crimea. The foregoing attitude was highlighted by party slogans for Red Army Day which hailed Allied naval and ground forces, though reference to air forces was pointedly omitted. Statement by Crowsley explaining role United States supplies have played in current Soviet offensive and specifying, in number of units, the supplies furnished was published: this contrasts with former practice when only dollar values were published.

(22) In the press, aspects of Soviet policy in occupied Germany began to come forth. It was asserted in THE STAR that the Russians would turn captured German war plants to their own use and that the Government of the U.S.S.R. would take possession of all material objects of value captured from the enemy. It was indicated that in some occupied localities the Russians were employing German labor. Red Army men were told by THE STAR that all Germans were guilty in some degree and were to be considered as enemies (this with regard to relations with German civil population). However, they were strongly warned to exercise restraint in their behavior toward the enemy. From the Soviet war correspondents in Germany reports regularly referred in contemptuous terms to the servile attitude of German civilians and to their attempts

to disavow

- 12 -

to disavow Hitler and plead personal non-complicity in deeds of the regime of the Nazis. As expressed by Shrenburg, the Soviet view appeared to be that the only innocent ones are the children.

HARRISMAN

DC/LALM:KAS

3-20-45

122-L

EXECUTIVE OFFICE OF THE PRESIDENT
WAR REFUGEE BOARD

INTER-OFFICE COMMUNICATION

DATE MAR 20 1945

123

TO Secretary Morgenthau

FROM Miss Hodel

For your information

Interested Jewish groups in this country have been deeply concerned over the publication on March 16 in the Jewish Telegraphic Agency of the following item:

"Geneva, Mar. 16. (JTA) -- The Nazi Government, through its news agency DNB, today issued a warning that all Jews now in German hands, as well as Jewish war prisoners who may be captured, will be killed in reprisal for the reported plan to send Germans to Russia as laborers to rebuild the areas devastated by the German Army.

"If Roosevelt now admits that he and his accomplice Churchill undertook at the Yalta conference to surrender German war prisoners to the Soviet Union, then it is nothing but part of a devilish Jewish plan," the Nazi news agency said. Emphasizing that the Hitler government will retaliate, DNB added: "Above all, we shall make every Jew who is, or who falls into our hands, pay for all others. When the war comes to an end, there will be no more Jews in Europe."

The groups have been pressing for a warning and have telegraphed you, the Secretary of State and General O'Dwyer.

At our request, OWI and Federal Communications have checked this report and find that the following was released on March 12 by DNB for the German press:

"For all Germans battle cry is kill enemies like mad dogs! Murdering beasts deserve no better if Roosevelt now admits he and accomplice Churchill undertook in Yalta surrender German POW as slaves to Russia that too is part of diabolical Jewish plan. We will thoroughly upset machinations of slave drivers of Jewish

- 2 -

international. Or are these international criminals under impression we have no means of retaliation? Here too they will be taught lesson. Above all we will make every Jew in our hands or who falls into them pay for all others. When war comes to end there will be no more Jews in Europe. Again and again enemies have to admit we are daily becoming more fanatical and dogged.*

J. Hodel

EXECUTIVE OFFICE OF THE PRESIDENT
WAR REFUGEE BOARD

INTER-OFFICE COMMUNICATION

DATE MAR 20 1945

TO Secretary Morgenthau

FROM Miss Hodel

You will recall that when the Vasd Hahatzala (Rabbi Kalmanowitz, etc.) called on you last week they requested that consideration be given to an amendment to the license issued in the Musy case. Specifically, they requested that, with respect to the 1,000,000 Swiss francs remitted on account on March 10, permission be given to Mr. McClelland, the Board's representative, to authorize expenditures for such items as transportation, documentary fees, food and other supplies and services without prior reference to Washington.

At the conference, you indicated that this was a reasonable request.

Following the meeting, General O'Dwyer discussed the matter with Mr. Grew and Colonel Gearhardt of Mr. McCloy's office. Mr. Grew stated that he would have no objection to such an amendment provided that McClelland were instructed again that no part of the 1,000,000 Swiss francs could be used for ransom. Colonel Gearhardt indicated that the War Department would also approve the amendment on that basis.

The attached draft of a cable to Bern advising McClelland that the War Refugee Board has approved such an amendment is submitted for your approval. Copies have also been sent to Mr. Grew and Colonel Gearhardt for State and War clearance.

J. Hodel

CABLE TO HARRISON, BERN, FOR MCGILLIAND FROM WAR-REFUGEE BOARD

At the request of the Vaad Hahatzala the War Refugee Board has approved an amendment of Treasury license No. W-5486, text of which was cabled to you on March 6, 1948 (Department's No. 988). The amendment provides that, solely with respect to the 1,000,000 Swiss francs remitted by Vaad Hahatzala on March 10 to the joint account of Isaac Sternbach and Roswell McGilliland, expenditures may be authorized by you as representative of the Board, without prior reference to the Board in Washington, for such legitimate expenses as transportation, documentary fees, food and other supplies and services.

In approving this amendment, the Board holds you responsible to see to it that no (repeat no) part of the 1,000,000 Swiss francs is used for ransom. As you were advised on March 2, the members of the Board unanimously decided that no payments for ransom will be authorized.

Please keep Board fully informed of any payments which are authorized by you under this amendment. The text of the amendment will be sent in separate cable.

1
Amz

VAAD HAHATZALA
EMERGENCY COMMITTEE
132 Nassau St.
New York

March 18, 1946

General William C'Dwyer
War Refugee Board
Treasury Department
Washington, D. C.

Honorable Sir:

We respectfully submit for immediate consideration, amendment of License #W2426 with respect to one million Swiss francs remitted on March 10, 1946 to the account of Isaac Sternbach and Roswell McClelland in the Credite Swiss, bank in Bern.

Condition One of the License reads:

- "(1) No part of the above sum shall be expended or committed for expenditure except as authorized by specific action of the War Refugee Board, Washington, D. C."

It is very obvious that our representative will need funds for routine expenses such as transportation, food, documentary fees, supplies, and personal services. At the moment he may have sufficient time to submit these items to Mr. McClelland but it would be most hazardous for the rescue work involved to delay decision on these expenditures until Mr. McClelland would communicate with Washington and wait for a reply. One hour may cost thousands of lives.

Mr. McClelland no doubt is a trustworthy and capable representative of the War Refugee Board and is fully apprised of the spirit prevailing in the War Refugee Board and the several departments comprising the Board. We therefore request that he should be authorized at his own discretion to release the above million francs recently remitted for the above outlined purposes and similar purposes.

- 2 -

Need we call your attention to the fact that time is of the essence!

Vaad Hahatzala Emergency Committee

/s/ Rabbi Aron Kotler

/s/ Rabbi Abraham Kalmanowitz

/s/ Irving M. Bunis

129

GEN-1061

PLAIN

Rome

Dated March 20, 1945

Rec'd 9:10 a.m.

Secretary of State,
Washington.

750, Twentieth, noon.

MERS LIAVITT FROM JOSEPH SCHWARTZ

Thirteen. Regarding Menge's request for loan
\$68,000 to Lichtheim Geneva for purpose of special
rescue work suggest you consult Galy Mayer before
arriving final decision.

KIRK

HDA

130

CABLE TO STEINHAARDT, AMMAN, FOR MRS. HENDERSON, WAR REFUGEE BOARD

permission granted for any stops en route this country.
Chargeable annual leave.

THIS IS WBS AMMAN CABLE NO. 148

March 20, 1945
2:00 p.m.

12"

131

MEM1081

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

Rome

Dated March 20, 1945

Rec'd 9:45 a.m.

Secretary of State,

Washington.

752, March 20, noon

TO EMVITT, JDC FROM SCHWARTZ. 12.

(appropriation?)

Glad receive your cable approving appropriation

up to five million Belgian francs for Kassa there.

Because of legal and technical difficulties involved

French Kassa was set up on free loan rather than cooperative basis. Will ask Laura Margolis look into situation

Belgium and if at all possible will set up along cooperative lines. Have asked Linder expedite Aronovici

visa. All remittances to Belgium should be made for Comité

Aide aux Israélites Victimes de la Guerre, 7 Rue Gaumieret,

Brussels.

KINK

JT

Miss Chumney (for the Sec'y), Cohn, DuBois, Gaston, Hodel, Hutcheson, McCormack, O'Dwyer, Files

LFO-1484

PLAIN

132

Lisbon

Dated March 20, 1945

Rec'd 12:50 p.m., 21st

Secretary of State,

Washington.

616, Twentieth

WFO 362. FOR KASSA 205 LAFAYETTE STREET, NEW YORK

FROM DAVID SCHWITZER MICH.

Inform relatives USA all following people France healthy asking news financial help. Samuel Hirschhorn 147 Street, Apt. 34, New York, Anne Bernard Mass 6 Rue Clos Sulphon Lyon asks also clothes, Mrs Georges Mass deported. Emil Proeschels 137 East 58 Street, New York Leonard Proeschels 11 Rue Hector Bayliex Lyon. Salomon Mintz 100 East 81 St, Brooklyn, New York Mrs. Bern and husband old address brother Isidor Mins and family healthy sister Rita Wiener and family deported spring 1944. Reply ours February 14 Edna Kahn Wolf 3 Place du Marche Sainte Catherine Paris in urgent need of financial help. Inform Isidor Goldstein 21 North Chatsworthway Larchmont, New York and Emil Popner 298 Madison Avenue, New York Janou Shavaga family Charlotte healthy care of Calerics Lafayette Bucharest asking news their children. Request Margaret Mesanko 708 Cass Street, Trenton, New Jersey and Earl Jones 410 Bartlett Street, San Francisco news of Francis and file affidavits favor Victor Ionescu and Cleonatre Valentine healthy 43 General Vladislav Bucharest.

EDA

CROCKER

133

GEN-1422
Distribution of
true reading only by
special arrangement.
(SECRET W)

Lisben

Dated March 20, 1945

Rec'd 9:25 a.m., 21st.

Secretary of State,

Washington.

619, March 20, 7 p. m.

THIS IS WRS 364 FOR PROFESSOR L. SPITZER,
JOHNS HOPKINS UNIVERSITY, BALTIMORE FROM UNITARIAN
SERVICE COMMITTEE.

Urge State Department Washington to instruct
Embassy Madrid to intervene behalf your friend as
Saunders death sentence extremely limited time.

CROCKER

WFS

134

HAS-1391

PLAIN

Lisben

Dated March 20, 1945

Rec'd 4:43 a.m., 21st.

Secretary of State,

Washington.

615, Twentieth

WRS 361. FOR HAS 386, FOURTH AVENUE, NEW YORK
FROM DAVID SCHWEITZER NICHM.

Jacobson cables date fourteenth "Ilja Mijours relative
Robert Mgidoff temporarily visiting here returning Moscow
next days sends best regards to family".

CROCKER

147

London

135

Dated March 20, 1945

Rec'd 9:45 p.m.

Secretary of State

Washington

2872, March 20, 7 p.m.

FOR O'DWYER FROM MANN

London office UNRRA has approached me concerning refugees recently arrived in Switzerland from the Baslenstadt and Bergen-Belsen which are to be evacuated to Phillippeville and southern Italy. UNRRA points out that it has been unable to determine status of matter and accordingly would like to know what arrangements are being made to obtain transportation from Marseille to destination and when it is planned for refugees to arrive in Marseille and depart therefrom.

UNRRA states that it can provide doctors, nurses and welfare workers for the journey from Marseille to destination but asks whether board is able to recruit such doctors, nurses and welfare workers to accompany refugees Switzerland to Marseille and points out that if possible such doctors, et cetera, should accompany refugees to final destination rather than to Marseille where they would be replaced by UNRRA personnel.

It is understood UNRRA Washington discussing matter with Board. However, I would appreciate an answer at earliest possible date so that I can advise London office of UNRRA.

Repeated to Mann for McClelland and for such information as he can give on points raised.

WIMANT

WJT

136

CABLE TO HARRISON, NEWY, FOR MCCLELLAND FROM WAR REFUGEE BOARD

Please report urgently amount of unexpended War Refugee Board funds you have on hand.

THIS IS NEW HERN CABLE NO. 466

11:30 a.m.
March 20, 1945

NOT TO BE RE-TRANSMITTED

SECRET

COPY NO. 4

OPTEL No. 91

Information received up to 10 a.m., 20th March, 1945.

NAVAL

1. HOME WATERS. 19th. Two convoys on Thames-Antwerp route encountered enemy mines or were attacked with torpedoes resulting in two ships being sunk and one LST (1) and a third ship being damaged.

MILITARY

3. WESTERN FRONT. Southern Sector: 7th U.S. Army continued advance northwards crossing German frontier on wide front in area Lauterbourg and West Wissenbourg. 3rd U.S. Army have captured Mersig and Coblenz and cleared west bank of Rhine from Soppard to Bingen while armoured thrusts to close pocket east of Moselle have linked up east of Oberstein.

Central Sector: In Remagen bridgehead general advance up to 1 mile made along front against moderately strong resistance.

4. BURMA. Coastal Sector: Leading elements of our troops advancing southward from Letpan bridgehead now 14 miles N. Taungup. Central Sector: In Nyangu bridgehead opposition being encountered north of Chauk and in outskirts Myingyan. In Meiktila area armoured and infantry columns patrolling various radiating roads have inflicted casualties on enemy. South of Mandalay Tada-U and Sagaing on west bank Irrawaddy captured. Ashalso railway station, 10 miles south Mandalay where rolling stock and large quantity stores taken, while elements of our troops now 5 miles north and N.W. Kyaukse. In Mandalay itself stiff fighting continues and our attempts to scale breaches in walls Fort Dufferin have been repulsed.

AIR

5. WESTERN FRONT. 18th/19th (night). 836 Bomber Command aircraft despatched of which 323 Witten (961 tons), 286 Hanau (1184 tons), 30 Berlin, 24 Kassel, 18 Nuremberg and 155 diversionary sweeps and bomber support. Both main attacks well concentrated. 19th. Bomber Command Lancasters attacked as follows: 77 benzol plant Gelsenkirchen (372 tons), 18 railway viaduct Arnberg (123 tons, including six 22,000 pounds) destroying two spans, while 15 attacked railway bridges Vlotho (S.E. Hanover). 1224 U.S. escorted heavy bombers (13 fighters and 72 bombers outstanding of which 54 believed safe) attacked Plauen (985 tons), Karl Zeiss works Jena (503 tons) tank plant Zwickau (441 tons), and three M.E. 262 factories (682 tons). Escorting fighters scored 40,2,17. SHAEF (Air). 677 bombers dropped 1112 tons communication targets with good results, while 4054 fighters and fighter bombers (20 missing) operated all sectors destroying or damaging 5300 road and rail vehicles, destroying 5 enemy aircraft in combat and destroying or damaging 54 on ground. 43 Fighter Command Spitfires attacked rocket sites Holland.

19th/20th. (Night). 34 Mosquitoes attacked Berlin.

6. MEDITERRANEAN. 18th. 1021 Tactical aircraft (5 missing) successfully operated North Italy while 174 fighters (7 missing) of Strategic Air Force attacked communications Zagreb area between Maribor and Graz.

HOME SECURITY (Up to 10 a.m. 20th)

7. FLYING BOMBS. 19th. 6 plotted. 19th/20th (night). 3 plotted.
8. ROCKETS. 19th. 3 incidents reported. 19th/20th (Night). 5 incidents reported.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Date

TO Secretary Morgenthau

March 21, 1945

FROM Joseph J. O'Connell, Jr.

After a series of fairly extended discussions of the matter with Commissioner Numan, Mr. Gaston and Mr. Irey, I have the following tentative program to suggest as an innovation in our tax enforcement program:

1. Effect an informal arrangement through the Federal Reserve banks under which they would get currently from the banks in their region information as to important or unusual transactions involving the use of substantial amounts of currency.
2. Set up, in key cities such as New York, Philadelphia, Cleveland, Chicago and San Francisco, flying squads of competent special agents or revenue agents whose sole job would be to follow leads based on such information. The objective of these groups would be to attempt to make some striking current cases which can speedily be presented to grand juries with the thought of getting quick indictments. A given case might not only involve tax evasion, but might also involve black market operations, narcotics violations and the like.

I am sure the Department of Justice would welcome such activities on our part. In fact Sam Clark, in charge of the Tax Division for the Department of Justice, indicated to me last evening that this sort of program would, he thinks, have a very salutary effect as far as law observance is concerned.

The men working on such cases in the field would have to be divorced completely from the regular operations of their Units, and should be set up under someone in Washington who would have an awareness of the purposes and scope of the program. Although the cases would presumably be predominantly ones of tax evasion, it is entirely possible that a given lead might develop evidence of violation of other Federal statutes, and it would seem to me to be important that the

- 2 -

project be given direction of a sort which would capitalize on the deterrent effect of a speedy prosecution and punishment for whatever violation of law may be involved. I would think that the best effects of such a program can only be obtained if a great deal of attention is paid to the value of publicizing the results of the activities of this group, and if stress is laid on the desirability of getting cases involving current violations.

Attached hereto is a report we recently received from the Federal Reserve Bank of New York which will illustrate the type of information which should be productive if intelligently handled. From it you will note that Mr. Henry Lustig, owner of Longchamps Restaurant in New York, deposited \$541,500 in \$1,000 and \$500 bills in four New York banks between March 3 and March 13 of this year. You will also recall that a few weeks ago Mr. Gaston advised you of a report we had recently received from a Miami bank indicating that a customer had deposited four hundred \$1,000 bills. Instances such as these should afford a fertile field for investigation, if intelligently handled.

I am not suggesting that we limit our possible sources of information to the banks, though that is an obvious starting point. I should think that it would not be difficult to effect a similar arrangement with members of the stock exchange, and with proprietors of many of the large stores in New York and other cities which are reputed to be making very large sales for cash.

I am sure such a project will prove fruitful. In any event, I do not see how we can do less than try it out.

Mr. Bell is prepared to contact the Federal Reserve banks informally if we decide to go through with the program, and Commissioner Numan is prepared to instruct the appropriate field offices that what we might call "currency squads" be organized immediately to pursue the matter diligently.

I suspect that to be as effective as we should be, the entire project should be under the immediate direction of someone in Washington to whom the field groups of flying squads will be directly responsible. I say this in part

- 3 -

because the type of operation contemplated does not fall within the framework of the normal work of the Intelligence Unit of the Bureau of Internal Revenue, and also because the project itself will neither be necessarily confined to making tax cases nor do we wish to lose sight of the fact that publicity at the proper time will be one of the major desirable objectives of the campaign.

I should like to discuss this matter with you at your earliest convenience, and would suggest that Mr. Gaston, Mr. Irey and Mr. Nunan should also be present.

Joseph J. O'Rourke

Attachment

COPY

FEDERAL RESERVE BANK OF NEW YORK

MEMORANDUM

Foreign Prop. Control Department
Compliance Division

March 15, 1945.

RECAPITULATION OF CURRENCY DEPOSITS MADE BY
HENRY LUSTIG AND HIS INTERESTS

Reporting Banks:

Total Deposits made Between
March 3, and March 13, 1945

| | |
|---------------------------|---------------------|
| Chemical Bank & Trust Co. | \$ 166,000 |
| Chase National Bank | 115,000 |
| Manufacturers Trust Co. | 205,500 |
| Guaranty Trust Co. | 25,000 |
| | <u>+ \$ 511,500</u> |

* All in denominations of \$500 and \$1000 bills

Deposited in Account of — Henry Lustig
(Prior to separate reports
for specific amounts) Restaurants & Patisseries Longchamps Inc.
Broadway & Forty-First Street Corp.
(All of the same address—108-10 W. 15th St., N.Y.)

Safe Deposit Facilities — None maintained at the above banks

Comments — The reporting banks consider the above mentioned deposits abnormal and have no inkling whatsoever of the underlying purpose. Our examination has not uncovered any clue which might lead us to believe that it is a matter of interest to Foreign Funds. A considerable part of the serial numbers on the bills have been checked to the Caveat List with negative results. The flexoline contains no material on the names reported. It is quite possible that additional reports may be received of further deposits. One point of interest learned from Manufacturers Trust Company was that Lustig has since drawn three checks against his account there; two for \$30,000 each, one to the order of himself and another to the order of Longchamps Farms, both deposited in the Lawyers Trust Company, 11th St. Branch. The other check for \$10,000 drawn to his order was deposited in the Miami Beach First National Bank, Miami, Florida.

Information obtained from the Manufacturers Trust Company disclosed that Henry Lustig is the dominant principal of the aforementioned concerns. He is 47 years of age, of substantial means, and has been engaged in produce line for many years. He married the sister of the late Arnold Rothstein, notorious gambler and racketeer but stated that he never had any relations with the latter. Lustig is known as a gambler and no secret is made of it. He is known to have a racing stable. His moral risk is not the best but little criticism is attached to this.

- 2 -

Restaurant & Patisseries Longchamps Inc.

This is a New York corporation formed in 1926. At the outset it functioned as a commissary and service organization for four restaurants operated by Longchamps Inc. but in 1933 it took over the operations of the restaurants and since 1935 has expanded considerably. It is the sole, direct, wholly owned subsidiary of Henry Lustig Co. Inc. It owns and operates a well known chain of nine restaurants. While no direct figures concerning this corporation were available agency information indicates that in December of 1940 it reflected current total assets of \$872,000, current liabilities \$330,000 and a net worth of \$984,000. A consolidated statement of the parent company, Henry Lustig Co. Inc., as of December 31, 1940, showed current assets of \$935,000, current liabilities of \$352,000 and a net worth of \$1,369,000. Loans are made to it against collateral consisting of various types of liquor. The officers of the company are:

Henry Lustig - President and Treasurer
 Mal C. Lustig - Secretary
 E. Allan Lustig - Vice President.

Henry Lustig is 100% owner of Henry Lustig Co. Inc. The Lustig family also operates the Broadway & Forty-First Street Corp.

JAS:arnoldgk
 3/15/45

MEMORANDUM

March 15, 1945.

CURRENCY DEPOSITS - CONFIDENTIAL CIRCULAR NO. 155 (10-6d)

Reporting Bank -- Chemical Bank & Trust Company, N.Y.

Deposited in Account of -- Henry Lustig Co. Inc.

| <u>Date of Deposit</u> | <u>Total Amount</u> | <u>Denominations</u> | |
|------------------------|---------------------|----------------------|--------------|
| | | <u>\$1,000</u> | <u>\$500</u> |
| 3/13/45 | \$ 24,000 | -- | 48 |

MEMORANDUM

March 15, 1945.

CURRENCY DEPOSITS - CONFIDENTIAL CIRCULAR NO. 155 (10-6d)Reporting Bank -- Chemical Bank & Trust Company, N.Y.Deposited in Account of -- Restaurants & Patisseries Longchamps Int.

| <u>Date of Deposit</u> | <u>Total Amount</u> | <u>Denominations</u> | |
|------------------------|---------------------|----------------------|--------------|
| | | <u>\$1,000</u> | <u>\$500</u> |
| 3/9/45 | \$ 34,000 | 29 | 10 |

MEMORANDUM

March 15, 1945.

CURRENCY DEPOSITS - CONFIDENTIAL CIRCULAR NO. 155 (10-6d)Reporting Bank -- Chemical Bank & Trust Company, N.Y.Deposited in Account of -- Henry Lustig

| <u>Date of Deposit</u> | <u>Total Amount</u> | <u>Denominations</u> | |
|------------------------|---------------------|----------------------|--------------|
| | | <u>\$1,000</u> | <u>\$500</u> |
| 3/5/45 | \$ 108,000 | 96 | 24 |

MEMORANDUM

March 15, 1945.

CURRENCY DEPOSITS - CONFIDENTIAL CIRCULAR NO. 155 (TC-6d)Reporting Bank - Chase National Bank of the City of New York, N.Y.Deposited in Account of -- Restaurants & Patisseries Longchamps Inc.

| <u>Date of Deposit</u> | <u>Total Amount</u> | <u>Denominations</u> | |
|------------------------|---------------------|----------------------|----------------|
| | | <u>\$10,000</u> | <u>\$5,000</u> |
| 3/5/45 | \$ 40,000 | 40 | - |
| 3/13/45 | 35,000 | 35 | |
| | \$ 75,000 | 75 | |

MEMORANDUM

March 15, 1945.

CURRENCY DEPOSITS - CONFIDENTIAL CIRCULAR NO. 155 (TC-6d)Reporting Bank - Chase National Bank of the City of New York, N.Y.Deposited in Account of -- Broadway and Forty-First Street Corp.

| <u>Date of Deposit</u> | <u>Total Amount</u> | <u>Denominations</u> | |
|------------------------|---------------------|----------------------|--------------|
| | | <u>\$1,000</u> | <u>\$500</u> |
| 3/9/45 | \$ 35,000 | 25 | 20 |

MEMORANDUM

March 15, 1945.

CURRENCY DEPOSITS - CONFIDENTIAL CIRCULAR NO. 155 (IC-64)Reporting Bank - Chase National Bank of the City of New York, N.Y.Deposited in Account of -- Henry Lustig Co. Inc.

| <u>Date of Deposit</u> | <u>Total Amount</u> | <u>Denominations</u> | |
|------------------------|---------------------|----------------------|--------------|
| | | <u>\$1,000</u> | <u>\$500</u> |
| 3/9/45 | \$ 35,000 | 34 | 2 |

MEMORANDUM

March 15, 1945.

CURRENCY DEPOSITS - CONFIDENTIAL CIRCULAR NO. 155 (IC-64)Reporting Bank - Manufacturers Trust Company, N.Y.Deposited in Account of -- Henry Lustig

| <u>Date of Deposit</u> | <u>Total Amount</u> | <u>Denominations</u> | |
|------------------------|---------------------|----------------------|--------------|
| | | <u>\$1,000</u> | <u>\$500</u> |
| 3/3/45 | \$ 88,500 | 80 | 17 |
| 3/5/45 | 77,000 | 61 | 32 |
| 3/9/45 | <u>40,000</u> | <u>37</u> | <u>6</u> |
| | <u>\$205,500</u> | <u>178</u> | <u>55</u> |

MEMORANDUM

March 15, 1945.

CURRENCY DEPOSITS - CONFIDENTIAL CIRCULAR NO. 155 (IC-6d)Reporting Bank -- Guaranty Trust Company of New YorkDeposited in Account of -- Henry Lustig

| <u>Date of Deposit</u> | <u>Total Amount</u> | <u>Denominations</u> | |
|------------------------|---------------------|----------------------|--------------|
| | | <u>\$1,000</u> | <u>\$500</u> |
| 3/12/45 | \$ 25,000 | 15 | 20 |

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Date

March 21, 1945

TO Secretary Morgenthau
FROM Joseph J. O'Connell, Jr.

Apropos of our enforcement problems in the tax field, you will probably be interested in reading the attached memorandum which Mr. Irey prepared on his return from Miami.

Joseph J. O'Connell, Jr.

Attachment

OFFICE OF
CHIEF COORDINATOR

TREASURY DEPARTMENT

TREASURY ENFORCEMENT AGENCIES

WASHINGTON

March 14, 1945

Memorandum in re: General Tax Investigation
Miami, Florida

The following memorandum relates to a general tax investigation which was undertaken at Miami, Florida, during the period February 22 to March 10, 1945. The project was intended in the main as an intensive survey and examination of seasonal gambling and nightclub resorts, together with enterprises engaged in the sale of luxuries subject to excise taxes.

Conferences were held with Messrs. John L. Fahs, Collector of Internal Revenue, Harley Howard, Internal Revenue Agent in Charge, E. C. Palmer, Special Agent in Charge, and local representatives of those offices with a view to the formulation of a program and the assignment of a suitable number of examining agents. It was the conclusion, for the purposes of the immediate project, that the most effective results could be obtained by an examination of seasonal gambling resorts, cabarets and establishments engaged in the sale of luxuries.

On the night of February 24 a general survey of gambling activities was undertaken and a group of agents was assigned to visit gambling establishments where information was obtained in regard to the identity of large gamblers together with automobile license numbers of individuals frequenting these establishments. The information so obtained was sent forward to Mr. Woolf, Chief, Intelligence Unit, in an air mail letter of February 26. It was intended that income tax returns of these individuals be made the subject of immediate investigation in the districts in which they maintain their permanent residences.

By arrangement with Messrs. Fahs, Howard and Palmer a group of twenty deputy collectors, internal revenue agents and special agents was detailed in squads of two each to make an immediate examination of income tax returns of the four outstanding seasonal gambling resorts. All known

cabarets and nightclubs subject to cabaret tax were also examined together with enterprises engaged in the sale of jewelry and furs.

The records of eight banks at Miami, Miami Beach and Coral Gables were examined to determine whether safe deposit boxes were maintained, and the frequency of visits thereto by approximately fifty suspected individuals. It was found that some of these individuals have safe deposit boxes and that visits to the boxes were of such frequency as to suggest the deposit and withdrawal of currency in business transactions. The information so developed will be used in future income tax investigations.

Abstracts are being prepared from county deed records for the past two years of all real estate transactions requiring Federal documentary stamps of fifty dollars or more. There are a large number of such transactions and this information will also be used in future income tax examinations.

Articles that appeared in the Miami Daily News on March 2 and the Miami Herald on March 4 concerning the general tax investigation are enclosed. Substantial collections of cabaret taxes have been made. The income tax investigations of gambling resorts require more extensive inquiry and have not yet been completed. We believe that this intensive drive has brought about beneficial indirect results that cannot be accurately measured in terms of tax collections. It has come to our attention that there has been noticeable activity on the part of some taxpayers, not now under investigation, to file voluntarily delinquent or amended tax returns disclosing heretofore unreported income and excise taxes. Some of the information currently developed moreover will be used in future long range projects of a similar nature when more examining agents become available for assignment.

The effectiveness of the immediate tax drive was necessarily tempered by prevailing conditions, including the fact that the winter resort season is nearing a close; the closing of race tracks (horse and dog); the recent curfew order of Washington authorities requiring gambling and nightclubs to close at midnight; and the incidence of the current filing period for income taxes with its heavy demands on available field personnel.

The seasonal gambling resorts at Miami are as a rule owned and operated by professional gamblers from New York and Chicago where they maintain permanent residences and file individual income tax returns. The normal duration of their visits to Miami does not exceed the approximate period from December 15 to March 15. Final income tax returns of these individuals reporting income currently earned in Miami will not in regular course be filed until March, 1946, in the districts of their permanent residences.

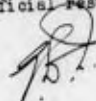
Numerous and extensive tax investigations of gambling activities at Miami have been made in the past. The most recent general investigation occurred in the winter of 1943. At that time income tax returns of individuals engaged in illegal enterprises were grouped together for joint investigation by revenue agents and special agents. A total of three hundred and eighty-five income tax returns were so assembled.

It was found in that investigation that the two major syndicates for horse race and lottery gambling are controlled by local interests and that they maintain books and records under the supervision of certified public accountants. Income tax returns reporting substantial income are regularly filed and consistently examined by agents of the Bureau.

Aggregate net income of \$5,305,495.44 was reported on the three hundred and eighty-five returns examined in the winter season of 1943. This net income was increased by examination to \$6,744,918.98, representing aggregate understatement of income in the amount of \$1,439,423.54. The results applied mainly to returns filed for the years 1940 and 1941. Total additional taxes and penalties of \$249,261.90 were found due upon examination of the three hundred and eighty-five returns, or an average of \$647.43 per return. The adjustments which gave rise to the deficiencies in income were varied and sometimes technical, but the available evidence was not of such nature as to warrant the conclusion that criminal prosecutions could be successfully sustained. Prosecution, therefore, was not recommended in any of those cases. In most instances the taxpayers signed agreements consenting to the assessment and collection of the additional taxes and penalties determined.

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I have arranged with the Florida agents under the direction of Special Agent in Charge Palmer to continue to gather information from bank records, real estate transactions, income tax records, etc., which can be used as the basis for an intensive drive in Miami at a later date. It is my thought that just before the opening of the next season a squad of investigators should be detailed to Miami, under competent direction, to carry through a thorough investigation based on the ground work being laid at this time. I believe that such a drive, commenced at the opening of the season and continued to its close, will have most beneficial results.



Miami Herald, March 4, 1945

Tax Check In Miami Nets \$50,000 For U. S.

A special treasury investigation of tax evasion by the "big spending" element in Miami already has yielded more than \$50,000 in cash to the local collector of internal revenue.

This amount, in a "mere beginning," according to Elmer L. Irey, chief co-ordinator of treasury enforcement activities with came here from Washington to organize the campaign.

The \$50,000 came from assorted night clubs, retail stores, gamblers and individuals who hastened to straighten out their tax affairs as soon as Irey's crew of investigators began circulating. Besides income tax, the collections included past due payments of excise, duty and for taxes, social security taxes, and withholding taxes.

Irey explained that Secretary of the Treasury Henry Morgenthau, Jr., and Commissioner of Internal Revenue Joseph D. Numan, Jr., ordered the investigation because of reports current were the country that winter visitors to Miami were spending and gambling huge amounts of money which might involve serious tax evasions.

"ONLY A BEGINNING"

Irey has organized the drive in close cooperation with John L. Fahn, collector of internal revenue at Jacksonville, and is using both local agents and also special men from Jacksonville, Tampa, and Atlanta.

"The \$50,000 we have collected," Irey said, "is enough by itself to more than pay for this investigation. But it's only a beginning. This thing has long range implications both here in Miami and all over the country."

"It wouldn't be fair to the honest citizen who files his income tax return on March 15 to let black market operators, gamblers and others escape their fair share of the taxes that are needed to pay for victory."

Income Tax Probers Study Wild Spending

Investigator Says Vast Sums Lavished On Luxuries Not Reflected In Returns

By GRACE WING

(Miami Daily News Staff Writer)

Reckless spending sprees in Greater Miami night clubs, gambling centers and luxury shops by visitors and residents are being investigated here by Elmer Lincoln Irey, U. S. treasury investigator, and more than a score of agents from Washington, Atlanta, Jacksonville and Miami.

In an exclusive interview today with The Miami Daily News, Irey revealed that vast sums of money reportedly changing hands in this area, without being reflected in income tax returns either of spenders or dealers, had attracted the attention of Henry Morgenthau, Jr., secretary of the treasury, and Joseph D. Numan, Jr., national internal revenue commissioner.

Irey, whose investigations in the past have been directly responsible for such notable convictions on income tax evasions as those of Tom Perdergast and Nucky Johnson, political boss, and Al Capone, said the Miami investigation, expected to last several weeks, is the first of several planned by Morgenthau and Numan for spending centers throughout the country.

Now chief co-ordinator of all treasury agencies, Irey declined to say how many agents are participating in the probe, but intimated that collections within the past few days of thousands of dollars in delinquent excise and income taxes have been sufficient in pay for the investigation.

Sales Examined

Irey was accompanied here by R. C. Palmer, Atlanta, special agent in charge of all treasury intelligence units in the Southeast, and Irving Perimeter, personal representative for Commissioner Numan.

Hotel and liquor bills, sales of furs, jewels and expensive luggage at nationally known shops at Miami Beach, are being examined by the treasury detectives. Irey said, for the dual purpose of checking income tax returns of both spenders and dealers, and payment of the 21 per cent federal excise taxes on such items.

The treasury chief admitted he came to Miami armed with a lengthy list of "suspects," whose expenditures here are being checked against assets at home and with their past and current income tax returns. He said the list had been added to considerably since the agents' arrival.

Irey said his investigation also will encompass alleged black markets here in meat, gasoline and liquor, as well as the proceeds being tossed away here as the result of similar activities in other areas.

Interest In Taxes

"The government has no objection to how people spend their money," he emphasized, "provided incomes have been satisfactorily accounted for and all taxes paid." Irey said it appeared money which would have been spent at the



ELMER L. IREY
... Treasury chief eyes spender

race tracks probably is being diverted "elsewhere," to the full satisfaction of gambling interests.

Irey conferred earlier this week with John L. Fahn, internal revenue collector for Florida, Harry Howard, agent in charge for the state, and Lucius W. Tomlinson, chief field deputy, all of Jacksonville. Miami intelligence agents are being led by their chief, J. J. Brown.

U. S. Treasury Checks Big Spenders In Miami Spots

MIAMI, March 2.—(AP)—More than a score of treasury agents headed by investigator Elmer Lincoln Irey are checking into big spending agencies in night clubs, gambling, casinos and merry shops of the Miami resort area. They said the agents are writing out to learn whether vast sums of money reportedly changing hands here are properly reflected in the income tax returns of both spenders and dealers.

He added that the amount of spending here has attracted the attention of Secretary Morgenthau and Internal Revenue Commissioner Joseph D. Wasmann, Jr.

The investigator indicated that the agents already have subjected thousands of dollars in cabaret and income taxes since they opened the office here.

The agents came here from Washington, Atlanta and Jacksonville. Irey said investigations also will be made in other big spending centers.

He said the agents will be made in other big spending centers. He said the agents will be made in other big spending centers.

examined, Irey said, for the dual purpose of checking income tax returns and the payment of the federal estate tax on luxury items.

He said he came to Miami armed with a lengthy list of big-spending "suspects" whose expenditures here are being compared with their agents as to time and place and current income tax returns. "The list has been lengthened since the agents' arrival, he said.

Irey declared that the investigation would encompass any black market activities in wine, gasoline and liquor.

"The government has no objection to people spending their money as they like," he added, "provided incomes have been satisfactorily accounted for and all taxes paid."

He said it appeared money once lost all race tracks is being diverted "elsewhere" to the satisfaction of gambling interests.

Irey helped gather evidence which led to income tax evasion convictions of Al Capone, Thomas Pendergast and others.

Tampa Tribune

March 3/45

110 WEST 76th STREET

BRUNO SHAW

NEW YORK 24, N. Y.

COMMENTATOR WJZ THE BLUE NET WORK

March 21, 1945

Dear Mr. Morgenthau,

The luncheon at the City Club today can safely be put down by me as one of the pleasanter episodes in a career in which conferences with government officials is not an unknown experience. I want to thank you both for the luncheon and for providing an experience quite rare for me, and I am sure, for many of the others present.

It was rare, almost to the point of being unique, to find on the part of so high an official as the Secretary of the Treasury, not merely a willingness, but a desire to answer comprehensively and detailedly, questions of every conceivable sort relating to the subject under discussion.

It was, as I said, a rare experience. I should like to hope that it will be repeated at some future time, and that other government officials may be tempted to follow suit.

Believe me to be,

Very sincerely yours,



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

Re: paid in advance

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 21, 1945

TO Secretary Morgenthau
FROM Mr. Felt

Chester Davis tells me that he was not at the sub-committee meeting at which the CED report on Bretton Woods was really worked out.

However, at the full committee meeting Harry Sherman, Ralph Flanders, and Beardsley Ruml were the strongest advocates of a favorable report. Wascon, says Davis, was "surprisingly friendly", in view of his New York banking connections.

Paul Hoffman and Eric Johnston were not at the meeting.

Perhaps Flanders can give us more inside dope.

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DATE March 21, 1945