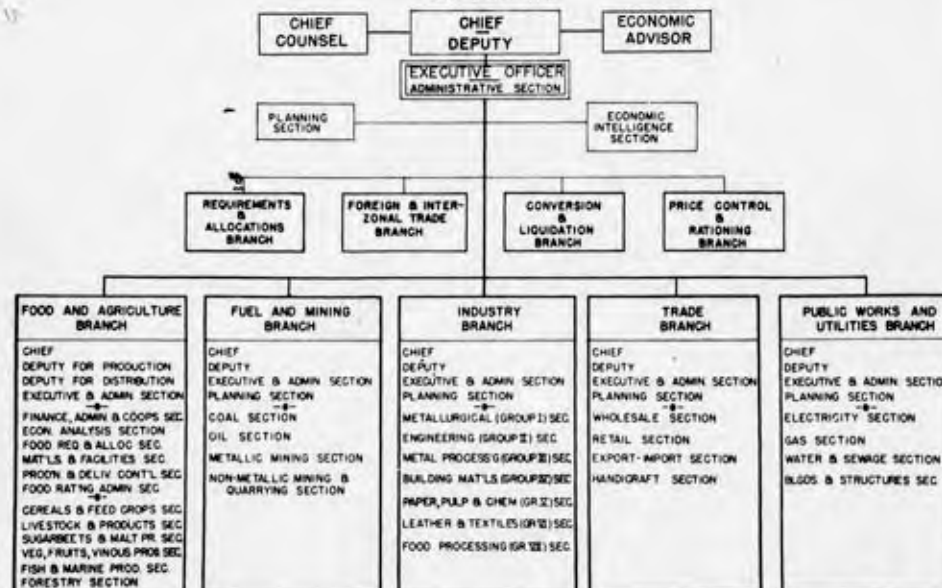


DIARY
Book 834
April 1-3, 1945

ECONOMIC DIVISION U.S. GROUP C.C.



NOT TO BE RE-TRANSMITTED

COPY NO. 4SECRETOPTEL No. 104

Information received up to 10 a.m., 1st April, 1945.

NAVY

HOME WATERS. 30th. One of H.M. Drifters presumed to have foundered with all hands Irish Sea.

2. ANTI-SUBMARINE OPERATIONS. 31st. Three of H.M. Frigates made promising attack off Cape Wrath.

MILITARY

3. WESTERN FRONT. Southern Sector: 1st French Army has crossed Rhine at Speyer and Cernersheim, while to north 7th U.S. Army has captured Heidelberg and advanced 15 miles east to Amorbach. Central Sector: Armoured columns of 3rd and 1st U.S. Armies made rapid advances and now reported on outskirts Warburg and Cassel and also within 3 miles Paderborn. 15th U.S. Army has assumed operational control area west of Rhine between Bonn and Neuss. Northern Sector: Patrols of 9th U.S. Army have linked up with patrols 1st U.S. Army at Wiedenbruck, while to north troops of 2nd British Army have reached outskirts Munster and are approaching Rhine.

4. EASTERN FRONT. Central Sector: Russians have destroyed remaining German troops in S.W. outskirts Kustrin between rivers Warthe and Oder, while further south Ratibor captured as also a number of other places 20 miles north Moravska-Ostrava.

Southern Sector: North of Danube Vah River reached 30 miles east Bratislava with Nitra and Galapto captured, while south of Danube advances made to west of Neusiedler See to within 15 miles Wiener-Neustadt. Further south advances made along main road towards junction Austrian-Hungarian-Yugoslav frontiers with Kormend taken and St. Gotthard reached.

5. BURMA. Central Sector: Enemy now cleared from Taungtha Ridge which dominated road Myingyan-Meiktila while to S.E. on same road Mahaling entered by column advancing south from Pyinzi who reported no enemy opposition. Main road Mandalay-Meiktila now virtually cleared as Kyaukse occupied and a force advancing from Meiktila area has linked up with armoured column south of Mawwin.

AIR

6. WESTERN FRONT. 31st. 454 Bomber Command aircraft (11 missing) attacked U-boat yards Hamburg (2205 tons) through cloud. 1338 U.S. escorted heavy bombers (4 outstanding) attacked railway centres Halle (955 tons), Brunswick (884 tons), oil plant Zeitz (1357 tons) and Brandenburg (953 tons).

SHAEP (Air): 697 bombers (4 missing) attacked 2 railway centres and 4 storage depots while 3107 fighters and fighter bombers (26 missing) operated battle areas destroying or damaging 1400 M.T. and 1600 rail trucks with 13 enemy aircraft destroyed in combat and 41 on ground.

97 Fighter Command Spitfires attacked rail targets Hague area.

7. MEDITERRANEAN. 30th. 63 heavy bombers attacked 3 railway centres Austria, while 708 tactical aircraft (2 missing) attacked communication and supply targets north Italy.

8. BURMA AND MALAYA. 29th. 78 Liberators (1 missing) successfully attacked enemy headquarters Rangoon and targets Burma/Siam railway. 24 Super Fortresses obtained excellent results on oil and storage facilities Bukum Island (near Singapore).

HOME SECURITY (Up to 7 a.m. 1st)

9. CENTRAL. Nothing to report.

April 2, 1945
9:44 A.M.

Mr. Daniel

Bell: Good morning.

HMJr: Hello, Dan?

B: Yes.

HMJr: I want to make a record of this conversation. Am I making one?

B: Yes, sir.

HMJr: Who else is in there?

B: Nobody yet.

HMJr: Well, you can repeat it anyway.

B: Here comes Harry White.

HMJr: Can he hear my voice?

B: Just a minute. ---- Can you hear the Secretary?

HMJr: Hello?

B: Very low, but we can hear you.

HMJr: Well, let him sit --there are two phones there - he can listen.

B: Yeah, they can hear now, go ahead. They are sitting close.

HMJr: Well, General Hildring called me up Saturday and I just called him. He said did I remember at a meeting with Will Clayton and the others that the suggestion was made that State, War and Treasury get together on the reparations. I said that frankly I didn't remember it, but did he know that I called up Mr. McCloy and suggested that we invite Lubin to sit in with us when we did that final piece of work, and McCloy hadn't wanted him. He said he didn't know anything about that, and I said that frankly I didn't remember the thing coming up at previous discussions, but it certainly well might have.

B: Ahuh.

HMJr: Does White remember it coming up at a previous discussion?

B: Yes, White remembers it coming up.

HMJr: Who brought it up?

B: How's that?

HMJr: Why brought it up?

B: Who brought it up, Harry? (Talks aside) Harry thinks that you brought it up first, and they thoroughly agreed that they all ought to work together.

HMJr: Yes. Well, that's what Hildring said- I brought it up. So that as it may, I thought it was a good idea then and I thought it was a good idea now.

B: Yeah.

HMJr: Hildring's point is that the Army is going to have to carry this thing out and they should sit in on it. So I said that you would contact Grew and ask that there be a general meeting on that cabinet level.

B: I see.

HMJr: Assistant Secretary. I mean, level.

B: Assistant Secretary.

HMJr: Level, yes.

B: All right.

HMJr: And that they should meet with Lubin. He said that the same group -- State, Treasury, War and P. S.A.

B: State, Treasury, War and P.S.A. group.

HMJr: Yeah, and that they should immediately have Lubin put his cards on the table.

B: All right.

HMJr: Now, DuBois said he is having his troubles so I think it would be good, and I think if you would call Grew right away and I just wanted to know whether anybody had any suggestions before you did it.

B: (talks aside)

B: Joe DuBois says that he has just sent a new memorandum over to Lubin. He's been away for two or three days and has just gotten back. He thought it might be well to wait.

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B: (cont.) a couple of days until Lubin had absorbed that and --

HMJr: No, no.

B: --absorbed that and we got his reactions.

HMJr: No, no, I'm sorry, but when General Hildring asks like this, you've got to work fast.

B: You think we ought to go ahead today?

HMJr: I think you ought to go ahead this morning.

B: This morning?

HMJr: Yep.

B: All right.

HMJr: But I think that White or somebody, or DuBois ought to call up Lubin and tell him what happened.

B: Yeah.

HMJr: Although you can't tell him that they objected in the first place.

B: Can't tell him what?

HMJr: You can't very well say that McCloy objected in the first instance.

B: No, we can't say that.

HMJr: They can say in my that Hildring called me up and said he thought my original suggestion was a good one and he would like to sit down with it.

B: And they ought to get started.

HMJr: Right away.

B: All right, I'll do that right away.

HMJr: I can't help but be amazed that the Army has to come to me to find out what the reparations thing is going to be.

B: Yeah. DuBois thinks he ought to talk to you a minute before we go ahead.

HMJr: It's a cockeyed world.

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6

B: Yeah. Do you want to talk to DuBois a minute?

HMJr: Yes, and I want to see --- want to just say --- say "Hello" to Harry to just see how he sounds.

B: All right. He looks all right.

Mr. Joe

DuBois: Mr. Secretary, I just want to be sure that you've got the facts here on this thing. I'll try to give them to you briefly.

HMJr: Yeah.

D: Lubin sent that memorandum which we prepared to the President.

HMJr: Hello. Hello. (Pause)

D: Hello.

HMJr: We were cut off.

D: Yeah. The President then just sent the memorandum on to Stettinius to handle. Then Clayton called Lubin up and said that this was the toughest document they had ever seen, tougher than anything that had ever come out of the Treasury, and they just couldn't go along with it.

HMJr: How did they know it came out of the Treasury.

D: No. They said it was tougher than anything they had ever even seen come out of the Treasury.

HMJr: I see.

D: Lubin replied that it was his own idea, and that he wanted something like that. Well, they handed him a counter memorandum which was terrible; he showed it to me. It just didn't say anything and it attempted to tie our hands so completely that the Moscow commission couldn't function.

HMJr: Yeah.

D: Now Lubin told me that he was going to battle the thing out with State; unless he got 95% of what he wanted, he wouldn't go.

HMJr: Yeah.

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B: Then he promised me that he would insist that this reparation question be cleared with the Interdepartmental Committee: State, Treasury, War and FEA. Now since that time - Lubin has been away for several days -- I've gotten up a counter-memo which White has seen, and I think this particular memorandum which would be very good, would have an excellent chance of getting through. Now the question is what the best procedure is in the light of those facts.

HMJr: Well, you can't refuse General Hilldring's request.

D: Oh, no, I wasn't suggesting that, Mr. Secretary.

HMJr: And Frank Coe says that Hilldring and his group have been most helpful in aiding with the Treasury against State.

D: Yeah, well Frank just walked in. That's true - I might say this, Mr. Secretary, that I'm sure that you are not going to find War with us on reparations. You might as well start off ---

HMJr: I think Frank will agree with me that when I suggested that this group be called together on a Revised 1067, that at least we know then first-hand what is going on. Now War Department will get in on this one way or the other, and we might as well have them in on it on the open.

D: Yeah. That's right, I wasn't suggesting that we shouldn't do that. It was just a matter of timing. Now this particular proposal, I think, that I've sent to Lubin now, could come from us at such a meeting or we could wait 'til Lubin ---

HMJr: Well, you fellows talk that over, but I can't refuse a request from General Hilldring to get this meeting of Assistant Secretaries together.

D: Yeah. No, I agree you certainly can't. I think everybody sees your point.

HMJr: Well, you fellows talk it over - how you do it - I mean what to do after the meeting has been called, but I do want Dan Bell to go ahead and call it. I want him to call Grew right away.

D: O.K.

HMJr: Further, I want Hilldring to know that when he asks me something and I say I'm going to do it, I do it.

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HMJr:(cont) You might just as well have everybody in and make it, what do they call this thing when four or five fellows are all boxing at one time?

D: Boxing at one time, (Laughs).

HMJr: Well, they do have a name for it.

D: Free for all?

HMJr: Well, no, they call it something else.

D: (Laughs) Round table?

HMJr: Well, anyway, you might as well have all the Departments in boxing at one time, and let the weak fellow get knocked down.

D: (Laughs) All right, Mr. Secretary.

HMJr: Does Coe want to say anything?

D: Do you want to say anything, Frank?

He said he sent you a note Saturday site. I'll put him -- Harry's coming.

HMJr: Let me say hello to Harry.

D: Yeah.

Mr. Harry
White: Hello.

HMJr: How are you?

W: I'm fine, how are you?

HMJr: I'm beginning to feel fatted.

W: Well, you couldn't have had as good weather as we have had up here.

HMJr: Well, we've had perfect weather except that it was cooler here than in Washington.

W: Oh, no, it was more than perfect here.

HMJr: You haven't got an ocean.

W: (Laughs) That's true, but --

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HMJr: You have the Potomac.
W: But we got water.
HMJr: You can have the Potomac. It's been a nice week, has it?
W: It's been very nice, yes.
HMJr: Well, I've got nothing. I just wanted to say hello, but I don't see how I can refuse Hildring's request.
W: No, I agree with you. By the way, that little note that Baldwin wrote at the foot of that letter from you is a very significant one.
HMJr: Baldwin?
W: Representative Baldwin.
HMJr: I don't know about it.
W: Well, I thought it came from you, but maybe it just came through your office. You probably saw it and forgot it. He asked for some favor - from Baltimore, Representative Baldwin.
HMJr: Yeah.
W: And on the bottom of it he wrote that Bretton Woods is coming along fine, and I won't be the only Republican that is going to vote for it.
HMJr: Baldwin?
W: Yeah.
HMJr: Of Baltimore?
W: Maryland. I thought he was a Democrat.
HMJr: He is a Democrat.
W: Well, I'll get that letter out.
HMJr: I haven't seen it.
W: You haven't.
HMJr: You might mail it down to me.

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W: Yes, I'll do that, although I thought perhaps a little note in your writing -- yes, I'll do that.
HMJr: Well, I don't remember ---
W: Well, it's so significant a note that I guess you haven't seen it or you would have remembered. I just saw it this morning.
HMJr: I don't remember it.
W: I'll mail it down to you.
HMJr: O. K., Harry.
W: All right. Do you want to talk to Mr. Bell again?
HMJr: No, not unless he does.
W: Anything? (talks aside) Nothing.
HMJr: Right.
W: Bye.

April 2, 1945
4:22 P.M.

10-A

Mr. Daniel
Bell: Yeah.

HMJr: One little fish.

B: One little fish, not much luck then huh?

HMJr: Just a nice day, but no luck.

B: Well, there hasn't been much change in the situation. The market is a little better today. 1/32 to 2/32 - so it is just about the same as it was Friday and Saturday.

HMJr: Well, let's start with the one and a half.

B: 1 1/2, yeah.

HMJr: I'm for the fixed security.

B: The fixed?

HMJr: Yeah.

B: Six or fixed?

HMJr: Five and a half years.

B: Oh, I thought you said six years maturity. I was going to say that was --

HMJr: No, five and a half years.

B: Five and a half years according to George's computation would give a premium of 12/32.

HMJr: Yeah.

B: And Fiser's computations would give 10/32's.

HMJr: Yeah. Do you think we ought to go five years and nine months?

B: 'Course you won't have a premium of that much because there won't be any market until after the drive opens. Now Bob Rouse says that it is hard to tell what that premium will be.

HMJr: Yeah.

B: If the banks go out and bid for the 2's, as they might very well do after this is announced or during the Drive

- 2 -

10-B

HMJr: Yeah.

B: . . . it could very well go to 10/32's to a half.

HMJr: Am I making a record now?

B: Yes, sir, you are.

HMJr: Good.

B: It might very well go from 10/32's to 1/2 premium . . .

HMJr: Yeah.

B: . . . but if the banks don't go out and undertake the bid for the 2s, then you might get something less than 10.

HMJr: Yeah.

B: He and Levy, Devine and Repp all recommend the 5 year six months.

HMJr: Five year, six months?

B: That's right. Five and a half years.

HMJr: Yeah.

B: I don't think much harm would be done if you went to 5 - 9, but on the other hand it isn't gaining very much and it's a little risk.

HMJr: Yeah.

B: It wouldn't hurt my feelings if you stayed at 5-1/2.

HMJr: Yeah.

B: George is here, let me ask him. (Talks aside)

B: George says his first choice would be 5 - 9, but he doesn't feel strongly about the other.

HMJr: Yeah. Let's just go through this thing a minute. What about the 2 and 1/4s?

B: 2 1/4s on the 59/62 that you mentioned the other day in your telephone call . . .

HMJr: Yep.

- 3 -

10-C

B:(cont) . . . is now 19/32nds potential premium.

HMJr: Yeah.

B: That's Mr. Hase's computation, and Piser figures it as much as 31. Again Rouse thinks that Piser is way off, and that we are more nearly right.

HMJr: Yeah.

B: He thinks we may even be a little high in the end. I wouldn't go beyond the 59/62.

HMJr: Well, I haven't changed my mind as to 6/15/59-62---

B: 6/15/59-62.

HMJr: Unless there is something that you and George want me to change. Hello?

B: George says O.K. with him.

HMJr: O.K. with him?

B: Yep.

HMJr: Well, now, on the 2-1/2s ---

B: Yes.

HMJr: How much premium on the 6/15/67-72?

B: That is 16/32nds, and Piser says 27.

HMJr: Yeah.

B: And Rouse thinks that Murphy's figures are more nearly correct. Now Eccles sent a wire and said that he would go along with you on these two issues-- 67/72 and the 59/62.

HMJr: Yeah.

B: And he would also go along on the 4-3/4s, 6-3/4s - that's the one I sent him the other day.

HMJr: Yeah.

B: He said, however, he has a slight preference for a fixed maturity.

HMJr: Ahuh.

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10-D

B: And he preferred 6 at that time. Although I think Henry has been talking to Piser since then, and probably Marriner's statement was based on information that Piser furnished him, and I think he would prefer to come back now - to 5 1/2 to 5 - 9, 5 1/2 preferably.

HMJr: Yeah.

B: But Marriner said he would go along on the program . . .

HMJr: Well, . . .

B: . . . which surprised me a little. I thought he was the one we would have to argue with.

HMJr: You thought we would have to argue with?

B: I thought we would have to argue with Marriner, yes.

HMJr: Did you get that direct from him?

B: No, I got that from Ronald.

HMJr: I see.

B: He had it in a telegram.

HMJr: What else?

B: That's all.

HMJr: Well, now, I tell you what I'm going to do -- we'll talk to Miss Carr, and we'll let her have you on and then we'll first get Ransom, and then we'll get Allan Sprouse. You can listen in and make a record, see?

B: All right. I told her to keep the New York line open that you would want Allan.

HMJr: Now you know to make a record you have to sit on my side of the desk.

B: Yes, that's where I am.

HMJr: And before I talked with you, I talked with Admiral Leahy. Hello?

B: You did.

HMJr: Just now.

B: Yes.

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10-E

HMJr: So we are all right..

B: We are all right, huh?

HMJr: Yeah, without saying.

B: All right, now you want Ransom first?

HMJr: Yeah.

Operator: Yes, Mr. Bell.

B: The Secretary wants Mr. Ransom of the Federal Reserve Board, and keep it hooked up here so we can make a record.

Operator: All right. Will you hold on and I'll get him right on.

B: All right.

(Pause)

Operator: Hello. He's coming on now, just a second.

Operator: Here you are.

Mr. Ronald
Ransom: Hello.

HMJr: Hello, Ronald.

R: Hello, Henry.

HMJr: How are you?

R: Fine, thank you. How are you?

HMJr: All right. Bell is in on this conversation.

R: Yes, that's good.

HMJr: Now, if it is agreeable to you, we'd like to, on the one-and-a-half Defense Bonds, have it five and one half years.

R: Yes. Well, our preference here on the Board, the Board members of the Committee would be for a five year, nine months issue, and the Chairman in his tele-- in his response to our message says that he has a slight preference for a six-year maturity. We think that is a little bit too long, and our preference leans in favor of five years and nine months, but we won't quarrel on that.

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10-F

HMJr: Well, I haven't yet talked to New York, but it will either be five years and six months, or five years and nine months, one or the other.

R: Yes. We would definitely prefer the five year and nine months.

HMJr: You would?

R: Yes. I think you will find that New York prefers the five-and-a-half, but will grant five years, nine months.

HMJr: Well, it will be one or the other.

R: Thank you very much.

HMJr: Now on the 2 1/4s, we'd like to make it 6/15/59-62.

R: That's the 2 1/4s, and they will be on what basis?

HMJr: Come due on June 15, '59 to '62.

R: '59-'62.

HMJr: June 15th.

R: Yes.

HMJr: That's 14 to 17 years.

R: Yes. Now that's the same one we had --

Mr. Dan
Bell: That's the same one you had Friday.

R: Yes, that's the same one we had. That's O.K.

HMJr: Is that all right?

R: Yes.

HMJr: And on the 2 1/2s we'd have 67 - 72 - also June 15th.

R: June 15, '67 - '72?

HMJr: Yes.

R: That's the same thing isn't it, Dan?

Bell: Yes, that's the same one I gave you Friday.

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10-6

R: Yeah.
HMJr: Is that all right?
R: All right.
HMJr: Now if we do this and the war in Germany ends during the 7th War Loan . . .
R: Yes.
HMJr: . . . we're looking to the Federal Reserve System to take care of the market.
R: I should say! That's a good place to look.
HMJr: And can we look there with confidence?
R: Oh, yes. I...
HMJr: And there's no question?
R: Not on the part -- not on my part or on that of anyone connected with the System that I know.
HMJr: Well ...
R: They've all taken it for granted that that would be a job that we had to do.
HMJr: Well, I just wanted to make sure that we understood each other.
R: Yes, certainly.
HMJr: And in case the war should end during the 7th War Loan . .
R: Yeah.
HMJr: That the Federal Reserve Board and System will see that nothing happens to the Government bond market.
R: That's our job.
HMJr: All right.
R: All right, sir.
HMJr: Just wanted to be sure.
R: All right. Goodbye.
HMJr: Thank you.

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10-H

Operator: Hello.
Mr. Bell: Now Mr. Sproul.
Operator: All right.
HMJr: Dan?
Mr. Dan
Bell: Yes.
HMJr: That puts them on the spot.
B: That's good, that's good. I think that is a good record. Might ask Sproul the same thing just --
HMJr: I'm going to.
B: I thought you had it in mind. (laughs). While they are bringing him on, I've got a couple of letters that Bartelt wants to send out on the 7th War Loan to his people.
HMJr: Let's do one thing at a time.
B: O.K.
(Pause)
Operator: Hello.
B: Hello.
O: Here you are.
B: Hello.
Mr. Allan
Sproul: Hello, Mr. Secretary.
HMJr: Hello, Allan?
S: Yes.
HMJr: I'm talking from Florida, and Dan Bell is talking from Washington.
S: Yes.
HMJr: He says he's got a better climate.
S: (Laughs)

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10-I

HMJr: Now this is what --- have you got Ralph there, too?
S: No, I can get him though.
HMJr: Well, I don't know as it is necessary. Hello?
S: Yeah.
HMJr: Now this is what we are thinking about. In the 2 1/2s bonds '67-'72 on the 15th of June.
S: June, 67-72?
HMJr: Yeah. O.K.
S: Sounds all right to me.
HMJr: About how many 32nds would you think we had in that market?
S: I don't think you have anything in there that you can figure closely. I think you have something less than the 16/32nds mentioned the other day.
HMJr: How much?
S: I said something less than the 16/32nds you mentioned the other day.
HMJr: You're satisfied with that?
S: Yes.
HMJr: Now, on the 2 1/4s, just the same as we spoke the other day - 6/15/59-62.
S: 59-62, I think that is all right, also.
HMJr: How many 32nds do you figure in that?
S: Well, I think there again it would be somewhat less than your people seem to figure. I think that would be 16 or less.
HMJr: 16 or less?
S: Yes.
HMJr: Fiser's got it way up.
S: Yeah.

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10-J

HMJr: Now, on the 1 1/2s, you kind of convinced me the other day to lean towards the fixed maturity.
S: Well, I still think it is preferable.
HMJr: I don't know whether they've read you Kocles' telegram.
S: Yes, they have.
HMJr: He wanted a six year.
S: I think that is too long myself.
HMJr: And so it is between five years and six months and five years and nine months.
S: Well, my preference still is five years and six months which I think wouldn't sell at too high a premium under good circumstances, and which would give you some protection against possible adverse developments in the market.
HMJr: Yeah,
S: I think you could do a 5 3/4s. We figure on the present market that would sell around 4/32nds premium.
HMJr: Which one?
S: The 5 3/4 which I think you could do.
Bell: We figured seven.
S: Yeah.
HMJr: That's too close.
S: But my own preference still is for the 5 1/2.
HMJr: Now, did anything happen in the bond market today?
S: No. The bond market was quiet today -- whatever movement there was, was on the up-side. The 2s were up a little, but it was very quiet. There was really nothing to change the situation at all.
HMJr: How about the stock market?

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10-K

S: Nothing there either.

HMJr: Well, now, I think we will go along with you on the five year and six months.

S: I think that is the best bet. It may develop that the premium will --- if there is a small issue and demand comes into the market, it may develop the premium on that will run up pretty well, but I don't think you can avoid that in any case, and I think you have more protection there than on the longer issues.

HMJr: Now, let me ask you this: besides being President of the Federal Reserve Bank of New York, I don't know what else -- what are you, Chairman of the Government Committee?

S: It's Vice-Chairman, acting in Earles' absence.

HMJr: Well, let me ask you again. In case the war ends in Germany during the 7th War Loan, we are going to look to you fellows to take care of the Government bond market.

S: Well, that's our understanding also.

HMJr: Is that right?

S: Yeah.

HMJr: Well, there's no misunderstanding about that.

S: None at all.

HMJr: Well, then on that basis we will go ahead tonight and get out the announcement.

S: All right, that's fine.

HMJr: I think --- I don't --- I'm glad I wrote this long. I think you have gained by waiting this long, but I think you ought to come out now.

HMJr: Well, we will.

S: Fine.

HMJr: As soon as we hang-up Bell will get the thing going.

S: Fine.

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10-L

HMJr: Thank you very much.

S: All right.

HMJr: Goodbye.

S: Goodbye.

Bell: All right, we'll move on that immediately.

HMJr: Now, let me ask you this. I think that is all right.

B: I do too.

HMJr: And we certainly put the gentleman on the spot.

B: That's all right, yeah --- and he came through.

HMJr: What?

B: He came through.

HMJr: I can't hear you.

B: I say, he came through.

HMJr: Yes. And I let him think I was doing the five years and a half on his recommendation.

B: That's right.

HMJr: Which is in part true.

B: Yes, it is part true, that's right.

HMJr: And I wouldn't have done it if he hadn't brought it up.

B: He urged you.

HMJr: Hello?

B: He urged you last Friday.

HMJr: Now, let me ask you this - what did you want to say about Bartelt?

B: He wants to get out some letters to the heads of Bureaus and Offices in the Treasury, and to the employees, asking them to participate, and the basis of their participation in the 7th War Loan Drive.

- 13 -

10-17

HMJr: Yeah.

B: And he would like to have those out this week, so that he could start Monday. I wanted to tell him to go ahead with the letters, and then you could sign them when you come in Monday, if that is all right with you.

HMJr: I'll be in Saturday.

B: Well, then Saturday, either one. But he wanted to get them multilithed and out this week.

HMJr: That's all right.

B: All right.

HMJr: Now, what else?

B: That's all.

HMJr: Now what happened when you called up Grew?

B: Oh, I didn't --- I got Stettinius.

HMJr: Oh, did you?

B: Yes, Grew is on leave this week. I got a hold of Ed, and he said, "Well, they are working on it", and I said, "Well, I don't think they have had but one meeting yet, and the Secretary is very anxious to get them started immediately and go right ahead with it, and General Hildring had called you and said he was anxious." And I said also it would be a good thing if Lubin could sit in and get the background so that he would be well prepared when he left. He said, "All right, I'll call Will Clayton right now and tell him to get busy."

HMJr: You don't know what happened?

B: No, at 2:30 Harry had not heard anything at that point.

HMJr: Oh.

B: But I'll call him again when I go back, but I didn't get Ed until almost one o'clock. He was out of his office in conferences all morning, so it was almost one o'clock before I got him.

HMJr: Have they heard anything from New York on the meeting with Burgess?

- 14 -

10-0

B: On what?

HMJr: Anything with Burgess?

B: No, I was expecting to hear from Bernie and Luxford this afternoon, and if they wanted me I was going up tomorrow night.

HMJr: Oh.

B: To sit in on the conference on Wednesday. But they told you of my conference with Burgess?

HMJr: I thought it was very good.

B: And he was -- he showed it in his whole expression that he was very unhappy, and said that he had lost a lot of sleep, and if anything could be done to iron out the situation, it would just please him no end.

HMJr: Yes.

B: And he was very agreeable to the suggestion.

HMJr: Look while I'm talking to you tell Haas to go in to my outer office and let him send for White.

B: All right. (talks aside)

HMJr: Hello.

B: All right, he's gone.

HMJr: Can I, while I'm waiting, talk to Mrs. McHugh a minute?

B: Yeah.

Operator: Yes, sir.

B: Mrs. McHugh to the Secretary.

Operator: All right, thank you.

(Pause)

HMJr: Luxford?

Mr. Harry

White: No, they didn't, they didn't call me.

HMJr: All right.

- 15 -

10-P

W: Luxford and Bernstein are both there, but I don't know how they came out.

HMJr: Did you hear from Stettinius on the . . .

W: Yes, Dan called him .. got in touch with him toward noon--he was at a meeting, and he thought that the meetings were going forward, but Dan told them that they weren't, they had been stalled. He said he would get right after Clayton, but Clayton hasn't called any yet.

HMJr: Well, if you don't hear tomorrow, Dan can follow up.

W: Yeah, he can call Clayton up.

HMJr: All right.

W: O.K. is there anybody else?

HMJr: No, if I can just have the operator, please.

Operator: Yes, sir.

HMJr: Just let me have Miss Carr.

Operator: All right.

Treasury Department
Division of Monetary Research 11

Date April 2, 1945 19

To: Secretary Morgenthau

This is Baldwin of New York and
not Baltimore. But it is a Republican
vote!

H.D.W.

MR. WHITE
Branch 2056 - Room 214-1/2

JOSEPH CLARK BALDWIN
17th District New York
HENRY LEE MUNSON
ASSISTANT TO MR. BALDWIN
WASHINGTON OFFICE:
GERTRUDE E. PRELUSE
CONGRESSIONAL SECRETARY
NEW YORK OFFICE:
230 Park Avenue
GRACE HUMPHREYS
CONGRESSIONAL SECRETARY
RUTH DOYLE
ASSISTANT
JOHN KELLY
RECORDING ASSISTANT
MAXWELL J. SHAPIRO
CLERK

Congress of the United States
House of Representatives
Washington 25, D. C.

March 22, 1945

COMMITTEES 12
Liam
Director of Colonial
Council, Western, and Maritime

The Honorable Henry Morgenthau, Jr.
Treasury Department
Washington, D.C.

Dear Mr. Secretary:

I have been asked by one of my very good
friends to look into the possible transfer of Mr.
Sidney H. Tobias, of 1404 Metropolitan Avenue, Bronx,
New York., at present Deputy Collector, U.S. Internal
Revenue, 2nd District, New York.

He would like to be changed to the office
of Mr. Ken Roe, Miscellaneous Tax Agent at 253, Broad-
way, New York.

I would appreciate anything that you might
do on his behalf. Would you or one of your staff let
me know the possibilities in this connection.

My sincere thanks for the courtesy.

Sincerely yours,

Joseph Clark Baldwin
Joseph Clark Baldwin, M.C.

P.S. I think Bretton Woods will
pass - I think to the only
Republican voting for it.

JCB...

April 2, 1945

Fellow Employees:

The winning of the war is the major concern of all of us. Thousands of Americans have already given their lives and many more will die before our enemies are conquered.

Thousands of Americans have been wounded, but the majority of these will return, restored to health and able to live useful lives. One of the greatest aids in saving the lives of those wounded in battle is the blood donated by those of us on the home front.

At this time, therefore, I urge each one who can do so to donate blood through the Red Cross. Information will be given you by your Treasury Red Cross Unit or by the local Red Cross. I would like to stress two points in this program:

1. Keep your appointment to give blood. Last minute cancellations cut down the amount of blood for the day.

2. Donate regularly. Regular donations provide a steady flow of life-giving blood ready when needed.

There is no greater satisfaction than that which comes from knowing that your blood fights on the battlefield.

Sincerely,

(Signature) H. M. ...

The Treasury is essentially a service agency, being subject to the requirements of practically the entire Federal establishment in such operations as procurement, disbursement, accounting, and the payment of checks. Among its principal functions, the Treasury Department is also responsible for the raising of the Government's funds, including the collection of the revenue through taxes and customs, and the sale of bonds and other securities.

It is also the Treasury's responsibility to maintain certain important enforcement services, including the Bureau of Narcotics, the Secret Service, the Customs Agency Service, and the alcohol tax and intelligence units of the Bureau of Internal Revenue. More recently the Treasury Department has been assigned, through its Procurement Division, the additional task of disposing of vast war surpluses of consumer goods.

In view of the nature and scope of the Treasury's operations, it appears that termination of the War will result in relatively few adjustments in functions or personnel. As a matter of fact, cessation of hostilities in some instances will probably create substantial increases in the activities of certain Treasury bureaus, as, for example, there may be an expanded volume of work to be handled by the Customs Service, and the surplus property operations performed by the Procurement Division will no doubt increase. In the Bureau of Internal Revenue, the Bureau of the Public Debt, the Office of the Treasurer of the United States, and the Bureau of Accounts, (including the Division of Disbursement), the postwar functions and personnel requirements will result in few reductions. Taxes and customs will continue to be collected; bonds and other securities will continue to be issued, and there will be the task of handling the retirement of bonds as they reach maturity. Check issues and check payments will also continue in heavy volume during the postwar period, and they might actually reflect increases, as pension, insurance, and other payments to veterans and their dependents reach their peak.

In addition to the foregoing, there is the public demand for currency and coins, which in all probability will call for the continued employment of thousands of workers. In view of these facts, it seems unlikely that the Treasury Department will be among those Federal agencies in which major reductions of either functions or personnel may be expected during the postwar period.

4/2/45

Mr. Blough
Secretary Morgenthau

In your memorandum of March 24th on taxation of bank earnings, I agree with you that your suggestion on Page 2, Paragraph 2, is the most likely one, and I wish you would use this formula and apply it to several large banks, medium-sized banks, and several small banks just to see what it would mean to their earnings.

I wish you would discuss this with Bell and with the Comptroller.

I can't understand why our statistics are so far behind on bank earnings. I wish you would mention that to Bell and to the Comptroller.

Would you please continue to study this subject, and I want to discuss it with you when I get back. Please let both Dan Bell and the Comptroller know that I am interested in a study along these lines.

4/2/45

Ted Gamble
Secretary Morgenthau

George Haas brought word down that OWI has informed you that we must no longer mention Japanese atrocities, but stress the fact that the Japanese were brought into the war due to Nazi influence. I think this is sheer nonsense, and I certainly don't want to be the first one to express this idea publicly because I am sure that the first agency who does is going to be laughed out of court.

I wish you would discuss this with some high Navy and Army officials and get their reaction. I just can't believe that this came from the President. It might have come from somebody around him, but not the President. If anybody is so dumb as to think that after V-E Day we can continue to keep people interested in the war in the Pacific by telling them that the Japs are in it due to Nazi influence - well, they are just dumber than I think anybody could possibly be. Please check this with the Army and Navy promptly, and give me a report on it because I am very much disturbed.



TREASURY DEPARTMENT

WASHINGTON

April 2, 1945

My Dear Mr. Secretary:

Reference is made to your letter of March 30 requesting the consent of the Treasury Department for Josiah L. DuBois, Assistant to the Secretary, to accompany Dr. Isidore Rubin, United States representative on the Allied Reparations Commission, to Moscow as a member of his staff.

I am pleased to advise you that Secretary Morgenthau has approved the assignment of Mr. DuBois to this mission.

Very truly yours,

Am. Bill

Acting Secretary of the Treasury.

The Honorable
Joseph C. Grew
Acting Secretary of State
Washington, D. C.

OFFICIAL COMMUNICATION TO
THE SECRETARY OF STATE
WASHINGTON, D. C.



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
PA

March 30, 1945

My dear Mr. Secretary:

Dr. Isador Lubin, whom the Department of State has appointed United States Representative on the Allied Reparation Commission to be established at Moscow, wishes to have Mr. Josiah E. DuBois, of the Treasury Department, accompany him to Moscow as a member of his staff, and I should greatly appreciate your consenting to release Mr. DuBois for this purpose. The services of Mr. DuBois are desired in connection with the economic and financial studies which will be required in the formulation of a reparations program for Germany.

Dr. Lubin's staff will consist of approximately fifteen persons and their departure for Moscow is tentatively scheduled for April 7, or as soon thereafter as possible. Pursuant to the decision taken at the Yalta Conference "to exact reparation in kind for the destruction wrought by the Germans" the Commission, to be composed of representatives of the United States, Great Britain and the Soviet Union, will engage in deliberations to determine the nature and extent of the reparation to be made by Germany as well as the methods to be employed in exacting it. It is anticipated that the work of the Commission will require Dr. Lubin to remain in Moscow with his staff for a period of from three to six months.

Subject to the availability of funds to cover the expenses of the mission, which are being requested, the Department of State would assume the expense of Mr. DuBois' travel, per diem, and allowances, it being understood that his salary would continue to be paid by the Treasury Department.

Sincerely yours,

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

Acting Secretary



UNITED STATES GOVERNMENT
THE SECRETARY OF STATE
WASHINGTON, D. C.



DEPARTMENT OF STATE
WASHINGTON

Dear Henry:

With reference to your question regarding discussions of the proposed International Monetary Fund and International Bank for Reconstruction and Development at the recent Inter-American Conference on Problems of War and Peace, I am attaching a copy of the Provisional English Translation of the Final Act of that Conference in which are marked the following references to the Bretton Woods proposals:

1) Page 61 - Economic Charter, Declaration of Principles - "7. As positive steps in international collaboration for the stabilization of currencies and to facilitate the development of productive resources, to seek early action by their governments with a view to bringing into operation the International Monetary Fund, the International Bank for Reconstruction and Development, and the Food and Agriculture Organization of the United Nations."

2) Page 57 - Industrial Development - "2. That, in order to facilitate the financing of industry, the American Republics will undertake to ratify, as soon as possible, the Bretton Woods Agreements for the establishment of the International Bank for Reconstruction and Development and the International Monetary Fund."

3) Page 63 - Meeting of Monetary Authorities - "Until such time as the Bretton Woods Agreements enter into force, the monetary authorities of the American nations arrange to meet to study all the economic and monetary problems which concern them

and

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



and to propose measures which may tend to solve those problems in accordance with the purposes set forth in this resolution."

4) Page 30 - Preamble to Resolution on Economic Adjustment of the Hemisphere During the Transition Period - "The United Nations Monetary and Financial Conference held at Bretton Woods in July 1944, recommended in Resolution VII that, with a view to creating in the field of international economic relations, conditions necessary for the attainment of the purposes of the International Monetary Fund and of the other primary objectives of economic policy, attention should be given to special problems of international concern which will arise from the cessation of production for war purposes."

A further reference to the Bretton Woods Conference was made in the Resolution on the Control of Enemy Property and Looted Assets which begins on page 24. On page 25 Resolution VI on such matters was adopted and reaffirmed.

Sincerely yours,

Enclosure:

1. Final Act of the Inter-American Conference on Problems of War and Peace.

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FINAL ACT
of the
INTER-AMERICAN CONFERENCE ON
PROBLEMS OF WAR AND PEACE
México, D.F., Mexico
February 21 to March 8, 1945

Provisional
English Translation

Note: The Pan American Union will issue at a later date the official English translation of the Spanish text signed at Mexico City. This provisional translation is issued by the United States Delegation.

México, D.F., Mexico
March 8, 1945.

22

FINAL ACT
OF THE
INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE

Pursuant to the invitation extended on January 10, 1945 by the Government of the United Mexican States, the Delegations of the countries enumerated below met in Mexico City on February 21, 1945. The order of precedence was determined by a drawing of lots on February 21st, in conformity with Article 5, paragraph (2), of the Regulations of the Conference:

(Here follow the lists of the members of the Delegations, the honorary members and the observers.)

PRELIMINARY SESSION

At 11:00 a.m. on February 21 the Preliminary Session was held in Chapultepec Castle, Mexico City, in accordance with the following

ORDER OF THE DAY

- a. Election of the President of the Conference;
- b. Designation of the Committee on Credentials;
- c. Adoption of the regulations;
- d. Adoption of the agenda;
- e. Designation of committees;
- f. Assignment of the various topics of the agenda among the committees;
- g. Establishment by drawing lots of the order of precedence of the delegations;
- h. Report of the Committee on Credentials;
- i. Other business.

Election of the President of the Conference

His Excellency Ezequiel Padilla, Secretary of Foreign Affairs of Mexico, was elected President of the Conference by acclamation.

Designation of the Committee on Credentials

The Committee on Credentials was composed of His Excellency Gustavo Julio Henríquez (Chairman), of the Delegation of the Dominican Republic; His Excellency Marcos A. Kohly, of the Delegation of Cuba; and His Excellency Guillermo Sevilla Sacasa, of the Delegation of Nicaragua.

This

-2-

This Committee submitted for the consideration of the Preliminary Session the following draft Resolution, which was unanimously approved:

"The Inter-American Conference on Problems of War and Peace, on the basis of the report of its Committee on Credentials, reports that there have been duly accredited 110 Delegates, 108 Advisers and Counselors, 44 Secretaries and 49 Technical Assistants."(1)

Adoption of the Regulations

The Regulations were adopted in the form which appears in Annex 1.

Adoption of the Agenda

The definitive Agenda of the Conference was as follows:

1. Further cooperative measures for the prosecution of the war to complete victory.
2. Consideration of problems of international organization for the maintenance of peace and collective security.
 - a) World organization;
 - b) The further development of the inter-American system and its coordination with the world organization.
3. Consideration of the economic and social problems of the Americas.
 - a) Economic cooperation during the war and in the transitional period;
 - b) Consideration of methods to develop such cooperation for the improvement of economic and social conditions of the peoples of the Americas, with a view to raising their standard of living.
4. Pursuant to the desires of the Governments consulted, whenever the foregoing topics are disposed of, consideration would be given to the resolution adopted by the Governing Board of the Pan American Union at its meeting on Monday, January 8, relative to the request of the Argentine Government.

COMMISSIONS AND COMMITTEES

(Here follows a list of the Commissions and Committees and their respective memberships.)

GENERAL

(1) Subsequently new Delegates were accredited and the categories of certain officials were changed. For this reason the total number of Delegates, Advisers, Counselors, Secretaries and Technical Assistants amounts to 324.

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GENERAL SECRETARIAT

His Excellency Major General Manuel Avila Camacho, President of the United Mexican States, designated His Excellency Manuel Tello, Under Secretary of Foreign Affairs, as Secretary General of the Conference, and His Excellency Rafael de la Colina, Envoy Extraordinary and Minister Plenipotentiary, attached to the Embassy of Mexico at Washington, D. C., as Assistant Secretary General.

OPENING SESSION OF THE CONFERENCE

On February 21, at 8:00 p.m., His Excellency Major General Manuel Avila Camacho, President of the United Mexican States, solemnly declared that the Inter-American Conference on Problems of War and Peace was in session.

RESOLUTIONS

I

TRIBUTE TO BENITO JUÁREZ

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE

RESOLVES:

As a tribute to all the nations of the Continent to the people and Government of the United Mexican States, to hold a public ceremony before the statue of Benito Juárez, hero of the Americas, by laying a floral offering. In this ceremony a Delegate designated by the President of the Conference will deliver an address.

II

INVITATION TO MEMBERS OF THE MEXICAN CONGRESS

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE

RESOLVES:

To invite to its plenary sessions the Honorable Deputies and Senators of the Congress of the United Mexican States.

III

INVITATION TO THE PRESS

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE

RESOLVES:

To invite to its plenary sessions the press of Mexico, of the Americas and of the rest of the world.

IV

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IV

CREATION OF A PERMANENT MILITARY AGENCY

WHEREAS:

The American Republics constitute a special entity due to their geographic conditions, the similarity of their institutions, and their international obligations contracted at various inter-American conferences;

The Republics of this Continent have declared their solidarity to the extent that any threat or attack against one of them constitutes a threat or an attack against all;

The existence of a permanent military agency for the study and solution of problems affecting the Western Hemisphere is indispensable;

The Inter-American Defense Board has proved to be a valuable agency for the exchange of views, the study of problems and the formulation of recommendations relating to defense of the Hemisphere, and for the promotion of close collaboration on the part of the military, naval and air forces of the American Republics,

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE RECOMMENDS:

1. That the Governments consider the creation, at the earliest possible time, of a permanent agency formed by the representatives of each one of the General Staffs of the American Republics, for the purpose of proposing to the said Governments measures for a better military collaboration between all the Governments and for the defense of the Western Hemisphere.
2. That the Inter-American Defense Board continue as an agency of inter-American defense, until the establishment of the permanent body provided for in this recommendation.

V

CONTROL OF ARMAMENTS

WHEREAS:

1. The American Republics, through international instruments and by various other means, have expressed on diverse solemn occasions their spontaneous and categorical condemnation of war as an instrument to achieve the political and individual aims of States, and have established the proscription of armed force as basic postulate in their relations and as the sole basis on which universal peace may be secured and maintained;

2. It is highly desirable that Governments exercise a complete control over the production and distribution of armaments, thus eliminating the profit motive in the traffic in arms,

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE

RECOMMENDS:

That

-5-

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That the American Republics adopt the necessary measures, consistent with their international obligations, to reserve to their Governments the control over the manufacture and distribution of armaments within their territory, as well as the international traffic in arms.

VI

WAR CRIMES

WHEREAS:

During the present world war the leaders, as well as numerous officials and military and civilian agents of the Axis powers and their satellites, have committed heinous crimes, in violation of the laws of war, and in violation of existing treaties, of the rules of International Law, or of the penal codes of civilized nations, or of the concepts of civilized life;

Individuals who have committed such crimes may have taken refuge in, or may seek refuge in, the territories of the American Republics;

Arrangements should be made to distinguish such criminals from ordinary political refugees,

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE

DECLARES:

That the American Republics, faithful to the principles of humanity and law on which their civilization is founded, repudiate war crimes and adhere to the Declaration of October 1943 by Great Britain, the United States of America and the Soviet Union in the sense that persons guilty of, responsible for, and accomplices in the commission of such crimes, shall be tried and sentenced; and, therefore,

RESOLVES:

1. To recommend that the Governments of the American Republics do not give refuge to individuals guilty of, responsible for, or accomplices in, the commission of such crimes.
2. To recommend that the Governments of the American Republics shall, upon the demand of any of the United Nations, and in accordance with the procedure set forth in the following paragraph, surrender individuals charged with the commission of such crimes to the United Nation making the request, or to the custody of the agency of the United Nations which may be established for the trial and punishment of such criminals.
3. To request that the Inter-American Juridical Committee, having in mind the pertinent national legislation on the subject, prepare and submit for adoption by the Governments of the American Republics, appropriate rules

for

Regraded Unclassified

-4-

The American states have been incorporating in their international law, since 1890, by means of conventions, resolutions and declarations, the following principles:

- a) The proscription of territorial conquest and the non-recognition of all acquisitions made by force (First International Conference of American States, 1890);
- b) The condemnation of intervention by a State in the internal or external affairs of another (Seventh International Conference of American States, 1933, and Inter-American Conference for the Maintenance of Peace, 1936);
- c) The recognition that every war or threat of war affects directly or indirectly all civilized peoples, and endangers the great principles of liberty and justice which constitute the American ideal and the standard of American international policy (Inter-American Conference for the Maintenance of Peace, 1936);
- d) The procedure of mutual consultation in order to find means of peaceful cooperation in the event of war or threat of war between American countries (Inter-American Conference for the Maintenance of Peace, 1936);
- e) The recognition that every act susceptible of disturbing the peace of America affects each and every one of the American nations and justifies the initiation of the procedure of consultation (Inter-American Conference for the Maintenance of Peace, 1936);
- f) That any difference or dispute between the American nations, whatever its nature or origin, shall be settled by the methods of conciliation, or full arbitration, or through international justice (Inter-American Conference for the Maintenance of Peace, 1936);
- g) The recognition that respect for the personality, sovereignty and independence of each American State constitutes the essence of international order supported by continental solidarity, which historically has been expressed and sustained by declarations and treaties in force (Eighth International Conference of American States, 1938);
- h) The affirmation that respect for and the faithful observance of treaties constitutes the indispensable rule for the development of peaceful relations between States, and that treaties can only be revised by agreement of the contracting parties (Declaration of American Principles, Eighth International Conference of American States, 1938);
- i) That in case the peace, security or territorial integrity of any American republic is threatened by

acts

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-5-

acts of any nature that may impair them, they proclaim their common concern and their determination to make effective their solidarity, coordinating their respective sovereign wills by means of the procedure of consultation, using the measures which in each case the circumstances may make advisable (Declaration of Lima, Eighth International Conference of American States, 1938);

- j) That any attempt on the part of a non-American State against the integrity or inviolability of the territory, the sovereignty or the political independence of an American State shall be considered as an act of aggression against all the American States (Declaration XV of the Second Meeting of the Ministers of Foreign Affairs, Habana, 1940);

The furtherance of these principles, which the American States have practiced in order to secure peace and solidarity between the nations of the Continent constitutes an effective means of contributing to the general system of world security and of facilitating its establishment;

The security and solidarity of the Continent are affected to the same extent by an act of aggression against any of the American States by a non-American State, as by an act of aggression of an American State against one or more American States;

PART I

THE GOVERNMENTS REPRESENTED AT THE INTER-AMERICAN CONFERENCE ON WAR AND PEACE

DECLARE:

1. That all sovereign States are juridically equal amongst themselves.
2. That every State has the right to the respect of its individuality and independence, on the part of the other members of the international community.
3. That every attack of a State against the integrity or the inviolability of the territory, or against the sovereignty or political independence of an American State, shall, conformably to Part III hereof, be considered as an act of aggression against the other States which sign this Act. In any case invasion by armed forces of one State into the territory of another trespassing boundaries established by treaty and demarcated in accordance therewith shall constitute an act of aggression.
4. That in case acts of aggression occur or there may be reasons to believe that an aggression is being prepared by any other State against the integrity and inviolability of the territory, or against the sovereignty or political independence of an American State, the States signatory to this Act will consult amongst themselves in order to agree upon the measures it may be advisable to take.

5. That

5. That during the war, and until the treaty recommended in Part II hereof is concluded, the signatories of this Act recognize that such threats and acts of aggression, as indicated in paragraphs 3 and 4 above, constitute an interference with the war effort of the United Nations, calling for such procedures, within the scope of their constitutional powers of a general nature and for war, as may be found necessary, including: recall of chiefs of diplomatic missions; breaking of diplomatic relations; breaking of consular relations; breaking of postal, telegraphic, telephonic, radio-telephonic relations; interruption of economic, commercial and financial relations; use of armed force to prevent or repel aggression.

6. That the principles and procedure contained in this Declaration shall become effective immediately, inasmuch as any act of aggression or threat of aggression during the present state of war interferes with the war effort of the United Nations to obtain victory. Henceforth, and to the end that the principles and procedures herein stipulated shall conform with the constitutional processes of each Republic, the respective Governments shall take the necessary steps to perfect this instrument in order that it shall be in force at all times.

PART II

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE

RECOMMENDS:

That for the purpose of meeting threats or acts of aggression against any American Republic following the establishment of peace, the Governments of the American Republics should consider the conclusion, in accordance with their constitutional processes, of a treaty establishing procedures whereby such threats or acts may be met by the use, by all or some of the signatories of said treaty of any one or more of the following measures: recall of chiefs of diplomatic missions; breaking of diplomatic relations; breaking of consular relations; breaking of postal, telegraphic, telephonic, radio-telephonic relations; interruption of economic, commercial and financial relations; use of armed force to prevent or repel aggression.

PART III

The above Declaration and Recommendation constitute a regional arrangement for dealing with such matters relating to the maintenance of international peace and security as are appropriate for regional action in this Hemisphere. The said arrangement, and the pertinent activities and procedures, shall be consistent with the purposes and principles of the general international organization, when established.

This agreement shall be known as the ACT OF CHARLOTTE.

IX

REORGANIZATION, CONSOLIDATION AND STRENGTHENING OF THE INTER-AMERICAN SYSTEM

WHEREAS:

The inter-American system, and the principles, instruments, agencies, and modes of action which give it substance, constitute the living manifestation of the determination of the sovereign American Republics to act together for the fulfillment of their common purposes in the maintenance of their peace and security and in the promotion of the well-being of their peoples:

The inter-American system is and has traditionally been inspired by a deep sense of universal cooperation;

The inter-American system, as an expression of the common ideals, the needs, and the will of the collectivity of American Republics, should be further improved and strengthened for the purpose of adjusting and solving inter-American problems;

The inter-American system should, furthermore, maintain the closest relations with the proposed general international organization and assume the appropriate responsibilities in harmony with the principles and purposes of the general international organization.

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE

RESOLVES:

1. That the International Conferences of American States shall meet ordinarily at four-year intervals and shall be the inter-American organ having charge of the formulation of general inter-American policy and the determination of the structure and the functions of inter-American instruments and agencies. The next Conference shall meet in Bogotá in 1946.

2. The regular Meetings of the Ministers of Foreign Affairs shall be held annually upon special call by the Governing Board of the Pan American Union, unless there should be held in the same year an International Conference of American States pursuant to the previous article hereof. The next regular Meeting of the Ministers of Foreign Affairs shall be held in 1947.

The Meetings shall be charged with taking decisions on problems of great urgency and importance concerning the inter-American system and with regard to situations and disputes of every kind which may disturb the peace of the American Republics.

In exceptional cases, should the Ministers of Foreign Affairs be unable to attend, they may be represented by a special delegate.

3. The Governing Board of the Pan American Union shall be composed of one ad hoc delegate designated by each of the American

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American Republics, which delegates shall have the rank of Ambassadors and shall enjoy the corresponding privileges and immunities, but shall not be part of the diplomatic mission accredited to the government of the country in which the Pan American Union has its seat. This provision shall be effective on May 1, 1949.

4. In addition to its present functions the Governing Board of the Pan American Union

- a) Shall take action within the limitations imposed upon it by the International Conference of American States or pursuant to the specific direction of the Meetings of Ministers of Foreign Affairs on every matter which affects the effective functioning of the Inter-American System and the solidarity and general welfare of the American Republics;
- b) Shall call the regular meetings of Ministers of Foreign Affairs provided for in Paragraph 1 of Article 2 hereof, and special meetings when they shall have been requested in order to handle exclusively emergency questions. In the latter case the call shall be made upon the vote of an absolute majority of the Board;
- c) Shall supervise the inter-American agencies which are connected with the Pan American Union or which shall become connected with it and shall receive and approve annual or special reports from these agencies.

5. The Chairman of the Governing Board of the Pan American Union shall be elected annually and shall not be eligible for re-election for the term immediately following.

The Governing Board of the Pan American Union shall meet at least once each week.

The seat of the Pan American Union and of the Governing Board shall continue to be in Washington.

The Director General of the Pan American Union shall be chosen by the Governing Board and shall hold office for ten years; he shall not be eligible for re-election, nor can he be succeeded by a person of his same nationality.

When the office of Director General of the Pan American Union shall become vacant, a successor shall be elected who shall hold office until the end of the term and who may be re-elected if the vacancy shall have occurred during the second half of the term.

The first term shall begin on January 1, 1955.

The designation and replacement of the Assistant Director shall be made in accordance with the above rules, except that the first term shall begin on January 1, 1950.

It is understood that the Governing Board may, by vote of

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of fifteen of its members, remove the Director or the Assistant Director, on grounds relating to the efficiency of the organization.

6. Until the Ninth International Conference of Inter-American States shall, in accordance with the procedure provided hereinafter, create or confirm the various organs of the Inter-American system, the following organs created by the Meetings of Ministers of Foreign Affairs shall continue to carry on their functions: The Inter-American Juridical Committee, the Emergency Advisory Committee for Political Defense, and the Inter-American Defense Board.

7. In place of the emergency organ which now exists and which is known as the Inter-American Financial and Economic Advisory Committee, there is hereby created a permanent Inter-American Economic and Social Council, subsidiary to the Governing Board of the Pan American Union, the members of which shall be designated by the respective Governments, and which shall be empowered:

- a) To carry out recommendations of the International Conference of American States;
- b) To serve as the coordinating agency for all official inter-American economic and social activities;
- c) To promote the social progress and the raising of the standard of living of all the American peoples;
- d) To undertake studies and other activities upon its own initiative or upon the request of any American government;
- e) To collect and prepare reports on economic and social subjects for the use of the American Republics;
- f) To maintain liaison with the corresponding organ of the general international organization when established and with existing or projected specialized international agencies in the economic and social field.

The Governing Board of the Pan American Union is authorized to organize provisionally the Inter-American Economic and Social Council. The permanent organization will be provided for by the Ninth International Conference of American States.

8. The Division of Intellectual Cooperation of the Pan American Union shall be maintained for the purpose of strengthening by all means at its command the spiritual bonds between the American Nations.

9. The Governing Board of the Pan American Union, availing itself of all inter-American organizations which it deems appropriate, is charged with the preparation, beginning May 1, 1949, of a draft of a charter for the

improvement

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improvement and strengthening of the inter-American system. The Governing Board shall submit this draft to the governments of the continent prior to December 31, 1945.

The draft of the charter shall first of all proclaim: The recognition by all the American Republics of International law as the effective rule of their conduct, and the pledge of those Governments to observe the standards announced in a "Declaration of the Rights and Duties of States" and a "Declaration of the International Rights and Duties of Man"; these latter shall serve as the definition of the fundamental principles of international law and shall appear as an annex to the Charter, in order that, without amending the latter, the former may be revised from time to time to adapt them to the requirements and aspirations of international life.

For the preparation of the first Declaration, the principles already incorporated into the juridical heritage of the inter-American system shall be coordinated, especially those contained in the "Convention on the Rights and Duties of States" approved at the Seventh International Conference of American States; in the "Declaration of Principles of Inter-American Solidarity and Cooperation" adopted at the Inter-American Conference for the Maintenance of Peace; in the "Declaration of the Principles of the Solidarity of America" and the "Declaration of American Principles" adopted at the Eighth International Conference of American States; in the "Declaration on the Maintenance of International Activities in Accordance with Christian Morality" and the declaration relative to "Reciprocal Assistance and Cooperation for the Defense of the Nations of the Americas" approved at the First and Second Meetings of Ministers of Foreign Affairs, respectively; and in the declarations on "Continental Solidarity in Observance of Treaties" and "The Good Neighbor Policy" adopted at the Third Meeting of Ministers of Foreign Affairs. The draft declaration on "Reaffirmation of Fundamental Principles of International Law" prepared by the Inter-American Juridical Committee, and any Declaration of Principles that may be adopted by this Conference shall also be taken into account.

In regard to the second Declaration mentioned above, the text shall be that formulated by the Inter-American Juridical Committee in fulfillment of the request contained in another resolution of the present Conference.

It is the desire of the Inter-American Conference on Problems of War and Peace that there shall be taken into account the Inter-American Commission of Women, which for sixteen years has rendered eminent services to the cause of America and humanity, and that it be included among the organizations which form the Pan American Union, with the same prerogatives and position that have been accorded to other inter-American institutions of a permanent or emergency character which have functioned within or without the Pan American Union.

10. The draft of the charter shall provide for the strengthening of the Inter-American System on the basis of

this

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this resolution and by the creation of new agencies or the elimination or adaptation of existing agencies, specifying and coordinating their functions as between themselves and with the world organization.

The draft shall take into account the need of accelerating the consolidation and extension of existing inter-American peace instruments and the simplification and improvement of the inter-American peace structure, and to this end the Governing Board of the Pan American Union shall utilize the services of the Inter-American Juridical Committee. In addition, the draft shall provide for the consolidation and simplification of all other inter-American instruments in order that they may be more effective.

11. The American governments shall send to the Governing Board of the Pan American Union prior to September 1, 1945, all their proposals relating to the preceding articles.

12. The draft of a Charter shall also provide for the establishment of an equitable system for the financial support of the Pan American Union and of all its related agencies.

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I

TRIBUTE TO DR. LEO S. ROWE

WHEREAS:

Dr. Leo S. Rowe, Director General of the Pan American Union, has rendered excellent services to the cause of continental harmony, to which he has nobly devoted his life since the time when, together with Elihu Root, he dedicated himself to its organization, consolidation and success;

Dr. Rowe and his eminent collaborators thus have won the gratitude of all the American peoples, who are confident that he will continue his incomparable efforts on behalf of the Pan American cause,

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE

RESOLVES:

To place on record its special and warmest appreciation of the excellent services rendered by Dr. Leo S. Rowe and his eminent collaborators to the cause of continental harmony and Pan Americanism.

II

DECLARATION OF MEXICO

The States of America, through their Plenipotentiary Delegates meeting at the Inter-American Conference on Problems of War and Peace

DECLARE:

The American community maintains the following essential principles as governing the relations between the States composing it:

1. International Law is the standard of conduct for all States.
2. States are juridically equal.
3. Each State is free and sovereign, and no State may intervene in the internal or external affairs of another.
4. The territory of the American States is inviolable and also immutable, except when changes are made by peaceful arrangements.
5. The American States do not recognize the validity of territorial conquests.
6. The mission of the American States is the maintenance of peace and of the best possible relations with all States.
7. Conflicts between States are to be settled exclusively by peaceful means.

8.

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8. War of aggression in any of its forms is outlawed.

9. An aggression against an American State constitutes an aggression against all American States.

10. The American States are solidary in their aspirations and common interests.

11. The American States reiterate their fervent adherence to democratic principles, which they consider essential for the peace of America.

12. The purpose of the State is the happiness of man in society. The interests of the community should be harmonized with the rights of the individual. The American man cannot conceive of living without justice, just as he cannot conceive of living without liberty.

13. Among the rights of man, the first is equality of opportunity to enjoy all the spiritual and material blessings offered by civilization, through the legitimate exercise of his activity, his industry, and his genius.

14. Education and material well-being are indispensable to the development of democracy.

15. Economic collaboration is essential to the common prosperity of the American Nations. Want among any of their peoples, whether in the form of poverty, malnutrition, or ill health, affects each one of them and consequently all of them jointly.

16. The American States consider as necessary the just coordination of all interests to create an economy of abundance in which natural resources and human labor will be employed for the purpose of raising the standard of living of all the peoples of the Continent.

17. The Inter-American community is at the service of the ideals of universal cooperation.

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XII

REAFFIRMATION OF THE PRINCIPLES OF THE ATLANTIC CHARTER

WHEREAS:

World peace and security depend on the moral integrity of all nations, large and small, in their international relations;

The American Republics fervently hope that the peace to follow the present conflict shall be founded on sound principles of equity and justice, of liberty and law;

These principles find their most faithful expression in the Atlantic Charter proclaimed August 14, 1941, by the President of the United States of America, Franklin Delano Roosevelt, and the British Prime Minister, Winston S. Churchill;

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE,
DECLARES:

That the Governments of America reaffirm their adherence to the principles and purposes of the Atlantic Charter.

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XIII

INCORPORATION OF INTERNATIONAL LAW INTO MUNICIPAL LEGISLATION

WHEREAS:

The American Republics have repeatedly proclaimed their adherence to the rules of international law, both in international instruments and in their own constitutions;

Such rules, however, are not automatically incorporated into municipal legislation;

To leave, as at present, to the will of the governments the incorporation of international law into municipal legislation prevents international law from having full effect;

In order to correct this serious deficiency, it is desirable that such incorporation be made compulsory and uniform for all States and that there be introduced into municipal legislation both positive and negative provisions corresponding to those adopted in the international order and serving as an instrument for the application of the latter in the national field;

Without losing sight of the need for such incorporation on a world-wide scale, it is desirable that the American Republics make an effort to do so without delay, having in mind that the similarity of their constitutional systems will facilitate this task,

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE
RESOLVES:

1. To proclaim the need for all States to strive toward the incorporation of the essential principles of international law into their constitutions and other municipal legislation.
2. To recommend that, in studying the reorganization of the inter-American system, provision be made for including in the charter of the future organization of the American Republics an article reiterating the above-mentioned objectives and undertaking to inform the appropriate permanent inter-American organization in regard to its fulfillment.

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XIV

ECONOMIC COOPERATION IN THE PROSECUTION OF THE WAR

WHEREAS:

The American republics here represented have during the course of the war demonstrated their solidarity through the mobilization of their economic resources for the prosecution of the war;

Despite the successful operations by the military forces of the United Nations a difficult struggle still lies ahead before complete victory can be achieved.

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE

RESOLVES:

1. To urge upon the Governments and peoples of the American republics here represented the intensification of their efforts for mobilization of their economic resources, in order that total victory over the Axis powers may be achieved at the earliest moment and at the least possible cost in human lives, including action necessary for the successful prosecution of the war, and, more particularly, the continuance of production of strategic materials needed in connection with the war and the making available of such materials for war purposes, and the continuance of all appropriate measures to conserve the use of strategic materials needed for such purposes.

2. To ask the peoples of the American republics here represented to continue to accept whatever necessary wartime sacrifices or inconveniences may affect their daily lives, in recognition that such sacrifices and inconveniences are an inevitable part of the war to remove from the world the threat to every principle of freedom and equality for which the American republics stand.

XV

APPLICATION OF WAR TIME PRICE CONTROLS

WHEREAS:

Resolution III on "Maintenance of the Internal Economics of the American Countries" of the Third Meeting of Ministers of Foreign Affairs of the American Republics urged the establishment by all the American Governments of appropriate war time price controls;

Many of the American governments have established price controls as a part of systems of war time economic controls designed to protect the economies of the nations of the Western Hemisphere from inflation and other dislocations arising out of war conditions.

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE

RESOLVES:

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RESOLVES:

1. To reiterate the following principles relating to the application of war time price controls:

(a) That price ceilings should bear an appropriate relationship to costs of production and transportation, including a reasonable profit.

(b) That a fair and equitable relationship should be sought between the prices of agricultural and mineral products and those of manufactured articles and that all prices should be fair to producers and consumers alike.

(c) That due consideration should be given to the objective of increasing progressively the levels of living of workers, producers and consumers, and, in any case, to the objective of preventing any decline in living levels.

(d) That there should be applied to products of the American nations, in respect of ceiling prices, a criterion analogous to that which motivates the application of ceiling prices to the products of similar domestic industries.

(e) That full opportunity for consultation be afforded by governments having such controls to the governments of other American Republics which produce commodities subject to such controls.

2. To recommend that each American government subject its war time price and other economic controls to continuous scrutiny and, where necessary, revision, in order to carry out the afore-said principles.

XVI

REVIEW OF CAPITAL EQUIPMENT

WHEREAS:

In the course of the present war the demand for machinery, tools and manufactured goods in general has been met by the producing countries to a very small extent, owing to the justified priority of war needs;

As a result chiefly of this circumstance, the American Nations which produce raw materials have available balances of gold and foreign exchange with no immediate possibility of utilizing them;

Plans for economic development designed to diversify production and improve the living conditions of the people, under the system of hemispheric cooperation or with domestic resources, have not been carried into effect due to the shortage of necessary equipment and materials;

Furthermore, the industrial and transportation equipment

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of the American Republics has not been renewed notwithstanding the extra burden put upon it to facilitate the production of basic products and strategic materials required for the war effort.

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE RECOMMENDS:

That as soon as the war demand diminishes or ceases, the nations which produce machinery, tools and manufactured goods should make available such goods to the other American nations on a fair and equitable basis and within the limitations of the control mechanisms existing at the time, in order that they may achieve the renewal of equipment and material worn out by intensive operation in connection with the war effort, and the execution of programs for agricultural, industrial and transport development postponed during the war and necessary for strengthening the economies of such countries and for raising the levels of living of their peoples.

XVII

PRELIMINARY MEASURES FOR THE WASHINGTON ECONOMIC CONFERENCE

WHEREAS:

There is an urgent need to improve the economic, social, and cultural conditions of the American Republics, for the gradual attainment of higher standards of living, in harmony with the prevailing concepts of social justice, for which sacrifices must be made;

At the end of the present war the economies of the American nations may suffer dislocations which would affect their social structure;

On June 15, 1945, the Inter-American Technical Economic Conference will convene in Washington, to find solutions for the above mentioned problems;

It is imperative to provide the American Governments, as far in advance as possible of the date named, with information and studies which will permit them to know the true economic, financial and monetary situation of all the American Republics, so as to facilitate the understanding of internal and external problems affecting each of them;

The Inter-American Financial and Economic Advisory Committee has, in accordance with Resolution XIV of the Third Meeting of Foreign Ministers of the American Republics prepared the agenda for the Inter-American Technical Economic Conference,

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE

RESOLVES:

1. That the Inter-American Financial and Economic Advisory Committee transmit an urgent request to the Governments of the

American

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American Republics, for information on their economic, financial and monetary situation, which will make possible a proper appraisal of the internal and external condition of each country and of its present potentialities and future needs, and the formulation of concrete solutions which may be suggested as most adequate and desirable for the purposes stated in the preamble to this recommendation.

2. That such studies be submitted to the Inter-American Financial and Economic Advisory Committee before May 15, 1945, and that copies of them be sent to each of the American Governments.

3. That the Inter-American Financial and Economic Advisory Committee arrange such studies for their submission to the Inter-American Technical Economic Conference.

XVIII

MODIFICATION OF RESOLUTION V OF THE THIRD MEETING OF MINISTERS OF FOREIGN AFFAIRS OF THE AMERICAN REPUBLICS

WHEREAS:

At the Third Meeting of Ministers of Foreign Affairs of the American Republics it was recommended that the American Republics, in a manner consistent with their respective laws and practices, adopt measures to terminate for the duration of the emergency all commercial and financial intercourse between the Western Hemisphere and the nations signatory to the Tripartite Pact and the territories dominated by them, and in addition measures to eliminate all other financial and commercial activities prejudicial to the welfare and security of the American Republics;

The economic, political and military situation which prevailed at the time of the Third Meeting of Ministers of Foreign Affairs has now drastically changed and many territories previously dominated by Germany and Japan have now been liberated, and their free governments restored to a seat in their own territories; Italy has repudiated its former alliance with Germany and Japan, and diplomatic relations between Italy and various American Republics have now been restored; Bulgaria, Rumania and other satellite powers have been or will be removed from the sphere of German and Japanese influence; and such trade and financial relations as military conditions may permit in such liberated nations and territories need not be regarded as a threat to the security of the Western Hemisphere;

Facilities for the resumption of trade and commerce with the liberated nations and with the other territories formerly dominated by Germany or Japan have been to a certain extent restored and are likely to be restored more completely in the near future,

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE

RESOLVES:

1. That

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1. That the Governments of the American Republics reaffirm with respect to Germany and Japan the principles of Resolution V of the Third Meeting of Ministers of Foreign Affairs of the American Republics which were later developed at the Inter-American Conference on Systems of Economic and Financial Control held in Washington in June-July 1942.

2. That the governments of the American Republics adopt a policy of gradual modification of the measures referred to above, in so far as these measures affect liberated areas which are now under the jurisdiction of any of the United Nations, or territories which are no longer under the domination of Germany or Japan. Modifications of the existing controls should be made only to the extent possible without injury to any interest of the American Republics, individually or as a whole, and only such financial and commercial activities or transactions should be permitted as will not be a source of danger to the security of the Western Hemisphere or as are not, directly or indirectly, by or for the benefit of Germany or Japan, or any of the nations allied with them. In addition, such steps should be consistent with the objectives recognized in Recommendation V of the aforementioned Conference held in Washington.

3. That the Governments of the American Republics expressly agree that their rights in property vested, affected, seized or intervened up to the present time or which may be in the future, shall remain, with respect to the final disposition of each of such properties or of their respective proceeds, in status quo, until the American Governments individually reach final decisions regarding such disposition, or enter into international agreements in this respect, in so far as they consider it in their respective interests.

4. That nothing included in this Resolution shall in any way modify the rights of the American Republics which relate to the property or assets in general of any enemy or ex-enemy nation, or of their satellites, or of their nationals, or of other persons or entities which may be subject to the jurisdiction of or controlled by the American Republics, or with respect to the maintenance or change in status which the exercise of those rights may have refused.

5. That the Governments of the American Republics mutually consult with respect to the technical problems which may arise in connection with modification of the economic and financial control systems.

CONTROL OF BIRTH PROPERTY

WHEREAS:

The American Republics here represented have broken diplomatic, commercial and financial relations with, and have declared war against the common enemy in recognition of the principle that any act of aggression on the part of a non-American

state

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state against any of the American Republics must be considered as an aggression against all of them, and that the economic, political and military activities of the enemy constitute a threat to the peace, welfare and security of the American Republics;

There are reasons to believe that Germany and Japan will again attempt, in spite of their certain defeat, to conceal their property and property which they have unjustly obtained and which they have placed in other countries in order to finance, during the postwar period, activities of every sort inimical to the security and safety of the Western Hemisphere and of the world in general;

The peace and welfare of the post-war world must rest upon a foundation of justice and security and that therefore all necessary steps must be taken, in a manner consistent with the laws and practices of each country, to facilitate the location and restitution of property unjustly taken from the peoples of occupied countries, and the uncovering and treatment of property, directly or indirectly originating in Germany or Japan or which is owned or controlled by Germany or Japan or by individuals and entities within such countries all for the purpose of making it impossible again for Germany and Japan to be able to provoke and make war;

Each of the American Republics has adopted and put into practice various measures to accomplish the foregoing fundamental objectives pursuant to Resolution V of the Third Meeting of Ministers of Foreign Affairs of the American Republics and the Resolutions of the Inter-American Conference on Systems of Economic and Financial Control held in Washington in June-July 1942.

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE

RESOLVES:

1. That the American Republics here represented adopt and reaffirm the principles and objectives enunciated in the following:

(a) The Declaration with respect to Axis acts of disreputation, issued by certain of the United Nations on January 5, 1943.

(b) The Declaration on gold policy made by certain of the United Nations on February 22, 1944, and subsequently adhered to by other of the United Nations; and;

(c) Resolution VI of the United Nations Monetary and Financial Conference, held at Bretton Woods, in July, 1944, and subsequently adopted by certain of the United Nations.

2. That the American Republics here represented maintain in force existing measures in so far as they are applicable and take such further measures as are feasible to attain the objectives of the above mentioned declarations and Resolutions, including:

(a) Measures

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(a) Measures to uncover, to disclose, to immobilize, and to prevent the concealment or transfer of property and rights located within the American Republics or held by or through any person or entity under their respective jurisdictions, which property or rights in fact, whether or not in name, belong to or are controlled by or for the benefit of Germany or Japan or individuals or entities within those countries.

(b) Adequate measures to uncover, to disclose and to prevent the transfer of any property unjustly obtained or taken in like manner by the enemy from other peoples and for the restoration of such property to its rightful owners; it being understood that the American Governments shall consult with one another as soon as possible for the purpose of defining the terms and conditions of such measures and establishing the most appropriate procedures for the adoption and execution of such additional measures as may be necessary;

(c) Measures to prevent, within their respective jurisdictions, all possibility that the American Republics may be used as a refuge for property unjustly obtained or taken in like manner from other peoples or the property of individuals or entities whose activities are inimical to the security of the Western Hemisphere and of the post-war world.

3. That the American Republics expressly agree that their rights in property wanted, affected, seized or intervened up to the present time or which may in the future, shall remain, with respect to the final disposition of each of such properties or of their respective proceeds, in statu quo, until the American Governments individually reach final decisions regarding such dispositions, or enter into international agreements in this respect, in so far as they consider it in their respective interests.

4. That the American Republics consider that the provisions of Recommendation VIII of the Inter-American Conference on Systems of Financial and Economic Controls are applicable to the above mentioned matters.

The phrase "property unjustly taken from other peoples" shall mean, in the present resolution, property the control of which the enemy has obtained by dispossession, looting, violence, fraud, intimidation and other like acts.

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XX

ECONOMIC CONTROLS IN WARTIME AND IN THE TRANSITION PERIOD

WHEREAS:

Due to shortages of shipping and the scarcity of necessary supplies, and for other reasons connected with the prosecution of the war, it has been necessary to impose certain controls on international trade;

These controls have been applied to the distribution of foodstuffs and other goods, to the regulations governing import and export licenses, to the assignment of shipping priorities, it having been necessary to organize officially agencies for the distribution and sale of necessities in order that international transactions be effected;

These wartime controls have been applied to such a degree that international trade has been diverted from the usual channels to an administrative direction by governmental agencies, which will necessarily make more difficult the re-establishment of former trading methods during the transition period and after the war;

These wartime restrictions are necessarily inconsistent with the long range principles of commercial policy to which the American Republics have subscribed and with policy statements and agreements of several of the United Nations;

It is necessary that the war economy and the peace economy be bridged by an intermediate period of recovery and transition during which special steps for reconversion and for economic, financial, political, and social readjustment shall be taken, according to standards which will assure in the common future of the American Nations a regime of equilibrium, prosperity, security and cooperation, in view of the fact that the end of hostilities will not necessarily mean the end of the shortage of materials, production facilities or of shipping; and, therefore, during the transition period a limited use of these wartime controls may still be required,

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE RESOLVES:

1. That special controls which have been or may be unavoidably imposed on international trade because of war conditions should, in the interests of expanding trade in the post-war period, be eliminated as rapidly as possible consistent with the most effective prosecution of the war, it being understood that after the termination of hostilities the temporary continuation of such controls may nevertheless be necessary, but this continuation should be only for purposes directly related to the transition from war to peace or to the economic stability of the country in question during such period.

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2. That each American Government adopt a gradual procedure for the modification of its laws, measures and emergency orders designed to protect the national economy, having regard for the rate at which production and transportation facilities worn down as a result of the war or rendered obsolete in view of technical improvements are expanded and renewed.

3. That among the purposes of the National Commissions of Inter-American Development there be established the following:

- a) Collaboration in the study and carrying into effect of special measures of reconversion and readjustment;
- b) Application of Recommendation XXXVII of the Final Act of the Conference of National Commissions of Inter-American Development held in New York in May 1944, which relates to commercial arbitration.

4. That the Governments of those American nations presently at war and which may maintain restrictions, priorities or rationing on their exports during the transition period permit, on a fair and equitable basis, and in as large amounts as are compatible with fair and equitable treatment of other export markets, the export of tools, machinery, raw materials and essential consumption goods to other American nations, in order that the latter may develop efficiently their productive activity, especially that which relates to the establishment of new industries, the renewal of the equipment of existing industries, the improvement of transportation, and the supply of essential goods for normal consumption.

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XXX

DECLARATION OF THE AMERICAN NATIONS TRANSITION PERIOD

ARTICLE I:

The principles of continental solidarity, contained in the solemn declarations adopted by previous Inter-American meetings, should be accepted by all members of the American community of nations, specially Resolution II approved by the Third Meeting of Ministers of Foreign Affairs of the American Republics, held at Rio de Janeiro in 1942 which states:

"PRINCIPLES

"Continental solidarity must be translated into positive and efficient action of the highest significance which action can be no other than an economic mobilization of the American Republics capable of rapidly and fully guaranteeing the supply of strategic and basic materials necessary to the defense of the Hemisphere:

"This mobilization should include all activities which will advance the desired end, and must have the preferential character which its nature and purpose require:

"

"Consideration must be given to measures providing for transition to the post-war period and the resulting readjustment with a minimum of disturbance to production and commerce: taking steps to protect, at the opportune time, producers against competition from goods produced in countries with a low standard of living:

"

"RECOMMENDATIONS:

"That, as a practical expression of continental solidarity, an economic mobilization of the American Republics be effected, with a view to assuring to the countries of this Hemisphere, and particularly to those at war, an adequate supply of basic and strategic materials in the shortest possible time.

"That such mobilization include mining, agricultural, industrial and commercial activities related to the supply not only of materials for strictly military use but also of products essential for civilian needs.

"That full recognition be given to the imperative character

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character and extreme urgency of the existing situation when formulating measures necessary to effect economic mobilization.

"That the American nations take measures to prevent commercial speculation from increasing export prices of basic and strategic products above the limits fixed for the respective domestic markets.

"That, in so far as possible, the increase of production be assured by bilateral or multilateral agreements or contracts which provide for purchases during long periods at prices which are equitable for the consumer, remunerative to the producer and which provide a fair standard of wages for the workers of the Americas, in which producers are protected against competition from products originating in areas wherein real wages are unduly low; and which make provision for the period of transition after the war and the readjustments which will follow in a manner guaranteeing the continuance of adequate production and permitting the existence of trade under conditions equitable to producers";

The United Nations Monetary and Financial Conference held at Bretton Woods in July 1944, recommended in Resolution VII that, with a view to creating in the field of international economic relations, conditions necessary for the attainment of the purposes of the International Monetary Fund and of the other primary objectives of economic policy, attention should be given to special problems of international concern which may arise from the cessation of production for war purposes;

In an effort to comply with the recommendations contained in Resolution II of the Third Meeting of Ministers of Foreign Affairs of the American Republics, many American countries changed or intensified their ordinary and permanent production in order to devote their efforts to the production of basic and strategic materials to supply the United Nations;

The international trade of the majority of the American nations is based upon the export of certain basic products which determine their purchasing power in foreign markets, their ability to meet their foreign financial obligations and, in general, their economic stability;

A large curtailment of the basic exports of the countries of the Western Hemisphere before the re-establishment of the normal channels of trade and before markets become available for the sale of their exportable surpluses would create difficult situations for the producing countries which might force them to institute measures of economic control, tariffs, and other restrictions which would obstruct the free movement of goods and capital within the Hemisphere;

However, the transition period which will begin with the end of the war in Europe may not be marked by large or abrupt curtailment in the over-all procurement of strategic materials

if the

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if the war in the Pacific continues unabated; and

If eventually there are accumulated surpluses of materials unneeded for purposes of military security, such future readjustments should be held to a minimum in order to avoid the damaging effect of such surpluses on future production and on the level of prices of such materials,

THE UNITED NATIONS CONFERENCE ON PROBLEMS OF THE WAR PERIOD

RESOLVED:

1. That until final victory is attained, the supply and acquisition of basic products and strategic materials by the American nations be continued with the same determination manifested up to now, in so far as war requirements demand.

2. That the American governments, recognizing the problems and purposes herein recited and their common interest in, and responsibility for, the minimizing of serious consequences which may result to the economies of their countries through reductions in the procurement of certain basic products and strategic materials, during the period of transition, agree:

a) That when during the transition period, it should finally become necessary to effect reductions in the volume of procurement under agreements with governments or by governmental agencies for the acquisition of certain basic products and strategic materials; which reductions are likely seriously to affect the stability of the economy of one or more producing countries, the affected country or countries and the country or countries purchasing such products and materials shall adopt, through bilateral arrangements, measures designed to minimize, during the transition period, the adverse consequences to the economy of the countries concerned by orderly adjustment of the procurement contracts or by any other equitable means and that, where required, the necessary and suitable legislative authority to accomplish these purposes will be sought by both exporting and importing countries in consonance with the fundamental needs of their own economies;

b) That all efforts shall be made to attain, as rapidly as possible, the re-establishment of normal commercial trade in these commodities; and

c) To formulate appropriate plans, by common agreement, as far in advance as the uncertainties of war permit, so that each country shall enjoy the minimum of time for its readjustments in connection with reductions in the procurement of basic products and strategic materials for war.

3. To cooperate with other nations to bring about, through the elimination of existing forms of discrimination and the prevention

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prevention of new forms, the enjoyment by all nations of access on equal terms to the trade and raw materials of the world, in accordance with the principles of the Atlantic Charter.

4. That the countries now producing basic and strategic materials for the war should, at the earliest possible date, develop plans for the encouragement of the production of other products more needed or justified by the demand of a normal or expanding world trade.

5. That the countries affected by any of the provisions hereof shall cooperate freely with one another in the accomplishment of the purposes expressed in this resolution.

XIII

TRIBUTE TO CANADA

WHEREAS:

Canada has made and is making a material contribution to the defense of the American Continent, through a war effort which encompasses all the resources of that country;

Canada, which, because of her geographic position, belongs to the American Hemisphere, occupies a prominent position within it, through the extensive development of her culture, her industry, and her democratic institutions; and

Canada maintains diplomatic and consular relations, as well as commercial and financial relations, with the other American States,

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE
RESOLVES:

1. To pay a tribute of admiration and gratitude to Canada for her significant war effort in the defense of the American Continent.

2. To express its wish that the collaboration of Canada with the Pan American system shall become ever closer.

XIII

TRIBUTE TO THE MEMBERS OF THE INTER-AMERICAN JURIDICAL
COMMITTEE

WHEREAS:

The Inter-American Juridical Committee, successor to the former Inter-American Neutrality Committee, has ably continued the work entrusted to the latter organization by formulating important projects, reports, and recommendations in accordance with the authority entrusted to it by Resolution XXVI of the Third Meeting of Ministers of Foreign Affairs of the American Republics,

THE

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THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE

RESOLVES:

To adopt a vote of thanks and appreciation to the distinguished members of the Inter-American Juridical Committee for their able contribution to the development of the principles and rules of Public International Law, an achievement which merits the gratitude of America.

XXIV

CHARACTER OF THE DECLARATIONS, RECOMMENDATIONS, AND
SIMILAR ACTS OF THE INTER-AMERICAN CONFERENCES AND
MEETINGS OF THE MINISTERS OF FOREIGN AFFAIRS

WHEREAS:

It is desirable to classify the commitments embodied in the Final Acts of Inter-American Conferences and Meetings of the Ministers of Foreign Affairs, and to establish the differences which exist between such commitments from the point of view of content;

During the sessions of the present Conference it is impossible to make a technical study of this subject with respect to which it is desirable to establish standards and to unify the opinion of the American Republics,

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE
RESOLVES:

1. To entrust to the Inter-American Juridical Committee the study of the various commitments embodied in the Final Acts of Inter-American Conferences and Meetings of the Ministers of Foreign Affairs, with respect to the subjects which each of such commitments contains;

2. That after such study, the Inter-American Juridical Committee shall submit a report to the Governments of the Continent, through the Pan American Union, in order that they may express their views with respect thereto.

3. The Pan American Union shall send to the Governments copies of the replies received.

4. The subject of this resolution shall be included as one of the topics in the agenda of the Ninth International Conference of American States.

XXV

REORGANIZATION OF THE AGENCIES ENGAGED IN THE
CODIFICATION OF PUBLIC INTERNATIONAL LAW

WHEREAS:

The Inter-American Juridical Committee in its Recommendations of October 17, 1944, stated:

"1.

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"1. That by Resolution XXVI of the Meeting of Foreign Ministers at Rio de Janeiro the Inter-American Juridical Committee was entrusted with the duty of developing and coordinating the work of codifying international law;

"2. That the Juridical Committee, in pursuing its studies in connection with the coordination of the work of the codification of public international law, finds that there are numerous committees engaged in the work of codification and that the organization of these committees is not conducive to efficient work and that the functions of the several committees overlap and duplicate;

"3. That the Juridical Committee is convinced that the work of codification can only be successfully prosecuted if a central organization of a permanent character is established, which can devote its whole time to the work of codification and bring unity into the activities of the various agencies engaged in the work;

"4. That the importance of the work of codification requires that more rapid progress must be made than has hitherto been possible by the instrumentalities and methods provided for in recent conferences and consultative meetings;

"5. That the procedures of arbitration and of judicial settlement are both in large part dependent upon the clarification of existing rules of international law and the development of new rules more in accord with the needs of the American States;

"The Inter-American Juridical Committee, acting in pursuance of the competence conferred upon it by the Meeting of Foreign Ministers at Rio de Janeiro, makes the following recommendation with respect to the coordination and reorganization of the work of codifying international law;

"I. The principal work of codification should be entrusted to a small committee of technical experts, herein described as the Inter-American Codification Committee, which could act as a central agency for the coordination of the work of the various public and private bodies directly or indirectly engaged in the work of codification.

"II. The Inter-American Codification Committee referred to in Article I might be the existing Committee of Experts for the Codification of International Law, reorganized in such a manner as to be able to undertake the new functions entrusted to it; or it might be the existing Inter-American Juridical Committee with an enlarged technical staff; or it might be a new committee distinct from the two existing ones above mentioned.

"III. The specific functions of the Inter-American Codification Committee referred to in Article I should be;

"a) To act as an organ of communication with the American Governments, with the Juridical Division of the Pan American Union, with various official agencies of codification which the American Governments have already established, and with private groups engaged in the work of codification;

"b)

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"b) To carry on research work in the field of codification;

"c) To prepare draft projects for the consideration of the American Governments and for discussion by other agencies of codification, and to prepare revised drafts on the basis of the replies and projects received;

"d) To recommend to the American Governments that the International Conference of American Jurists meet to take action upon drafts believed by the Codification Committee to be ready for final adoption.

"IV. The existing International Conference of American Jurists composed of plenipotentiary delegates, experts in matters of international law, should be continued in its present form and with its present competence. The members of the Inter-American Codification Committee should be ex officio members of the delegations of the countries appointing them, with the right to speak and to vote enjoyed by other members of the respective delegations. The Conference should meet at the call of the Governing Board of the Pan American Union, upon recommendation of the Inter-American Codification Committee, and the conventions and other instruments approved and signed by it should be forwarded to the Pan American Union to be transmitted to the American Governments for appropriate action.

"V. The National Committees may be continued, having as their purpose the initiation of studies in the field of international law and the submission of projects of codification to the Codification Committee.

"VI. The Permanent Committee of Rio de Janeiro on Public International Law might act as a consultative body during the term of its present members;

The task of codifying public international law is being delayed by the defects in the existing system, as pointed out by the Inter-American Juridical Committee in its report accompanying the recommendations of October 17, 1944;

The codification of public international law has for a long time been an aspiration of the American States, and some progress in that field has already been achieved, although not in proportion to the progress attained in the codification of private international law,

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE

RESOLVES:

1. To recommend to the American governments that they give their approval, through the Pan American Union, to the recommendations and reports submitted by the Inter-American Juridical Committee.

2. That as soon as the approval of the various governments has been obtained, the Pan American Union entrust to

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the Inter-American Juridical Committee the functions of a central agency for the codification of public international law.

3. That for this purpose the Pan American Union, through its Juridical Division, extend to the Inter-American Juridical Committee all necessary facilities for the accomplishment of its work.

XXVI

CRIMES OF AGGRESSION AGAINST THE AMERICAN REPUBLICS

WHEREAS:

American solidarity has developed to a degree where there exists a complete sense of continental responsibility for the defense of the juridical rights which are an integral part of the spirit of the peoples of the Americas;

The territorial integrity or inviolability, the sovereignty or independence of any of the members of the American community should be regarded as juridical rights of the highest order, and in the event that such rights are jeopardized the American States should, in their individual decisions regarding foreign and domestic matters, adopt a common political conduct and follow a uniform juridical procedure, in order that they may cooperate with the country which is the victim of aggression, as the Governments of Uruguay and Chile have done through legislation enacted on November 19, 1942, and December 31, 1942, respectively;

The preservation of the peace of the Continent is inseparable from the territorial integrity and independence of each of the States members of the American community,

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE
RESOLVES:

To recommend that the governments of the American Republics classify as crimes in their domestic criminal law, any acts, whether individual or collective, which favor a non-American State at war against an American State which is the victim of aggression.

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XXVII

FREE ACCESS TO INFORMATION

WHEREAS:

The American Republics have repeatedly expressed their firm desire to assure a peace which will defend and protect the fundamental rights of men everywhere and permit all peoples to live free from the evils of tyranny, oppression, and slavery;

The progress of mankind depends on the supremacy of truth among men;

Truth is the enemy of tyranny, which cannot exist where truth prevails, so that those who would erect tyrannies are constrained to attempt its suppression or to raise barriers against it;

Freedom of expression of thought, oral and written, is an essential condition to the development of an active and vigilant public opinion throughout the world to guard against any attempt at aggression;

One of the most pernicious acts against humanity is the method employed by totalitarian governments in isolating their people from the influence of foreign information, depriving them of access to the truth about international affairs, as well as creating obstacles abroad to an exact knowledge of internal conditions in their countries;

It is one of the fundamental lessons of the present world war that there can be no freedom, peace, or security where men are not assured of free access to the truth through the various media of public information,

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE
RECOMMENDS:

1. That the American Republics recognize their essential obligation to guarantee to their people, free and impartial access to sources of information.

2. That, having this guarantee in view, they undertake, upon the conclusion of the war, the earliest possible abandonment of those measures of censorship, and of control over the market of press, motion picture and radio, which have been necessary in order to combat the subversive political tactics and espionage activities of the Axis states.

3. That the Governments of the American Republics take measures, individually and in cooperation with one another, to promote a free exchange of information among their peoples.

4. That the American Republics, having accepted the principle of free access to information for all, make every effort to the end that when a juridical order in the world is assured, there may be established the principle of free transmission and reception of information, oral or written, published in books or by the press, broadcast by radio or

disseminated

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disseminated by any other means, under proper responsibility and without need of previous censorship, as in the case with private correspondence by letter, telegram, or any other means in time of peace.

XXVIII

MINUTES OF THE WOMEN OF THE AMERICAS

ARTICLE:

The Inter-American Commission of Women is an official agency, erected by the Sixth International Conference of American States held at Havana in 1928, confirmed by the Seventh Conference held at Montevideo in 1933, and established on a permanent basis by the Ninth Conference held at Lima in 1938;

Since the creation of the Inter-American Commission of Women, established to safeguard the rights of women in America, political rights have been granted to women by the following countries: Ecuador (1925), Brazil (1932), Uruguay (1932), Cuba (1934), El Salvador (1935), the Dominican Republic (1942), and recently by Panama and Portugal; the right to vote in municipal elections has been granted by Peru (1933), Chile (1934), Argentina, in some provinces, and Venezuela (1944), as well as in some states of Mexico; and the right of citizenship by Colombia (1945);

The Inter-American Commission of Women has worked and is working resolutely toward the fulfillment of the objectives and principles for which it was created;

The Commission is the only women's organization of continental scope in America with official status, and as such it is charged with studying the problems of women and advising the International Conference of American States on the subjects with which it is entrusted, but since its inception, has enjoyed only to a certain extent the status and prerogatives accorded to other inter-American institutions working within or without the Pan American Union, on a permanent or an emergency basis;

The Inter-American Commission of Women justly aspires to the full economic cooperation which its duties and responsibilities require in order that it may obtain the highest degree of effectiveness in the fulfillment of the purposes for which it was created;

Women comprise more than half the population of America and in claiming full rights they are acting in the interest of the most elementary form of human justice;

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE

RESOLUTIONS:

1. That the Governments of the American Republics, in order to implement the declaration of the Ninth International Conference

Conference

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Conference of American States, modify their legislative systems, with due regard to the conditions prevailing in their respective countries, so as to abolish any existing discriminations by reason of sex, which retard the prosperity and the intellectual, social and political development of the nations of this Continent.

2. That the Governments of the American Republics agree upon an annual quota, based on the respective population of the countries, for the maintenance of the Inter-American Commission of Women, as is being done with regard to other institutions functioning within the Inter-American system.

XIII

REVISION OF TEXT BOOKS

ARTICLE:

Peace cannot rest exclusively on political and economic bases;

The inter-American system can be further developed and strengthened only if the principles of peace, justice and equality between States and individuals, upon which this system has been erected are deeply impressed upon the consciousness of the citizens of the republics of this Continent;

It is important to prevent the infiltration of racial and totalitarian doctrines into the American Continent;

It is important to reaffirm the principles already adopted toward this end, especially in Resolution III of the First Meeting of Ministers of Foreign Affairs held at Panama, Resolution VII of the Second Meeting held at Havana, and the Convention of Buenos Aires concerning Peaceful Orientation of Public Instruction;

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE

RESOLUTIONS:

1. To recommend to the Governments of the American Republics the deletion from official text books used in schools of anything that might tend to jeopardize the inter-American system.
2. To recommend to the Governments of the American Republics that they exercise the greatest care in order that teaching in their schools may be based on the democratic principles of peace and justice upon which the inter-American system is based.
3. To recommend to the Governments of the American Republics the deletion from official text books used in schools of anything that supports, directly or indirectly, racial or totalitarian theories, or that might jeopardize the friendly relations between the States of this Continent.

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XXX

On Establishment of a General International Organization

WHEREAS:

The American Republics have at all times demonstrated their attachment to the principles of peaceful international relationships based on justice and law;

The tradition of universal cooperation, that has consistently inspired the inter-American system into which such principles have by now been definitely incorporated, has struck deeper roots and gained in strength due to the interdependence of the nations of the modern world which makes peace indivisible and the welfare of one country conditional upon that of all the others;

The Proposals for the Establishment of a General International Organization formulated at Dumbarton Oaks by the representatives of the United States of America, the United Kingdom of Great Britain and Northern Ireland, the Union of Soviet Socialist Republics, and the Republic of China were made available on October 9, 1944, to all countries for their full study and discussion;

These Proposals are capable of certain improvements with a view to perfecting them and to realizing with greater assurance the objectives which they enunciate;

The Organization to be created must reflect the ideas and hopes of all peace-loving nations participating in its creation;

In the present inter-American Conference, the Republics here represented which did not take part in the Dumbarton Oaks Conversations have formulated a certain number of suggestions which in their opinion would contribute to the perfecting of the above-mentioned Proposals;

It would undoubtedly be useful for the United Nations not represented in this Conference to have a synthesis of the views expressed in it, and it would also be very valuable if those nations were to communicate to the Governments of the American Republics here present, prior to the Conference at San Francisco, their views regarding the Dumbarton Oaks Proposals,

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE, DECLARES:

1. That the American Republics represented in this Conference are determined to cooperate with each other and with other peace-loving nations in the establishment of a General International Organization based upon law, justice, and equity;

2. That those Republics desire to make their full contribution, individually and by common action in and through the Inter-American System, effectively coordinating and

harmonizing

harmonizing that system with the General International Organization for the realization of the latter's objectives;

3. That the Dumbarton Oaks Proposals constitute a basis for, and a valuable contribution to the setting up of, a General Organization which may permit the achievement of a just peaceful order and the welfare of all nations, which the American Republics are striving to attain; and

RESOLVES:

1. That the Secretary General of the Conference transmit to the states which formulated the Dumbarton Oaks Proposals, to the other nations invited to the forthcoming Conference at San Francisco, and to that Conference itself, this resolution, and the report with the documents hereto attached containing the views, comments, and suggestions which, in the judgment of the American Republics presenting them, should be taken into consideration in the formulation of the definitive Charter of the projected Organization, especially the following points regarding which a consensus exists among the American Republics represented in this Conference that did not participate in the Dumbarton Oaks Conversations:

- a) The aspiration of universality as an ideal toward which the Organization should tend in the future;
- b) The desirability of amplifying and making more specific the enumeration of the principles and purposes of the Organization;
- c) The desirability of amplifying and making more specific the powers of the General Assembly in order that its action, as the fully representative organ of the international community may be rendered effective, harmonizing the powers of the Security Council with such amplification;
- d) The desirability of extending the jurisdiction and competence of the international tribunal or court of justice;
- e) The desirability of creating an international agency specially charged with promoting intellectual and moral cooperation between nations;
- f) The desirability of preferably solving controversies and questions of an inter-American character in accordance with inter-American methods and procedures, in harmony with those of the General International Organization; and
- g) The desirability of giving an adequate representation to Latin America in the Security Council.

2. To express to the other United Nations invited to participate in the San Francisco Conference the common desire of the American Republics to receive from them before that Conference the views, comments, and suggestions which they on their part may deem it convenient to transmit.

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The Governments signatory to the present resolution retain full liberty to present and support in the San Francisco Conference, as representatives respectively of sovereign states, all the viewpoints which they may consider pertinent, many of which may be found in the annexed documents.

XXXI

COOPERATION OF WOMEN IN INTERNATIONAL CONFERENCES

WHEREAS:

Democratic postulates contain absolute equality of rights and duties for individuals without distinction as to sex, and women, as has been declared repeatedly at inter-American Conferences and as experience has demonstrated, especially during the present war, are a factor of prime importance for the moral elevation and material progress of all nations,

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE

RECOMMENDS:

That the Governments of the American Republics take into consideration the cooperation of women in the formation of their respective delegations to international conferences, including the forthcoming Conference to be held at San Francisco.

XXXII

REGULATIONS OF THE INTER-AMERICAN JURIDICAL COMMITTEE

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE

RESOLVES:

That the Inter-American Juridical Committee examine the draft submitted by the Delegation of Venezuela, entitled "Regulations of the Inter-American Juridical Committee" and submit, for the consideration of the Pan American Union, a report regarding the measures the Committee may judge appropriate to adopt with respect to its own methods of operation.

XXXIII

IMPROVEMENT OF COOPERATION BETWEEN INTERNATIONAL ORGANIZATIONS

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE

RESOLVES:

That the Pan American Union make a study of the draft resolution presented by the Delegation of Uruguay, entitled "Improvement of Cooperation between International Organizations", and that it adopt the measures it may deem advisable.

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XXXIV

ABOLITION OF THE RECOGNITION OF DE FACTO GOVERNMENTS

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE

RESOLVES:

That the Inter-American Juridical Committee study the project presented by the Delegation of Ecuador entitled "Draft Convention on Abolition of the Recognition of De Facto Governments", and render an opinion on the subject to the Governments of the American Republics, through the Pan American Union, for consideration at the Ninth International Conference of American States.

XXXV

INTER-AMERICAN COMMITTEE ON SOCIAL AND ECONOMIC PROBLEMS

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE

RESOLVES:

That the project submitted by the Delegation of Bolivia, proposing the organization by the Pan American Union of an Inter-American Committee on Social and Economic Problems, be referred to the Pan American Union for study and for adoption of the measures which it may deem advisable.

XXXVI

COORDINATION OF INTER-AMERICAN PEACE AGREEMENTS

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE

RESOLVES:

That the project entitled "Coordination of Inter-American Peace Agreements", jointly presented by the Delegations of Chile and Peru, be submitted for study to the Pan American Union in order that it may adopt the measures which it may deem pertinent.

XXXVII

ORGANIZATION OF A PAN AMERICAN INSTITUTE OF EDUCATION

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE

RESOLVES:

That the project submitted by the Delegation of Chile, entitled "Organization of a Pan American Institute of Education", be forwarded to the Pan American Union for study and adoption of the measures which it may deem advisable.

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XXXVIII

DEFENSE AND PRESERVATION OF DEMOCRACY IN AMERICA

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE

RESOLVES:

That the Inter-American Juridical Committee study the project presented by the Delegation of Guatemala entitled "Defense and Preservation of Democracy in America Against the Possible Establishment of Anti-democratic Regimes in the Continent", and that it render an opinion thereon for submission to the Governments of the American Republics, through the Pan American Union, for consideration at the Ninth International Conference of American States.

XXXIX

INTER-AMERICAN PEACE SYSTEM

WHEREAS:

The American Republics have repeatedly expressed their adherence to the ideals of peace and solidarity, proscribing the use of force in their relations and providing for the settlement by peaceful means of all differences arising between them;

Both the Report on the Mexican project of a Peace Code, submitted by the Committee of Experts on the Codification of International Law to the Eighth International Conference of American States, and Resolution XV approved by that Conference, emphasized the need "to coordinate into an organized and harmonious unified instrument" the inter-American instrumentalities for the prevention and pacific settlement of controversies;

The same Conference made a categorical statement, in Declaration XXV, in favor of including an Inter-American Court of International Justice among the aforementioned instrumentalities, leaving for later determination only the date on which that Court might be established;

Experience has demonstrated, as the Executive Committee on Post-War Problems of the Governing Board of the Pan American Union emphasized in its recent Report, that "simplification of the mechanism of codification is not only desirable but necessary", and therefore, in cases like the present one, in which quick results are required in a matter already sufficiently studied, it is appropriate to follow the simpler of the two procedures of codification available to the Union of the American Republics,

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE

RESOLVES:

1. To reaffirm the principle of law that all international controversies should be settled by peaceful means.
2. To recommend to the Inter-American Juridical Committee

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the immediate preparation of a draft of an "Inter-American Peace System" which will coordinate the continental instruments for the prevention and pacific resolution of controversies so that a gradual and progressive application of these instruments will perforce lead to the desired end.

3. To suggest to the Committee, that, in preparing the draft in question, it take as the basis the draft submitted to the Eighth International Conference of American States by the Committee of Experts on the Codification of International Law, together with the second edition of the Mexican project of a Peace Code, the draft for the "Consolidation of American Peace Agreements" submitted by the Delegation of the United States to the said Conference, the draft of an "Alternative Treaty on Pacific Procedures" prepared by the Inter-American Juridical Committee, and the pertinent instruments approved at this Conference. The Committee shall also take into account the drafts of a bilateral pact and of a multilateral pact, submitted to the Eighth Conference by the Delegation of Venezuela.

4. To request the Committee to submit in due time the above-mentioned draft to all the American Governments, which shall then transmit, within a period not to exceed six months, comments which they consider appropriate, so that the Committee may be able to prepare in the near future a final draft of the inter-American instrument in question.

5. To request the Governing Board of the Pan American Union, after the Committee has prepared the said draft, to convene the International Conference of American Jurists, in order that the draft of an "Inter-American Peace System" may be adopted as a convention by the States of the Continent.

XL

INTERNATIONAL PROTECTION OF THE ESSENTIAL RIGHTS OF MAN

WHEREAS:

The Declaration of the United Nations has proclaimed the need for establishing international protection of the essential rights of man;

In order to render such protection effective it is necessary to define these rights, as well as the correlative duties, in a declaration to be adopted as a convention by the States;

International protection of the essential rights of man would eliminate the misuse of diplomatic protection of citizens abroad, the misuse of which has more than once led to the violation of the principle of nonintervention and also of that of equality between nationals and aliens, with respect to the essential rights of man,

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE

RESOLVES:

1. To proclaim the adherence of the American Republics to the principles established by international law, for safeguarding

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the essential rights of man, and to declare their support of a system of international protection of these rights.

2. To request the Inter-American Juridical Committee to prepare a draft Declaration of the International Rights and Duties of Man, which shall be submitted, through the Pan American Union, to all the Governments of the Continent, which in turn shall submit, within a maximum period of six months, the comments they deem pertinent, in order that the Committee may prepare a final draft of such inter-American instrument.

3. To request the Governing Board of the Pan American Union, after the Committee has prepared this draft and others entrusted to it by this Conference, to convoke the International Conference of American Jurists in order that the Declaration may be adopted as a convention by the States of the Continent.

XII RACIAL DISCRIMINATION

WHEREAS:

World peace cannot be consolidated until men are able to exercise their basic rights without distinction as to race or religion,

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE

RESOLVES:

1. To reaffirm the principle, recognized by all the American States, of equality of rights and opportunities for all men, regardless of race or religion.

2. To recommend that the Governments of the American Republics, without jeopardizing the freedom of expression, whether oral or written, make every effort to prevent in their respective countries all acts which may provoke discrimination between individuals because of race or religion.

XIII POST-WAR MIGRATION

WHEREAS:

It is highly undesirable that there should reside in the territory of any of the American States aliens disposed to conspire against the historic democratic ideal common to those States or against their institutions;

It is likewise undesirable that there should reside in such territories aliens who receive and follow instructions and orders from governments, organizations or foreign parties, intended to foment wars, conflicts or disturbances of any nature, to the detriment of States of the Continent and to the benefit of non-American states, or who pursue such aims

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in the name of doctrines contrary to the ideals and principles of liberty sustained by the peoples of the Hemisphere;

It is likewise undesirable that there should reside in such territories closed and homogeneous groups which might be in the nature of extensions of countries, parties or sects, and which might seek to claim the status of minorities contrary to Resolution XXVII of the Eighth International Conference of American States and Resolution XX of the Third Meeting of the Ministers of Foreign Affairs,

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE

RESOLVES:

1. To recommend to the Governments of the American Republics that they adopt, in accordance with their local regulations and under guarantee of law, measures to prevent the settling in their respective territories of aliens or groups of aliens which might become a danger to the independence, integrity or institutions of the said Republics;

2. To reiterate the principle of American public law, established by Resolution XXVII of the Eighth International Conference of American States and Resolution XX of the Third Meeting of the Ministers of Foreign Affairs, which denies the right of alien residents to make a collective claim to the status of minorities.

XIV

PEACEFUL ORIENTATION OF THE AMERICAN PEOPLES

WHEREAS:

The nations of the New World, believing that the peaceful co-existence of nations is a condition essential to their existence and civilization, have endeavored since their earliest history to base their mutual relations on concord and friendship and have striven sincerely to put into practice in their political and juridical organization whatever might contribute to the realization of these ideals, which find their staunchest expression in the doctrine of Pan American solidarity;

Measures adopted in the future to maintain and safeguard peace, while they may be imposed, cannot be fully effective unless they respond to a spiritual mood of the nations that consciously and voluntarily cooperate in their application;

One of the essential activities of the period of world reconstruction must, therefore, be the dissemination of the ideals of peace and, at the same time, the suppression of whatever might contribute to the spread of hatred among nations;

It is to be assumed that this work cannot produce the hoped-for results among the generations that have been the direct victims of war atrocities, and it is, therefore, the coming generations who will be called upon to free the

world

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world from hatred and barbarism, provided the task of educating and orientating them toward this noble purpose, an inherent aspiration of man, is carried out;

This task should be accomplished pursuant to a plan, and through national and regional activities which should supplement the action of the world organization for intellectual and educational cooperation to be established within the proposed system of international organization;

By its spiritual and historical tradition, America offers the most propitious environment for initiating this plan, the extension of which to all civilized nations is to be desired.

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE

RESOLVES:

1. That the American States shall, by all means at their disposal, strive to spread the ideals of peace and the principles of mutual respect, and shall urge all activities or propaganda that directly or indirectly tend to sow hatred or division between their respective peoples.

2. That the work of dissemination and propaganda shall be carried out principally in the primary schools in the manner determined by the respective educational and technical agencies, and, to this end, express action shall be made of the contents of this Declaration in the relevant education programs.

3. That, in order to accomplish the objectives referred to under paragraph one hereof, the Governments shall take steps leading to the initiation of an active campaign through the press, radio, motion pictures, and public lectures, or any other means of dissemination.

4. That the text of this Declaration shall be widely disseminated and, by agreement of the American States, efforts shall be made to extend its application to other countries. This provision can be implemented at the next International Conference of American States.

5. That the Pan American Union study the possibility of creating an agency for peaceful orientation and of recommending the establishment of national commissions for peaceful orientation to complement the activities of the projected world body.

XLIV

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XLIV

INTENSIFICATION OF CULTURAL RELATIONS AND PEACEFUL ORIENTATION

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE

RESOLVES:

That the draft presented by the Delegation of Guatemala on "Intensification of Inter-American Cultural Relations as a Guarantee of Democracy and Peace", and articles 4 and 5 of the original draft entitled "Peace Orientation Committee" presented by the Delegation of Venezuela, be submitted to the Pan American Union, in order that it may study and submit them for consideration to the Ninth International Conference of American States, so that they may serve as bases for the creation of a Pan American Institute of Education.

XLV

HEALTH SECURITY

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE

WHEREAS:

In order that it may be possible to consolidate the peace and achieve effective collective security in the world of the future, a truly democratic regime must be established and made effective;

The effective exercise of democracy imposes upon all citizens the responsibility of fulfilling their obligations, and exercising and defending their rights;

The obligations and rights of citizenship cannot be efficiently fulfilled and rightly carried out only if the people are not in a condition of physical well-being and full capacity, which is not the case when large parts of the population are ill, in precarious health, or undernourished;

The stability and economic development of the Western Hemisphere, as well as the attainment of the aims of the American republics for the security and welfare of all their people, require the strengthening of the vital forces of these countries;

The improvement of public health, nutrition and food supply constitutes an essential factor in raising the standards of living and increasing the productivity of the American republics;

Through national and inter-american agencies, such as the Institute of Inter-American Affairs, the governments of the American republics have carried on cooperative programs for the improvement of public health, food supply and nutrition;

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non-discriminatory prices based on internationally accepted standards of quality; stability of supply and maintenance of equitable prices for consuming countries; and the adjustment of production towards other more economical activities when serious chronic excesses develop in basic production, making use of the national and international technical and credit facilities at their disposal.

3. That all international agreements involving primary products should have as their objective the expansion of consumption and the readjustment of production, when necessary, taking into account the interests of consumers and producers as well as the requirements of an expanding world economy.

4. That steps be taken to simplify systems of distribution for primary products, to reduce returns to intermediaries to the minimum compatible with good commercial practice, and to eliminate by suitable methods the undesirable speculative practices which accentuate fluctuations in the prices of such products.

5. That as a general policy, there be taken into account the necessity of compensating for the pronounced disparity frequently occurring between the prices of primary products and those of manufactured products, with a view to establishing the proper relationship between them.

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XLVII

MEASURES FOR PREVENTING UNEMPLOYMENT

WHEREAS:

It is necessary to avoid and prevent by all possible means the unemployment of human and material resources;

It is desirable that all the American Nations collaborate to that end;

Unemployment of human and material resources is one of the contributing causes of political discontent,

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE,

RESOLVES:

1. To recommend to the Governments of the American Nations that they draw up detailed plans, which would include, among other measures, programs of public works for productive purposes and designed to prevent unemployment of human and material resources and its consequences.

2. That they submit such detailed studies to the forthcoming Inter-American Technical Economic Conference, in order that it may draw up a coordinated plan to minimize fluctuations in economic activities.

XLVIII

INTER-AMERICAN TRANSPORTATION

WHEREAS:

The improvement, extension and linking together of all classes of transportation to provide safe, adequate and efficient service at reasonable cost are essential for the realization of economic development plans of the American Republics and for the raising of the standard of living of their peoples,

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE

RESOLVES:

1. To recommend to the Governments of the American Republics that, taking into account the just interests of carriers, producers and consumers, they promote, encourage and coordinate the most efficient use of their transportation facilities to the end that the economic needs of the American Republics may be satisfied without discrimination at the lowest possible cost consistent with safe and adequate service.

2. That the American Republics should consider as essential to their economies the creation and development of their merchant marine and the establishment of an adequate transportation system for each country.

3.

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3. That the American Republics reaffirm their right to claim compensation for vessels lost as a consequence of the present war.

4. To recommend to the Governments of the American Republics that they consult with each other with a view to reaching agreements for the purchase or charter of vessels which may be available after the present war.

5. That the American Republics should facilitate the establishment of shipyards, docks, and other maritime facilities.

6. That the Governments of the American Republics facilitate as soon as possible the exportation of machinery, equipment and materials for the construction of merchant vessels.

7. To recommend to the Governments of the American Republics that they avoid taking measures which would obstruct the establishment or operation of new inter-American transportation lines.

8. That, due to the technical nature of transportation problems and the need for arriving at practical solutions, the Governments of the American Republics give full consideration and careful study to transportation problems included on the agenda of the Inter-American Technical Economic Conference to be held at Washington.

9. That the problems relative to the development and efficient and integrated use of inter-American transportation facilities be fully treated at the Technical Economic Conference, and that the following problems receive special attention:

- a) Routes best suited to satisfy the economic needs of the American Republics;
- b) Practical means for the reduction, after the present war, of maritime freight rates, taking into account, among other things, the volume or weight of cargo actually transported, distance, and cost of operation between port of shipment and port of destination, as well as cost of operation at such ports;
- c) Practical means of establishing just, equitable and non-discriminatory freight rates throughout the American continent;
- d) Problems relating to wages, crew and labor conditions in the transportation industry;
- e) Registry of vessels;
- f) Government subsidies to transportation lines;
- g) Desirability of negotiating agreements on high sabotage between the American Republics;

h)

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- h) Reduction of existing transportation restrictions, and especially dues, charges and other imposts which obstruct inter-American transportation;
- i) Adoption of uniform rules for navigation;
- j) Practical measures to avoid uneconomic competition in transportation systems and freight schedules;
- k) Advisability of creating an agency for the coordination of inter-American transportation to act under the direction of the Economic and Social Council of the Pan American Union.

XLIX

WORK OF THE INTER-AMERICAN DEVELOPMENT COMMISSION

WHEREAS:

The Third Meeting of the Ministers of Foreign Affairs of the American Republics, in its resolutions Nos. VIII and XVI, declared that the work of the Inter-American Development Commission in setting up the system of Commissions of Inter-American Development had been fully satisfactory and, for that reason, decided to direct these Commissions of Inter-American Development to carry out the economic policy set forth in the resolutions mentioned above;

In order to discharge the instructions received from the Third Meeting, the Commissions of Inter-American Development met in a general conference in New York in May 1944, and there adopted, by unanimous vote of the twenty-two commissions represented, various recommendations and resolutions on economic, industrial, and social problems which now confront and will continue to confront the American Republics in the future;

The Inter-American Development Commission, although limited by war conditions in its program for the development of the natural resources of the Continent, has been successful through cooperation with the National Commissions in furthering considerably various important technical studies in many of the countries of Latin America, having created for this purpose a Technical Office and having sent missions of a technical character to various countries,

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE,

RESOLVES:

1. That the Governments of the American Republics continue to give to the Inter-American Development Commission of Washington and to the National Commissions, as

recommended

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recommended by the Third Meeting of the Ministers of Foreign Affairs of the American Republics, all the support which the Commissions may need in order to accomplish the purposes for which they were created;

2. That the Governments, in preparing the material which they are to present to the Inter-American Technical Economic Conference, to be held in June 1945, give careful consideration to and take into account the recommendations adopted at the Conference of Commissions of Inter-American Development, held at New York in May 1944, in so far as they do not conflict with the resolutions and recommendations of this Conference.

L.

INDUSTRIAL DEVELOPMENT

WHEREAS:

It is of mutual interest for industrialized countries and for those not yet industrialized to develop soundly-based industries in the latter;

Industrialization is an appropriate method for raising the level of living of the American peoples, deriving maximum benefit from their natural and human resources, and enlarging their international trade;

In order to attain such industrialization within a reasonable period of time it will be essential for the American Governments to lend to each other the maximum degree of technical and financial cooperation and to agree upon certain basic principles which will guide their conduct in the attainment of this laudable common purpose;

The economic development of the American countries which are not industrialized requires consideration of their special problems on the part of all the American Republics;

American economic solidarity will be stronger and more permanent by virtue of the growth of inter-American commerce based upon such industrialization,

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE,
RESOLVES:

1. That the American Republics will promote the establishment of new branches of industry and the improvement and enlargement of those now in existence, provided that they are adapted to local conditions and that there be taken into account the following factors among others: facilities for obtaining raw materials, necessary capital, whether national or foreign, and essential technical personnel; the possibility of placing the products of such industries in internal or external markets; the necessity of raising the level of living of the workers; the desirability that such industries

survive

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survive without the necessity of permanent, high customs protection, since that would be prejudicial to the legitimate interests of consumers. When the establishment of new plants in existing industries is involved, the concession of greater protection for the products of such plants will be avoided. In the establishment of industries the American Republics will undertake to stimulate private enterprises, avoiding in so far as possible the competition of governments with private enterprise except where it may be essential in the public interest.

2. That, in order to facilitate the financing of industry, the American Republics will undertake to ratify, as soon as possible, the Bretton Woods Agreements for the establishment of the International Bank for Reconstruction and Development and the International Monetary Fund.

3. That, with the purpose of promoting sound industrial development as well as the development and exploitation of natural resources, the American Republics in which there exist abundant supplies of capital will make the greatest effort to the end that there may be made available, to those who solicit them, ample credits at low term and with equitable rates of interest and amortization, taking into account the rates which prevail in the creditor countries and the risks which are involved in such undertakings. The Inter-American Technical Economic Conference which is to meet in Washington, D.C., in June 1945 should consider specifically how and by what practical and appropriate means there may be attained the liberalization of credit for American countries.

4. That the American Republics will undertake to afford ample facilities for the free movement and investment of capital, giving equal treatment to national and foreign capital, except when the investment of the latter would be contrary to the fundamental principles of public interest. Similarly, the American Republics will undertake to grant equal treatment to the securities issued and placed by national societies and institutions and to those issued by societies and institutions which operate under the laws of the other American Nations. The Inter-American Technical Economic Conference should study and recommend standards and practical measures to attain both purposes; and it will study and propose concrete solutions for the problem created by the double taxation of capital.

5. That the investment of foreign capital in private enterprises in the American Republics should preferably be made in such a manner as to assure to national capital a just and adequate participation, not only in the establishment of such enterprises, but also in their management; and such investments should not, as a general rule, displace the national capital of existing industries, businesses or economic activities.

6. That the American Republics reaffirm the principle, enshrined in the Atlantic Charter, of equal access to all

classes

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classes of raw materials, and likewise declare and accept the reciprocal principle of equal access to the producer's goods which they need for their industrialization and economic development.

7. That the American Republics which produce producers' goods (machinery, equipment, transportation equipment, tools et cetera) undertake, once hostilities have ended, to fill under favorable conditions, at just prices and without discrimination, orders for such goods required by the industrialization or the development and exploitation of the natural resources of the other American countries.

8. That the American Republics intensify their cooperation in the training of the technical personnel required by their economic development and in the interchange of technical experts of all kinds and of every class of non-strategic technical information, and recognize the desirability of facilitating the reciprocal use of patents necessary for the industrial development of the American countries.

9. That, in order to attain the best cooperation between the American Republics in whatever relates to their industrialization, they will undertake the technical improvement of the international economic organizations which may exist, to the end that such industrialization may be effected on sound principles and in the greatest possible harmony.

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LI

ECONOMIC CHARTER OF THE AMERICAS

The fundamental economic aspiration of the peoples of the Americas, in common with peoples everywhere, is to be able to exercise effectively their natural right to live decently, and work and exchange goods productively, in peace and with security.

This aspiration must be given full recognition in the development of a positive economic program. Such an economic program which would enable the peoples of this Hemisphere and of the world to achieve higher levels of living is an indispensable factor in preventing the recurrence of war. All the acts and policies of governments in the economic field must be directed to providing the conditions in which this may be possible. At the same time, the freedom of action in the economic field that underlies the institutions of political and personal liberty must be preserved and strengthened. Indeed, the two pillars on which a positive economic program can be built to satisfy the basic desires of the peoples of the Americas are rising levels of living and the economic liberty which will encourage full production and employment. These basic objectives can be attained only through a sense of responsibility of opportunity derived from the recognition of responsibility of all of the Americas for cooperation toward these ends, an acceptance of responsibility and of cooperation which will provide full use of labor, management, and capital in the efficient economic development of the agricultural, industrial and other resources of the Western Hemisphere.

The basis of rising levels of living is human productivity. In enabling the individual to reach his maximum productivity. Only through recognition of labor's fundamental rights to organize the bargain collectively and to provide labor with conditions of employment and equipment, both in agriculture and industry, which enable it to produce more per unit of labor and the people increase their earnings and consumption, enjoy better levels of living and thereby successfully take their place in an expanding international commerce. Labor is most productive if production is concentrated on those things in which nature has provided an abundant, and if it is based on advanced technology. The effective employment of labor depends upon the initiative of management, the most productive use of capital and natural resources, development of skills, union organization, and cooperation in industrial relations.

Individuals and groups of individuals must be encouraged to undertake new ventures. An atmosphere of confidence based on freedom from economic discrimination is an essential prerequisite to the development of natural and human resources and to the expansion of markets. The ability to trade without discrimination and without undue restriction will, moreover, provide a solid basis for the political and personal liberties of the peoples.

The economic strength of the Americas, based on rising levels of living and on economic liberty, and attained through cooperation to provide a sense of security and freedom of opportunity, will constitute a beacon of hope to the world. The

Americans

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American Republics, basing their positive economic program on the desires of their peoples and on the time-tested methods of social and economic betterment, will lay the groundwork for strengthening the inter-American system to meet war and post-war conditions.

DECLARATION OF OBJECTIVES

The American Republics collaborating in the war effort, fully aware of their traditionally close relations and of their position and responsibility as an integral part of the world community, declare their firm purpose to collaborate in a program for the attainment of:

1. The continuation of mobilization of their economic resources until the achievement of total victory.
2. An orderly transition of the economic life of the Americas from war to post-war conditions with least action looking to the maintenance of the economic stability of the American Republics during such transition periods.
3. A constructive basis for the social and economic development of the Americas through the development of natural resources; increased industrialization; improvement of transportation; modernization of agriculture; development of power facilities and public works; the encouragement of investment of private capital, managerial capacity, and technical skills; and the improvement of labor standards and working conditions, including collective bargaining, all leading to a rising level of living and increased consumption.

DECLARATION OF PRINCIPLES

The American Republics, in the attainment of these ends, recognizing that these objectives form a fundamental aspiration of peoples everywhere and given the cooperation of like-minded nations, declare their guiding principles:

Higher Levels of Living

1. To direct the economic policies of the American Republics toward the creation of conditions which will insure, through expanding domestic and foreign trade and investment, the attainment everywhere of high levels of real income, supply and consumption, free from excessive fluctuations, in order that their peoples may be adequately fed, housed, and clothed, have access to services necessary for health, education, and well-being, and enjoy the results of their labor in dignity and in freedom.

Equality of Access

2. To cooperate with other nations to bring about through the elimination of existing forms of discrimination and the prevention of new forms, the enjoyment by all nations of access on equal terms to the trade and raw materials of the world, in accordance with the principles of the Atlantic Charter, the likelihood to realize and accept a reciprocal principle of equal access to the producers' goods which are needed for their industrial and economic development.

International

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International Commercial Policy

3. To attain, as soon as possible, the common aspiration of all the American Republics to find practical international formulae to reduce all barriers detrimental to trade between nations in accordance with the purpose of assuring all peoples of the world high levels of living and the sound development of their economies, and to promote the cooperative action which must be taken in other fields, particularly the stabilization of currencies, and international investment.

Private Arrangements Which Restrict International Trade

4. To seek early agreed action by governments to prevent these practices by cartels or through other private business arrangements which obstruct international trade, stifle competition, and interfere with the maximum efficiency of production and fair competitive prices to consumers.

Elimination of Excesses of Economic Nationalism

5. To cooperate for the general adoption of a policy of international economic collaboration to eliminate the excesses which may result from economic nationalism, including excessive restriction of imports and the dumping of surpluses of national production in world markets.

Just and Equitable Treatment for Foreign Enterprise and Capital

6. To act individually, and jointly with each other and with other nations by means of treaties, executive agreements or other arrangements, to assure just and equitable treatment and encouragement for the enterprises, skills and capital brought from one country to another. The American Republics will undertake to afford ample facilities for the free movement and investment of capital giving equal treatment to national and foreign capital, except when the investment of the latter would be contrary to the fundamental principles of public interest.

Endorsement of Financial and Agricultural Proposals

7. As positive steps in international collaboration for the stabilization of currencies and to facilitate the development of productive resources, to seek early action by their governments with a view to bringing into operation the International Monetary Fund, the International Bank for Reconstruction and Development, and the Food and Agriculture Organization of the United Nations.

Private Enterprise

8. To promote the system of private enterprise in production which has characterized the economic development of the American Republics, to take appropriate steps to secure the encouragement of private enterprise and to remove as far as possible obstacles which retard or discourage economic growth and development.

International

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International Action to Facilitate Distribution of
Production Surpluses

9. To provide, in exceptional cases of important primary commodities in which burdensome surpluses have developed, or threaten to develop, appropriate means for the solution of such problems by agreed national and international action by consuming and producing countries looking to the expansion of consumption and readjustment of production, with due regard to the interests of consumers and producers and the requirements of an expanding world economy.

Labor

10. To take appropriate steps to assure to the workers of the American Republics, under conditions of progressive economic development, the realization of the objectives set forth in the Declaration of Philadelphia, adopted by the International Labor Conference.

LII

EXCHANGE OF INFORMATION CONCERNING MEASURES OF ECONOMIC CONTROL

THEREAS:

At the Third Meeting of the Ministers of Foreign Affairs of the American Republics, at which time some of the Republics were already at war with non-American States, a broad recommendation was adopted on commercial and financial matters for the defense and security of the Continent;

At the Inter-American Conference on Systems of Financial and Economic Control held at Washington in June and July, 1942, there were approved various recommendations extending the Hemispheric security system, based on the cooperation and solidarity of all the American nations;

The application of some of the measures recommended would be facilitated by an adequate knowledge, within the jurisdiction of the various countries, of the information collected relative to natural and juridical persons whose activities are harmful to continental security,

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE,
RECOMMENDS:

That the Governments of the American Republics should collect and exchange necessary information relative to those natural or juridical persons who, on the basis of investigation carried out by the competent agencies of each country, should not, for reasons of the defense and security of the Americas, continue their commercial and financial activities.

LIII

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LIII

MEETING OF MONETARY AUTHORITIES

THEREAS:

It is desirable to study the economic and monetary situations of the American countries in order to seek more adequate solutions for the common problems connected therewith;

It is necessary to adopt economic and monetary measures that will promote commercial interchange among the American countries,

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE
RESOLVES:

To recommend that, until such time as the trade agreements enter into force, the monetary authorities of the American nations arrange to meet to study all the economic and monetary problems which concern them and to propose measures which may tend to solve those problems in accordance with the purposes set forth in this resolution. The invitation may be extended by any of the Governments attending this Conference, the date to be fixed by agreement among them.

LIV

PROCESSING OF PRIMARY COMMODITIES

THEREAS:

It is desirable to improve the terms of trade between primary commodities and manufactured goods.

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE
RECOMMENDS:

1. That the American nations producing primary commodities seek to process them to the greatest possible extent prior to their exportation, and that there be established the technical and financial cooperation necessary for this purpose.

2. That the American nations endeavor to facilitate to the maximum possible extent the importation of primary commodities in partially and wholly processed form.

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LV

CHARTER FOR WOMEN AND CHILDREN

WHEREAS:

The aims of the American Republics for lasting peace and social justice can be achieved only if they are based on respect for the rights and fulfillment of the obligations of all citizens, and the moral and spiritual preparation of every citizen for life based on the principles of freedom, personal integrity, social justice, and effective social collaboration based on domestic law and international standards;

The family is the primary social institution for the formation of the mind and character of children, in accordance with these principles; and within the family the mother has chief responsibility for the atmosphere and surroundings of the home and the training of the citizens of the future;

In addition to their important role as wife, mother, and home-maker, and frequently as provider of the financial maintenance of the home, women have discharged successfully responsibilities as producers and wage-earners, in business, in the professions, and in government, as well as civic responsibilities, helping to form the social environment and creating the conditions of community life necessary for the welfare of the home and the child;

The part taken during the war by the women of the American Republics, as well as in other parts of the world, as members of the armed forces and as doctors, nurses, and in other technical and professional callings, as well as their services as producers in industry, agriculturists, and commerce, working by the side of men in every aspect of the war effort, and the maintenance of the civilian economy, has proved beyond question their capacity to meet all the responsibilities of citizenship and of professional and vocational life;

Declarations, agreements, and recommendations on the rights, opportunities, and protection of women and children and the preservation and strengthening of family life have been adopted by the Governments of American States, notably in the Lima Declaration of Women's Rights; the International Labor Conference and the Conference of American States members of the International Labor Organization, notably in the statement on the "General Rights of Women" adopted by the Second Conference of American States Members of the International Labor Organization; and the Pan American Child Congress;

Many of the American Republics have not ratified or given full effect to the declarations, agreements, and recommendations of international conferences with respect to women, children, and the family; and

The role of women in the family, as a worker, in professional life, or in the discharge of her general responsibilities as a citizen of her community, her country, and the world, can be fulfilled only if all obstacles to her participation in industry, scientific work, the professions,

government

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government, and international activities are removed, and in addition, only if she is given full opportunity for an education which includes the formation of character, spiritual understanding and self-discipline, as well as practical preparation for her role in the home, and in vocational and civic activities,

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE

RECOMMENDS:

1. That the countries which have not yet approved the agreements, declarations, and recommendations in behalf of the woman, the child, and the family, agreed to in the different conferences and congresses enumerated above, ratify or put them into effect as soon as possible,

2. That in every country, through a special commission or an existing organization of government appropriate for the purpose, a study be made of the professional and vocational opportunities and the problems of women in the post-war period,

3. That there be established in every national department of health, social welfare and labor, sections devoted especially to the problems of women and children, under the direction of qualified women or administrators with their full cooperation,

4. That there be entrusted to the Inter-American Commission of Women, in cooperation with the American International Institute for the Protection of Childhood, the International Labor Organization, and other international organizations interested in the subject, an extensive study of all aspects of family life and of the problems of the woman and the child, as well as the opportunities, services, and protection required for their own welfare and the future of the human race,

5. That the conclusions and recommendations of this study, which should include a draft of a Charter for Women and Children, be submitted to the consideration of an international conference of American States or to a meeting of the Ministers of Foreign Affairs of the American Republics.

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LVI

SOCIAL QUESTIONS

WHEREAS:

It should be recognized that social justice, good labor standards and labor relations, the welfare of the individual citizen, and especially the welfare of the family, which is the greatest molding force of the mind and character of youth, constitute primary objectives of national policy and international cooperation;

Economic cooperation, so necessary among the governments of the American Republics, cannot be fully effective unless accompanied by measures to assure the rights of workers, and to improve the conditions of living as well as of employment, and the services available for the promotion of health, medical care in illness, the conservation of family life, and the care and education of children and youth;

The governments of the American Republics, through national and international agencies, have developed a high degree of collaboration in matters pertaining to the social well-being of the people, which however needs to be further strengthened and extended,

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE

RECOMMENDS:

1. That the Inter-American Technical Economic Conference give special attention to questions of a social character, such as those mentioned below, referring such subjects as it considers appropriate for further study and the development of plans of action to the Inter-American Economic and Social Council which is to be established in accordance with the recommendations of this Conference:

- a) Basic social objectives of national and inter-American policy;
- b) Adjustments from war to peace as they affect family life, individual welfare, and social institutions;
- c) Measures for conserving the family and promoting its welfare;
- d) Methods of exchange of information among the American Republics on wages, earnings, and conditions of employment in all occupations;
- e) Housing in relation to family life;
- f) Programs of nutrition, public health and education in relation to the social welfare of all people; and especially the extent to which these programs are available to the inhabitants of isolated agricultural and industrial communities;

g) Development

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- g) Development of inter-American scholarships, both for workers and for professional students;
- h) Methods of making effective such resolutions on labor standards, collective bargaining, social security and social welfare as may be adopted by the Inter-American Conference on Problems of War and Peace; and
- i) Development of services for children and youth.

2. That all the American Republics adhere and give full support to the American International Institute for the Protection of Childhood, to the end that its work in behalf of the children of the Americas may be extended and intensified, and to other inter-American organizations working for the welfare of the people of the American Republics; and that the governments encourage the further development of cooperative inter-American activities on the part of public and private organizations and associations of a national character in a position to promote the social objectives of this Conference.

LVII

INTER-AMERICAN COOPERATION IN BEHALF OF EUROPEAN CHILDREN

WHEREAS:

Among the most difficult and important problems which must be studied and solved is the grave problem of the millions of children who at the end of the war will form a mass of feeble and physically and morally neglected human beings, orphans without protection and support,

Although in the devastated Europe of the post-war period, every effort should be made, through national and international agencies, to reestablish homes and provide the conditions of community life necessary for children, nevertheless, there will be many homeless children for whom the American Republics may be in a position to provide special assistance; although in America all the different material and moral aspects of child protection have not been adequately solved, this Continent is in the best condition to help in the solution of this serious problem.

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE

RECOMMENDS:

That the American International Institute for the Protection of Childhood, which has already studied the subject in accordance with a resolution adopted by the Second Meeting of the Ministers of Foreign Affairs of the American Republics, give special attention, in cooperation with the Pan American Union and other international organizations, to the manner in which the American Republics can help to provide care and opportunities for the European children who are without homes and in dire circumstances.

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LVIII

DECLARATION OF SOCIAL PRINCIPLES OF AMERICA

WHEREAS:

One of the essential objectives of the future international organization is that of obtaining international cooperation in the solution of social problems, directed toward the improvement of the material conditions of the working classes of all countries;

Many of the principles adopted at the different International Labor Conferences have not yet been approved by the public authorities of all the American countries, and, consequently, it would be desirable if such standards of the rights of labor were effectively incorporated in the life of the peoples of this continent, and if the adoption thereof were considered as a question of public interest;

In order to seek the solution of problems arising from risks inherent in the loss of wages for reasons beyond the control of the worker, integrated programs of social security are necessary, which should include measures for industrial safety and an adequate system of compensation, or be closely related to such measures;

To fulfill its aim the minimum wage must be flexible, in order that its remunerative capacity may protect and increase the purchasing power of the worker, in harmony and equilibrium with the changing conditions of time and place.

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF LABOR AND WAGES
DECLARES:

1. That it recognizes and proclaims that man must be the center of interest of all efforts of peoples and governments.
2. That the failure of any nation to adopt just and humane labor conditions is an obstacle in the path of other nations which desire to comply with that indispensable principle.
3. That the family, as a social unit, is a fundamental institution, it being necessary that the State take measures to assure family moral stability, its economic improvement, and its social welfare.
4. That poverty, malnutrition, sickness and ignorance are lamentable and transitory situations of human life, and that the American nations will undertake to combat them energetically and decisively.
5. That the conditions of poverty, infirmity, and lack of culture, under which a part of the populations of the Latin-American countries have lived because of adverse factors, must be overcome or resolved for the sake of the

rehabilitation

90

-69-

rehabilitation of the American community. To attain such an end, the sincere and firm collaboration of all the countries of the Continent is indispensable, particularly those which have attained higher levels of economic and financial capacity.

6. That, from a general point of view, the State should supervise and aid social and economic initiative, by encouraging private action to cooperate for the realization of these purposes. Since education, public health, and social assistance and welfare are effective means for achieving a rise in the standard of living, the attention of all the American nations will be focused upon these services.

7. That the American nations consider access to articles essential to life, such as adequate food, healthful housing and clothing, constitutes a service which must be stimulated by the governments, and also carried on in a supplementary way whenever private activity does not succeed in meeting the fundamental needs of the people and whenever the laws and economic policy of each country permit.

8. That the American nations agree that labor conditions with respect to remuneration, hours and conditions of work must be attended to with special care and, in any event, in such a manner that the well-being and prerogatives essential to human dignity are guaranteed.

9. That the nations of the Continent are determined that they will in this way encourage the vital, economic, moral and social rehabilitation of the American peoples, evaluating them as human beings, increasing their capacity to work and broadening their consuming power, in order that they may enjoy a life that is better, happier and more useful to humanity.

10. That it is further recognized that, although the outlays which social welfare services require represent a charge on the economy of the countries, they will result in effective improvement of labor output, economic production and living standards in general.

11. That the American nations reiterate the necessity for ratifying the principles adopted at the various International Labor Conferences and express their desire that these standards of social right, inspired by lofty considerations of humanity and justice, will be incorporated in the legislation of all the nations of the continent.

RECOMMENDS:

1. The adoption in all the American republics, as a matter of international public interest, of social legislation protecting the working population and furnishing guarantees and rights, on a scale not lower than that indicated in the conventions and recommendations of the International Labor Organization, at least on the following matters:

(a) Fixing

-70-

(a) Fixing of a minimum living wage, calculated on the basis of the living conditions peculiar to the geography and economy of each American country; maximum daily working hours; night work; work of women; work of minors; and recompense for rest periods;

(b) Adoption of laws or appropriate agreements putting into effect standards protecting the worker against the different risks which should be covered in accordance with the principles of welfare, assistance and social security, approved by the International Labor Conferences and by the Inter-American Conference on Social Security;

(c) Provision by the State of welfare and assistance services with respect to preventive and curative medicine, housing of workers, protection of mother and child, and nutrition; adoption of legislation establishing adequate means of hygiene and industrial safety and prevention of occupational risks;

(d) Protection of maternity and organization of hospital and maternity services for the benefit of the workers and their families;

(e) Establishment of an adequate system of compensation and insurance at the expense of the employer for occupational risks, directed, among other considerations, to the rehabilitation of workers in case of partial disability;

(f) Promotion and broadening of social security to cover sickness, old age, invalidity, death, maternity, and unemployment, in accordance with the social, economic and geographic conditions in each nation and in conformity with universal principles in respect to these subjects;

(g) Recognition of the right of workers to organize, of the right of collective bargaining, and of the right to strikes.

2. That the Governments of the American Republics incorporate in their legislation principles which establish:

(a) That the minimum wage which the worker ought to have shall be that which is considered sufficient, according to the conditions of each region, to meet the normal living requirements of the worker, and of his education and honest pleasures, considering him as head of the family;

(b) That the minimum wage should be sufficiently flexible to be adapted to rising prices, in order that the remunerative capacity of the wage may protect and increase the purchasing power of the worker in harmony and equilibrium with the changing conditions of time and region, as well as with greater efficiency in production and resulting decrease in costs per unit.

3. That all the American Republics support the Permanent Inter-American Committee on Social Security created by the Inter-American Conference on Social Security of Santiago de

Chile

-71-

Chile in September 1942, and that they appoint the members of the said Committee.

4. That an interchange of information and technical services be facilitated for the development and administration of social security programs.

5. That through the Permanent Inter-American Committee on Social Security studies be made of methods of cooperation in building hospitals, providing sanitary equipment and all materials necessary for the development of a program for adequate medical care, and for preparing doctors, dentists, nurses and other personnel necessary for such a program.

6. That the standard of living of workers be raised by promoting the development of public instruction, making primary education and the campaign against illiteracy obligatory and free, and endeavoring to extend the benefits of literacy instruction to the higher branches, including vocational education and rural education, in accordance with the possibilities of each State and with the aim of affording equality of opportunity to all American citizens.

7. That the policy of investment of funds belonging to social security and intended to guarantee long-term obligations be directed in accordance with plans for the development of the national economies and the provision of a higher level of employment, such investments being governed by considerations of social utility.

8. That if the laws and economic policy of each country permit, policies of investment of the reserves belonging to social security should take chiefly into account the desirability of forming companies controlled by such social security agencies and intended for the production of sanitary articles, food and clothing, at the same time bearing in mind the minimum return required by capitalization of the social security funds and the development of the national economies.

9. That in order to combat unemployment the American Governments promote the development of public works and popular housing programs, either with their own resources or, if necessary, through inter-American economic and technical cooperation.

10. That, independently of the foregoing recommendations, the Inter-American Juridical Committee be entrusted with the preparation of an "Inter-American Charter of Social Guarantees", collaborating with the International Labor Office and taking into account the agreements and recommendations of the latter and the social legislation of the American countries. The charter shall be submitted for consideration and approval by the Ninth International Conference of American States which is to be held at Bogotá.

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LIX

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE

Having considered the text of the communication directed by the Argentine Government to the Pan American Union,

CONSIDERING:

1. That the Conference was called for the purpose of taking measures to intensify the war effort of the United American Nations against Germany and Japan and to seek the strengthening of their political and economic sovereignty and their co-operation and security;
2. That the circumstances existing before the meeting have undergone no change that would have justified the Conference in taking steps to re-establish, as it earnestly desires to do, the unity of the 21 states in the policy of solidarity that has been strengthened during the deliberations of the Conference,

RESOLVES:

1. To deplore that the Argentine Nation has up to the present time not found it possible to take the steps which would permit her participation in the Inter-American Conference on Problems of War and Peace, with the conclusions of which the principle of solidarity of the hemisphere against all types of aggression is consolidated and extended.
2. To recognize that the unity of the peoples of America is indivisible and that the Argentine Nation is and always has been an integral part of the Union of the American Republics.
3. To express its desire that the Argentine Nation may put herself in a position to express her conformity with and adherence to the principles and declarations which are the results of the Conference of Mexico, and which enrich the juridical and political heritage of the continent and enlarge the scope of American public law, to which on so many occasions Argentina herself has made notable contributions.
4. To reiterate the declaration, established at Habana, amplified and invigorated by the Act of Chapultepec, and demonstrated by the association of the American Republics as members of the United Nations, and this Conference holds, that complete solidarity and a common policy among the American States when faced with threats or acts of aggression by any State against an American State are essential for the security and peace of the continent.
5. To declare that the Conference hopes that the Argentine Nation will implement a policy of co-operative action with the other American Nations, so as to identify herself with the common policy which these nations are following, and so as to orient her own policy so that she may achieve her incorporation into the United Nations as a signatory to the joint declaration entered into by them,

6. To declare

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To declare that the final act of this Conference shall be open to adherence by the Argentine Nation, always in accordance with the criteria of this resolution, and to authorize His Excellency Dr. Ezequiel Padilla, President of the Conference, to communicate the resolutions of this assembly to the Argentine Government through the channel of the Pan American Union.

LX

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE

CONDEMS:

The cruel procedures of racial persecution employed by Hitlerism against the Jews.

LXI

VOTE OF THANKS

THE INTER-AMERICAN CONFERENCE ON PROBLEMS OF WAR AND PEACE

RESOLVES:

To express its sincere gratitude and felicitations to the Republic of Mexico for its warm and generous hospitality; to His Excellency Manuel Avila Camacho, President of Mexico, and to His Excellency Dr. Ezequiel Padilla, Minister of Foreign Affairs of Mexico and President of the Conference, for their outstanding statesmanship; to Señor Don Manuel Tallo, Secretary General of the Conference, and to all of the officials, advisers and assistants whose diligent efforts have contributed to the success of this meeting.

Declarations

ECUADOR:

The Delegation of Ecuador considers that paragraph 4 of the "Declaration of Mexico" (Resolution XI), to conform with paragraph 1 of Resolution XXXIX on "Inter-American Peace System" should read:

"The territory of the American States is inviolable and also immutable, except when changes are made by peaceful arrangements."

GUATEMALA:

The Delegation of Guatemala, with reference to Resolution XII on "Reaffirmation of the principles of the Atlantic Charter", maintains in its entirety the reservation of the Delegation of Guatemala at the Third Meeting of the Ministers of Foreign Affairs of the American Republics, held at Rio de Janeiro in 1942, with respect to the point relating to the self-determination of peoples, in so far as this principle may interfere with the rights of the Republic of Guatemala over the Territory of Belize.

Otherwise,

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Otherwise, the Delegation of Guatemala endorses the lofty principles of the Atlantic Charter, and requests that the text of this declaration be included in the Final Act of the Conference, in order that the acceptance and endorsement of that important document by Guatemala may not at any time prejudice Guatemala's legitimate rights over the above-mentioned territory.

PERU:

The Delegation of Peru, declares its high regard for the contents of the resolution portion of the Declaration of the Social Principles of America, but records the fact that compliance on the part of Peru shall be subject to Peruvian legislation.

In testimony thereof, the Delegates of the American Republics participating in the Inter-American Conference on Problems of War and Peace, sign the present Final Act, in the Spanish language, at the City of Mexico on the eighth day of March, nineteen hundred and forty five.

The original shall be deposited by the General Secretariat in the Archives of the Ministry of Foreign Relations of Mexico, which shall transmit certified copies to the Governments of the American Republics, to the Pan American Union, to the General Secretariat of the League of Nations, to the International Labor Office, to the Pan American Sanitary Bureau and to the Inter-American Union of the Caribbean.

The Pan American Union shall prepare the translations of this Act into the other official languages of the Conference.

(Signatures follow here)

CONFIDENTIAL

OFFICE OF STRATEGIC SERVICES
WASHINGTON, D. C.

3 April 1945

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

My dear Mr. Secretary:

There is forwarded herewith a Field Memorandum, (LEFT RESISTANCE VIEWS ON THE GERMAN PROBLEM), from our Research and Analysis Branch, which I hope may be an interesting addition to your German files.

Respectfully yours,

E. J. Putzell, Jr.
E. J. Putzell, Jr.
Lieut. (jg), USNR
Acting Executive
Officer

CONFIDENTIAL

COMPLIANT LAJ

27 March 1945

FIELD MEMORANDUM 211 (FM-339)

Paris, 13 March 1945

LEFT RESISTANCE VIEWS ON THE GERMAN PROBLEM

A public debate on the "fate of Germany," sponsored by the left resistance weekly Action, was held at the Mutualite, Paris, 7 March 1945. The four chief speakers were: Pierre Courtade, editor-in-chief of Action; Pascal Coppeau, delegate of liberation (score good) to the consultative Assembly; Robert Verdier, Assistant Secretary-General of the Socialist Party; Pierre Horve, of the Action staff, delegate of liberation (score good) to the Consultative Assembly. Communist and Front National representatives did not participate. After the principal speeches, ten members of the audience spoke briefly. Horve was the most forceful and widely applauded speaker. By and large, all the speakers took very much the same position and had the approval of the great majority of the 400 or 500 spectators.

The chief conclusions reached were: the need for a rigorous purge in Germany; the possibility of the growth of genuine democracy in Germany, particularly through trade unions; the necessity of combating the "trusts" everywhere to kill the German "trusts" and make international control of the German economy effective; hostility to extensive partitioning of Germany; criticism of the Provisional Government's plan for Germany as short-sighted.

Immediate Message: Everyone agreed on full military occupation of the Reich by the victorious Allies. Verdier emphasized the futility of signing an armistice with any group in Germany styling itself "pro-Allies" what Germany needs first, he said, is a "shock" from the victors. The work of occupation, Verdier continued, should be undertaken not just by the three or four principal Allies but by all the nations at war with Germany, to make the Germans realize that almost the whole world has been fighting them.

All the main speakers stressed the crucial importance of the purge. "The Nachwacht and the Nazis must be annihilated in accordance with the program sketched by GALTPO (Committee "Allgemeine Litte" near M'Comet) - 'Free German' organization in France), so that the German people will realize their defeat and the embryonic German democracy will not be saddled with blame for the defeat in a new variation of the 'stab-in-the-back' theme. The Paris press errs in treating ironically the remark made by a captured German soldier to an American officer - 'I used to be a Nazi, but now I'm no longer one.' This is, in fact, the key of the problem: consciousness of defeat on the part of the German people is the only way to eliminate the Nazi idea." (Courtade)

This memorandum contains information forwarded by SAA personnel in the field. Because of its timely interest it is distributed prior to analysis and processing.

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- 2 -

"Germans should be punished not as 'war criminals' but as common-law criminals; the war itself is their great crime" (Copeau). "The purge should not be allowed, however, to extend to non-Nazi Germans who will be the core of the eventual democratisation of Germany" (Hervé). There was general agreement with one of the speakers from the audience when he suggested that the purge in Germany would not be effective if it were as mild, comparably, as that in France.

No "Good Germany" Today: The main speakers agreed that it was absurd to speak of "two Germanies" today; there was, they insisted, only a bad Germany. The Socialists, Verdier admitted, no longer believed in a "good Germany." At the same time, however, there was a general belief that "good" German elements would assert themselves in the not too distant future.

The Democratization of Germany: Copeau, supported by Verdier and Hervé, sketched a plan for the encouragement of the democratic forces in Germany. The first essential, they said, is to avoid the least creation of anything resembling the German equivalent of "collaborationist" government; this would not have the confidence of the people. Instead, every effort should be made to appeal to the working masses in Germany, particularly through trade unions. Thus, re-establishment of freedom for trade unions is imperative. At the same time, he maintained, it will be essential to exercise close supervision over the institutions used by the Nazis to mold the German youth -- the educational system, the sports program, and youth movements. In each field, however, the main impetus for democratic growth would have to arise from within the German people; it could not be artificially developed by the victors.

This line of thought aroused considerable opposition from the members of the audience who took the floor. One of them denied the possibility of effective control over the German educational system so long as teachers in the system subscribed to Nazi ideas. He was a German professor in France; during the occupation, though forbidden to lecture on Hitler, he had conveyed German ideas of liberty by concentrating upon Schiller. Might not a comparable phenomenon occur in Germany when Nazi books were banned?

Another representative of the audience attacked Herre's contention that there was a sound tradition of German culture, represented by men like Kant. He claimed that it was impossible for Germans to be democratic; they like the Nazis, he said, and are firmly convinced of their racial superiority. The enduring German cultural tradition is not that of Kant, but that of Frederick the Great and Nietzsche.

A third member of the audience developed the thesis of the main speakers, questioning the importance of German youth. The youth, he claimed, furnished the Nazi extremists in the SS and the Gestapo; its fanaticism reflected the fact that it was economically uprooted. Other spectators objected to this contention -- what about the German youth responsible for the aggressions against France in 1870 and 1914?

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CONFIDENTIAL

- 3 -

A fourth member of the audience denounced all views previously expressed; he favored what he termed a "Vamistatite" measure -- sterilization of all German men between 18 and 47. This recommendation produced only general hilarity.

Economic Controls: Strict supervision by the victors over the German economy will be essential, it was agreed, not only to control the German war potential but also to release the German working classes from the bondage of the "trusts" and allow them to progress democratically. Thus, it would be imperative to keep economic supervision out of the hands of those representing Allied "trusts," whether French, British, or American (Courtade). There was a general feeling, summed up by one of the speakers from the audience, that only the extirpation of the "trusts" throughout the world would permit effective reform of the German economy. The German economy should function not only for the benefit of the victorious powers but also for the Germans, and (added Verdier) for the whole of humanity. Verdier also emphasized the need for striking at another great economic foundation of Nazi power by a sweeping agrarian reform which would eliminate the Junkers.

No Partition: While everyone seemed to accept the principle of extensive German territorial losses east of the Oder, the speakers concurred in denouncing the possible partitioning of Germany. "A united German nation has been a fact for 75 years and will continue to be a fact" (Courtade). "There should be no partition of Germany except for frontier rectifications and the restitution of Austrian independence" (Copeau).

The Government's German Policy Attacked: Hostility to dismemberment of Germany, focusing on the possible detachment of the Rhineland from Germany, led several speakers to indicate dissent from the policies of De Gaulle and the Provisional Government. Courtade criticized the "effusions about the Rhine" appearing in the French press and which he termed the folly of attempting to establish a separate Rhenish state.

"Russia has enough vigor to direct assimilation of Germans in the East, but France does not have strength enough to absorb four or five million Rhenish Germans -- we have already had enough difficulty digesting the Alsians," said Copeau.

Copeau and Hervé characterized the Government's statements on the Rhine question as "vague" and grandiose. "It's all very well to talk about 'French presence on the Rhine from one end to the other'," said Copeau, "but other countries besides France and Germany have an interest in the Rhine. Furthermore, while De Gaulle may have reached an agreement on the German problem with the Russians when he was in Moscow last December, such has occurred since then, particularly at Malta, about which France knows little. Thus, the General is wrong in assuming that France has 'a preponderant role' in the German settlement. There is no purely France-German question: the issue finds the world lined up against Germany."

CONFIDENTIAL

CONFIDENTIAL

- 4 -

Hervé, concluding that the Government's program "did not amount to much," questioned the qualifications of De Gaulle and the "London exiles" for dealing with the problem. Only those who had experienced the German occupation in France, he said, were really qualified.

Criticisms of American Policy: Several speakers expressed doubts of American ability to cope with the German problem, chiefly because of the powerful influence of American "trusts." Hervé briefly criticized the "Florida schools" (by which he meant schools training personnel for Military Government) and attacked what he termed the "reactionary record" of Military Government in Italy. One of the speakers from the audience, a Lorrainer, asked what might be expected in Germany if military control were exercised by the same authorities "now parading German prisoners at the expense of the French population."

Attitude toward the "Free German" Movement: CALPO was generally approved. Hervé was the Principal champion of CALPO. "I worked with CALPO in resistance, and I am furious to see collaborationist Vichyites attack it." Both CALPO and Soviet "Free German" propaganda, he said, should be encouraged to the utmost to abort the war and save the lives of Frenchmen still in Germany. Courtade, while accepting CALPO, expressed disbelief in the genuine democratic sentiments of the Moscow "Free" Germans.

CONFIDENTIAL

DEPARTMENT
OF
STATE

INCOMING
TELEGRAM

DIVISION OF¹⁰¹
CENTRAL SERVICES
TELEGRAPH SECTION

CORRECTION

April 2, 1946

DMH-614

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

In telegram No. 540, March 30, 10 a.m. from
Chungking, in line five, delete "74,500" and insert
"74,900" so as to read "Chungking 74,900 and et cetera",
line six delete "91,20 (?) (?) and insert 91,200 and"
so as to read Chengtu 91,200 and 115,000" and on line
sixteen delete "abyt" and insert "salt" so as to read
"imposition of tax on salt of \$50."

DIVISION OF CENTRAL SERVICES

JP

AIR MAIL

LONDON, April 2, 1945

RESTRICTED

No. 22,107

SUBJECT: Removal of Refugees Now in Portugal.

The Honorable
The Secretary of State,
Washington, D. C.

Sir:

With reference to the Department's instruction No. 5158 of March 1, 1945, enclosing copies of despatch No. 1319 of January 6, 1945, from the Embassy at Lisbon and of the Department's airmail No. A-175 of February 22, 1945, in reply thereto, I have the honor to inform the Department that the contents of its airmail No. A-175 was brought to the attention of the Foreign Office on March 12, 1945. The Foreign Office has now replied as follows:

"May I refer to your letter of 12th March about the refugee situation in the Iberian Peninsula?"

I learn from Beckelman of the Intergovernmental Committee on Refugees that the survey of refugees mentioned in paragraph 3 of the State Department's despatch quoted by you has already been largely undertaken by voluntary societies both in Spain and in Portugal. Further, the question of who should pay for such a survey has been superseded by the proposal that the Intergovernmental Committee should undertake operational expenditure in the Iberian Peninsula; a proposal which, I understand, the Intergovernmental Committee submitted to you about 15th February last. The only expenditure involved in making the survey is on a small amount of printing; the existing staff of voluntary agencies can do the work without any increase in staff or salaries. In regard to the penultimate paragraph of the State Department's communication, there is no intention of any expenditure in this connexion falling on the British or United States Government outside that arising from their contributions to Intergovernmental Committee operational expenditure.

The/

- 2 -

The further information about Philippeville contained in your letter is now being made available to the British Embassies at Lisbon and Madrid."

Respectfully yours,
For the Ambassador:

Charles J. Warner
Second Secretary of Embassy

DOWLING

Copy to American Embassy, Lisbon.

12"

PLAIN

Athens

Dated April 2, 1945

Rec'd 6:47 a.m., 4th

Secretary of State

Washington

325, Second

FOR HOSER LEAVITT JOINT DISTRIBUTION COMMITTEE
NEW YORK FROM SCHWARTZ

Approximately 90% of the Jews of Greece have been deported leaving a population of some 8500 of which more than half reside in Athens. Salenika with a pre-war population of 54,000 now has 800 Jews with about 1800 Salenika Jews in Athens most of whom will return as soon as it is possible. All Jewish communal life has been disrupted and rebuilding from the bottom is required. Official communities have now been organized in 9 cities as follows: Athens with 4800 population; Salenika 800; Larissa 750; Vales 700; Tricala 600; Chalkis 175; Patras 175; Sakynthos 250; Varia 150. Scattered numbers are in Yanina and other cities. These communities lack everything including cemeteries, schools and in many cases places of worship. They cannot pay their religious and communal personnel. Of the \$200,000 which we appropriated for the first quarter, \$125,000 will have to go immediately in one time grants as follows: reorganization of various communities \$25,000; for religious requirements including schools and cemeteries \$80,000; for setting up orphanage 50 children and home for aged 50 persons \$30,000; for dispensary and housing of 150 persons now living in old Athens synagogues under most deplorable conditions \$25,000. Favorable opportunity exists to rehabilitate economically up to 1000 heads of families through free or cheap credit through small loans for which under present conditions and price structure \$200,000 minimum required. Would strongly urge immediate appropriation and remittance this amount. General budget next quarter can be kept at \$50,000 monthly with possibility gradual reduction as UNRRA program develops. Have assigned Jacobson here meanwhile Leub helping. Immediate action necessary deal tragic situation here. Advise urgently 9027.

MADYKACH

JMS

PLAIN

Athens

Dated April 2, 1945

Rec'd 7:45 a.m., 4th

Secretary of State

Washington

325, Second.

FOR HOSER LEAVITT JOINT DISTRIBUTION COMMITTEE
NEW YORK FROM SCHWARTZ.

Max Perlman should be assigned France from where he may be reassigned at later date. Harry Vitales should ask validations France, Belgium, Switzerland.

MADYKACH

RM

NOT TO BE RE-TRANSMITTED

COPY NO. 4SECRETOPTEL No. 105

Information received up to 10 a.m. 2nd April, 1945.

NAVAL

1. HOME WATERS. Convey of 26 ships, escorted by ships of Home Fleet has arrived in Home Waters from Russia without incident.

MILITARY

2. WESTERN FRONT.
 Southern Sector: Elements of 1st French Army which crossed Rhine in Gernersheim area have now reached Bruchsal, and linked up with 7th U.S. Army on left. Armoured columns this latter Army thrusting south and east now reported Heilbronn and outskirts Würzburg.
 Central Sector: Armour of 3rd U.S. Army thrusting east reported reaching Eisenach, while armour of 1st U.S. Army made contact with 9th U.S. Army in Paderborn area, thus encircling Ruhr.
 Northern Sector: 2nd British Army has established two bridgeheads over Dortmund-Ems Canal, S.E. of Rheine and to north armour has reached Enschede, while further gains also made north Emmerich where "Class Forty" Bridge completed.
3. EASTERN FRONT.
 Central Sector: Russians report capture of town and fortress of Glogau.
 Southern Sector: North of Danube number of places captured including Szenc (12 miles east Bratislava), while south of river and also on Austrian-Hungarian frontier further progress made with Sopron (30 miles S.S.E. Vienna) taken.
4. BURMA.
 Central Sector: Our troops now 12 miles S.E. Kyaukse while to south further troops from Taungtha have reinforced garrison at Meiktila.
 Northern Sector: Chinese troops have occupied Kyaukse without opposition.

AIR

5. WESTERN FRONT. 1st. Bad weather prevented operations by heavy bombers.
 SHAEF (Air). 106 medium bombers dropped 191 tons supply targets Southern Battle area with good results, while 868 tactical aircraft (28 missing) operated northern and central sectors destroying or damaging 71 A.F.V., 35 locomotives, 217 railway wagons, 561 M.T. and inflicted casualties on enemy aircraft 42,4,37 on ground.
6. MEDITERRANEAN. 31st. 528 escorted heavy bombers (7 bombers, 1 fighter missing) attacked railway targets Lins (796 tons) and railway centre Villach (222 tons). 917 medium, fighter bombers and fighters attacked railway targets Brenner Route and communications North Italy, while 132 fighters in attacking transport targets Austria, Czechoslovakia and South Germany scored 35,1,6 in combat for loss of 8 aircraft.

4/2/45

107

○ Copies to: D. W. Bell
Harry White
Joe O'Connell
Mr. Luxford
Mr. Bernstein

12"

1945 APR 3 AM 11 21

108

XVWU15 65 GOVT COLLECT

DAYTONABEACH FLO APR3 1945 1105A

PRIORITY MRS HENRIETTA KLOTZ

OFFICE OF SECTY OF TREASURY TRESURY BLDG WASHDC
 PLEASE INFORM DAN BELL HARRY WHITE JOE OCONNELL LUXFORD
 AND BERNSTEIN THAT BEFORE ANY AGREEMENT IS REACHED WITH
 BURGESS I WISH TO BE CONSULTED. IT IS MY RECOMMENDATION
 THAT IN VIEW OF THE SPLENDID SUPPORT WE HAVE RECEIVED
 FROM DEAN ACHESON AND ED BROWN THEY SHOULD BE KEPT
 ADVISED AND CONSULTED IN REGARD TO THE CONFERENCE
 THAT IS TAKING PLACE IN NEW YORK REGARDS
 HENRY MORGENTHAU JR.

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STANDARD FORM NO. 64

109

Office Memorandum • UNITED STATES GOVERNMENT

TO : Mr. Lane
 FROM : Lt. (jg) Levy, USNR
 SUBJECT:

DATE: 4/3/45

The Secretary asked me to get him a record of the ratings of the "We the People" broadcast on which he appeared. Paul Richardson advised me that the Keeper on the "We the People" program for February 18 and the period preceding and following the broadcast is as follows:

February 4	-	12.3
February 18	-	14.
March 4	-	14.4

I think that this information will be very pleasing to the Secretary because this proves that this was a very successful program. I assume that you will see that this information is called to his attention.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Date

April 3, 1945

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

Attached hereto is the first of a series of reports which will be submitted to you weekly showing the progress of our current enforcement drive.

As you will see, most of the factual material in the report relates to cases already under way when it was decided to create special units to follow leads developed from large currency transactions. Presumably, as time goes on, the reports will reflect the development of more and more new cases.

Joseph J. O'Connell Jr.

Attachment

OFFICE OF
COMMISSIONER OF INTERNAL REVENUEADDRESS ONLY TO
COMMISSIONER OF INTERNAL REVENUE
AND BUREAUTREASURY DEPARTMENT
WASHINGTON 25

April 2, 1945

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Numan

In my memorandum of Friday last, I briefly outlined instructions that had been issued to Bureau and field officials to bring about an immediate and intensive tax drive against black market and cash operations. A more detailed resume of the program as formulated at a meeting in my office on March 28 is enclosed. This related to the metropolitan districts of New York, Boston, Philadelphia, Chicago, Detroit, Cleveland, Baltimore and Washington, D. C. Since then, Special Agent in Charge E. C. Palmer of the Atlanta Division has been called in and associated with Mr. Woolf's Washington staff to assist in extending the tax drive to include all other districts and to coordinate the activities of the several districts.

Sources of material information are being thoroughly canvassed with special reference to Federal Reserve Banks, Foreign Funds Control, Office of Price Administration and War Food Administration; and data thus developed has been or will be routed to field districts for immediate investigation.

Mr. Woolf and his staff have had conferences with Mr. Wenchel and Mr. Head and Assistant Attorney General Clark with the view to expediting prosecutive action on certain cases now pending in those offices, and to arrange for immediate reference to United States attorneys of adequately proven tax evasions in black market cases. To facilitate these actions, the proposal was suggested that the Chief Counsel and the Attorney General detail members of their staffs to New York and Chicago to review and approve for prosecution black market tax cases as completed. Decision on this feature was reserved, pending further development of cases, but Mr. Wenchel and



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Secretary Morgenthau

Mr. Clark, in full support of the program, indicated that violations justifying prosecution would clear their offices within a few days after receipt of reports. I believe that this is a progressive and necessary step and that it will enable immediate and decisive results on cases encompassed in the present drive.

Included in these discussions was a most flagrant black market violation that came to light last week. Dr. Abraham Freitag of Brooklyn, as a designer of a new and effective method of making bandages for military use, obtained on priorities large quantities of cloth. It is alleged that only 1,000,000 yards of cloth were used by Dr. Freitag for bandages while 2,996,340 yards had been diverted to black market uses from which extraordinary profits were derived. Criminal informations have been filed against Dr. Freitag for violation of War Production Board and Office of Price Administration regulations. Special Agent in Charge McQuillan has found that Dr. Freitag failed to file income tax returns for the years 1943 and 1944 although net taxable income in the respective amounts of \$159,295.51 and \$85,077.62 has been computed for those two years. A jeopardy assessment in the amount of \$320,490.54 has been issued by the Bureau and Mr. Wenzel and Mr. Clark advised that immediate attention would be given to the case when the report is received. A report from Mr. McQuillan is expected this week and it is thought that the matter may be placed in line for immediate prosecutive action.

I am enclosing the first progress reports just received from some of the metropolitan districts. These reports reflect widespread activity on the part of field agents of the Bureau in the investigation of black market situations involving meat, liquor, silk, fur, scrap metal, second-hand machinery and electrical appliances. Some of these cases are of outstanding interest. Bert K. Master of Chicago manufactures a type of transformer used in fluorescent light fixtures which is an extremely scarce item. He has sold these products in the black market and has resorted to innumerable schemes to conceal his sales. An extensive investigation has been hampered by extreme difficulties due to the absence of records and the use of currency although the field agents have

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Memorandum
Secretary Morgenthau

tentatively determined a liability for taxes and penalties of approximately \$380,000. A representative of the Chief Counsel expects to begin a review of the evidence of this case on April 3 and if he concludes that it is suitable for prosecution it is believed that arrangements can be made to refer the case promptly to the United States attorney. A report is now being prepared in the case of J. C. Perry and Company, Indianapolis, Indiana, which company omitted to report black market profits on liquor. Taxes and penalties aggregating \$542,642.35 will be recommended for assessment in this case. Information originating at Miami relative to the lavish spending of Harry E. Jacoby, President of Amazon Hose and Rubber Company of Chicago, has been investigated; and on March 23, 1945, Mr. Jacoby admitted that his business had earned approximately \$400,000 during the years 1941 to 1944, inclusive, and that only a small portion of the net income had been reported either by the corporation or by himself. There are indications of diverted sales approximating \$160,000 during the years 1942 and 1943 in the case of the Empire Packing Company which is engaged in the meat business in Chicago.

Results achieved by field agents at New York within the past month are significant. A joint investigation by the Intelligence Unit and internal revenue agents of the Sullivan Dry Dock and Repair Corporation developed an agreed liability of \$1,215,935.23. A cash payment of \$445,000 against this liability was made on March 22, 1945, the balance to be paid in monthly installments of \$35,000 plus interest. About two weeks ago Henry I. Siegel Company following a similar joint investigation, made payment of its determined liability in the amount of \$1,335,234.57. At the conclusion of the joint investigation of Edward Schwartz and Avon Auto Finance Corporation some two weeks ago the taxpayers consented to the assessment of \$204,413.56. Advice was also received of the indictment on March 9, 1945 of Petracca and Banko, Inc., and its officers for income tax evasion. Additional taxes and penalties of \$343,540.69 were recommended for assessment in this case.

In later memorandums I will furnish you a broader outline of the complete scope of the program. In the meantime you may be assured that the full resources of the Bureau are being organized for an intensive nationwide tax drive against black market and cash operations.

NOTES OF MEETING IN COMMISSIONER'S OFFICE AT 10:00 A.M.,
WEDNESDAY, MARCH 28, 1946, TO CONSIDER MEANS FOR STRENGTHENING
THE BUREAU'S METHODS OF DISCOVERING TAX EVASIONS
DURING HEAVY SPENDING YEARS

Various officials of the Treasury Department and of the Bureau,
Washington and the Field, were present at this meeting. Their names
and designations are indicated on the attached mimeographed sheet.

OBJECTIVE

The meeting was called to order by Commissioner Numan who outlined briefly certain recent developments which necessitated a discussion of ways and means to perfect and strengthen the Bureau's procedures and activities in discovering tax evasions. Commissioner Numan pointed out that Secretary Morgenthau has expressed fear that the Government is losing tax due to failure of many individuals to report income derived from substantial cash transactions of various kinds in the black market and in other lucrative wartime enterprises, legal and illegal. The reasons for operating on a strictly cash basis, eliminating the necessity of drawing and depositing checks, maintenance of books of account, etc., are readily obvious. Commissioner Numan stressed the necessity of active and constant attention to the situation on the part of the Internal Revenue Service in protecting the revenues and in preventing unfavorable publicity which might be directed to a laxity on the Bureau's part in carrying out its functions as a tax collection agency. Commissioner Numan made it clear that because of the general seriousness of the situation and the deep concern expressed by Secretary Morgenthau, the attention which is to be given this situation is the first order of business. In other words, all other functions are to be of a secondary nature.

ORGANIZATION

Commissioner Numan issued instructions to the effect that the Special Agent in Charge, the Internal Revenue Agent in Charge, the Collector of Internal Revenue and the District Supervisor would comprise a special group to devote attention to the detection and investigation of potential and possible tax evasions on the part of black market operators and others resorting to cash transactions in the conduct of various questionable enterprises. Commissioner Numan designated the Special Agent in Charge to head and coordinate the activities of the group in his territory and made it clear that the Special Agent in Charge may call upon the Internal Revenue Agent in Charge, the Collector of Internal Revenue, and the District Supervisor of the Alcohol Tax Unit for any personnel needed to carry on the activities under discussion.

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REPORTS

Commissioner Numan instructed each Special Agent in Charge present to submit weekly reports, to be prepared at the close of each week and mailed so as to reach his office on the following Monday, outlining the progress and results of each case which is receiving attention. In addition to this, Commissioner Numan requested the Internal Revenue Agents in Charge to submit special reports of any cases, of the general character of those under discussion, which have been investigated or which are in process of being investigated. The latter reports are desired in order to show the Secretary that the Bureau has been and is giving attention to cases of this character.

SOURCES OF INFORMATION

Commissioner Numan then touched briefly on various avenues through which leads on cash transactions and potential fraud and tax evasion cases can be obtained. Mr. Irey joined in this discussion and the following references or avenues of approach were suggested:

- Federal Reserve and other banks
- Court records of real estate transfers
- News items of large real estate transfers
- Real Estate Associations
- Title Companies
- Building and Loan Associations
- Meat packing concerns
- Records of stock transactions
- Reports of large shipments of cash
- Office of Price Administration

Commissioner Numan stated that Assistant Secretary Bell had requested the Federal Reserve Banks to make available to appropriate Internal Revenue officers, information as to unusually large deposits and withdrawals in the form of currency. Mr. Kelleher suggested that the American Bankers Association be prevailed upon to require member banks to make a blotter record of depositors of bills of large denomination, such record to include the serial numbers of the bills deposited. Mr. O'Donnell expressed the thought that this would be unnecessary in view of Mr. Bell's request to the Federal Reserve Banks. Commissioner Numan made it clear that the Special Agents in Charge would make the contacts with the Federal Reserve and member banks and stressed the importance of frequent contacts with this source of information.

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GENERAL

Mr. Irey described a few typical cases involving investigations of fraud in the reporting of income. He expressed the understanding that no change is contemplated in the issuance of currency; that is, no action to discontinue issuing currency in large denominations.

Mr. Cann advised that an ITU would be issued, ruling that costs in excess of ceiling prices would be disallowed on income tax returns if included in the cost of goods purchased. Mr. Avis raised strenuous objection to this ruling stating that it would result in sealing the lips of witnesses in prosecution cases. In other words, a witness would be reluctant to testify that he had paid more than the ceiling price for commodities if his admission would result in excluding the excess over ceiling price in his income tax return. Mr. Wenzel and Mr. Cann indicated there would be a further discussion on this subject.

Mr. Kelleher suggested the desirability of making it legal for internal revenue officers to examine the contents of safety deposit boxes, presumably without a court order.

Mr. Madden suggested there are cases which warrant immediate reference to the District Attorney, cutting short the ordinary routine and procedure connected with the reference of such cases to the Federal Courts. He cited particularly a potential fraud case involving a manufacturer of electrical appliances, operating to a great extent in the black market.

Commissioner Numan, at the request of Collector Campbell, made it clear that any potential fraud cases uncovered by Deputy Collectors, regardless of amount of tax involved, should be referred immediately and directly to the Special Agent in Charge, rather than to the Internal Revenue Agent in Charge.

Collector Campbell, in answering a question by Commissioner Numan, indicated there would be no serious difficulty in locating 1944 returns of individuals under investigation. However, the Collector had reference primarily to those returns of the class which are sent to the Bureau and on which there is a balance of tax due over and above prepayment credits. It would be difficult at this time to locate a 1944 Collector's return, or any return, reflecting an overpayment.

Various officers in attendance at the meeting then discussed pertinent activities in their territories and described the different black market and other rackets which are prevalent. Mr. Wright referred to the considerable number of currency exchanges in the Chicago area where leads might be obtained. Collector Carey referred to the

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substantial number of bills of large denominations tendered this year in payment of taxes. Collector Delaney and Special Agent Kelleher referred to the existence of suspicious banks in the Boston area. Mr. Bonuster indicated the presence of rumors and evidences in the Philadelphia area of substantial black market operations in pork products and other items. Collector Kavanagh referred to black market operations in the Detroit area and cited an instance of a furrier dealing direct with the customer, collecting the State and Federal taxes, by-passing the retailer and failing to report the tax collected. He also referred to the great number of apparently false exemption claims on income tax returns filed on Forms W-2. Mr. Wilmer of Baltimore referred to the black market in liquor products and to substantial black market operations in poultry in the State of Delaware. Messrs. Campbell and Madden of Chicago discussed black market operations in meat products. Mr. Cox discussed investigations of black market operations involving retail liquor dealers in the District of Columbia. Various other officers discussed in general their contacts with the Office of Price Administration and other sources of information in conducting their investigations of income tax returns.

PRESENT AT MEETING IN COMMISSIONER'S OFFICE AT 10:00 A.M.
WEDNESDAY, MARCH 29, 1945, TO CONSIDER MEANS FOR STRENGTH-
ENING THE BUREAU'S METHODS OF DISCOVERING TAX EVASIONS DUR-
ING HEAVY SPENDING YEARS.

Mr. Joseph D. Nunan, Jr., Commissioner of Internal Revenue
Mr. Joseph J. O'Connell, General Counsel of the Treasury Department
Mr. J. P. Wenchel, Chief Counsel, Bureau of Internal Revenue
Mr. George J. Schoeneman, Assistant Commissioner of Internal Revenue
Mr. William T. Sherwood, Assistant Commissioner of Internal Revenue
Mr. Elmer L. Irey, Chief Coordinator, Treasury Enforcement Agencies
Mr. Charles Cliphant, Assistant General Counsel of the Treasury Department
Mr. Norman D. Cann, Deputy Commissioner in Charge of the Income Tax Unit
Mr. Victor H. Self, Deputy Commissioner in Charge of the Accounts and Col-
lections Unit
Capt. D. S. Elies, Deputy Commissioner in Charge of Miscellaneous Tax Unit
Mr. W. E. Kennedy, Acting Deputy Commissioner in Charge of the Alcohol Tax
Unit
Mr. Dwight Avis, Assistant Deputy Commissioner, Enforcement, Alcohol Tax Unit
Mr. W. E. Woolf, Head, Intelligence Unit

Field Officers

Collectors of Internal Revenue:

Mr. George Hofferbert, Baltimore, Md.
Mr. Denis W. Dolanoy, Boston, Mass.
Mr. Nigel D. Campbell, Chicago, Ill.
Mr. Thomas M. Carey, Cleveland, Ohio.
Mr. Giles Kavanagh, Detroit, Mich.
Mr. Joseph Mayer, Acting Collector, Philadelphia, Pa.

Internal Revenue Agents in Chicago:

Mr. J. C. Wilmer, Baltimore, Md.
Mr. T. M. Kenofick, Boston, Mass.
Mr. E. C. Wright, Chicago, Ill.
Mr. R. C. Calk, Cleveland, Ohio.
Mr. George E. Neal, Detroit, Mich.
Mr. A. P. Schuster, Philadelphia, Pa.

Special Agents in Charge:

Mr. Davis A. Kelleher, Boston, Mass.
Mr. Arthur P. Madden, Chicago, Ill.
Mr. Albert C. Grunewald, Detroit, Mich. (includes Cleveland)
Mr. Alfred W. Fleming, Philadelphia, Pa.
Mr. John R. Cox, Washington, D. C. (includes Baltimore)

District Supervisors, Alcohol Tax Unit:

Mr. R. E. Tuttle, Baltimore, Md.
Mr. Wilford S. Alexander, Boston, Mass.
Mr. E. C. Yellowley, Chicago, Ill.
Mr. Frederick L. West, Acting, Detroit, Mich. (includes Cleveland)
Mr. Robert D. Ford, Philadelphia, Pa.



INTELLIGENCE UNIT
CHICAGO

(Name of Division)

APW MD

Chief, Intelligence Unit,
Bureau of Internal Revenue,
Washington, D. C.

TREASURY DEPARTMENT

INTERNAL REVENUE SERVICE

Chicago 90, Illinois,
March 31, 1945.



This is the first weekly report respecting so-called black market income tax investigations, in progress and in prospect.

The Chicago offices of the Intelligence Unit, The Collector of Internal Revenue, the Internal Revenue Agent in Charge, and the District Supervisor of the Alcohol Tax Unit, for more than a year, have been aware of the fact that innumerable products have been purchased and sold in this area at prices in excess of ceiling prices and have also been aware, perhaps to a somewhat lesser extent, that income taxes were being or would be evaded in connection therewith. From time to time during 1943, information emanating from offices of the Office of Price Administration was received tending to show violations of price regulations, but there was little that the Internal Revenue Service could do, so far as investigations of income tax liability were concerned, until the 1943 income tax returns had been filed, and thereafter until they had become available in Collectors' offices or in the Bureau. In the meantime the Alcohol Tax Unit undertook investigations of a large number of cases where it appeared that liquor had been purchased and sold in substantial quantities and at prices in excess of ceiling prices. In due course, copies of reports prepared by the Alcohol Tax Unit were referred to the Intelligence Unit and to other agencies of the Bureau. Income tax investigations were begun in certain of the more important and urgent cases, based in some instances upon information furnished by the Alcohol Tax Unit and in other instances upon information procured elsewhere. While it is quite well known, perhaps attention should, nevertheless, be invited at this point to the fact that operations in the black market are conducted largely by the use of currency which is passed from hand to hand. This fact adds measurably to the difficulties of investigation and pointed to the necessity of limiting the number of black market investigations if work of other types were to be maintained on a near-current basis.

A considerable number of income tax investigations of the kind referred to in the foregoing are now under way and outlines of some of them are set forth below.

Bert K. Master, et al., Chicago, Illinois, SI-20841-F.

Mr. Master manufactures an article known in the electrical trade as a ballast. It is actually a type of transformer used in fluorescent light fixtures. For two or three years it has been a priority item and has been extremely scarce. It has been readily salable in the black market and Mr. Master has taken full advantage of that situation. He has sold his product to a large number of customers throughout the United States at prices in excess of ceiling prices (for the later years) and has resorted to innumerable schemes to conceal his sales. He has submitted no books or records for examination and it is not known that any are in existence. Sales substantially in excess of those reported on income tax returns for 1940, 1941, 1942 and 1943, (particularly the latter two years) have been proved by intensive and arduous investigation. Part of this work involved the projection and examination of thousands of checks carried on Recordak films in banks. A large amount of work was done on records of transportation companies in order to identify sales and shipments. In passing it may be stated that in numerous instances the shipping records carried fictitious names for both the consignor and consignee. When consignees were identified and located they almost invariably proved to be reluctant and evasive witnesses until they were confronted with documentary proof of their own purchases and payments. Added to the other difficulties in the case was the fact that a large percentage of the transactions were consummated by the use of currency.

Mr. Master has filed partnership returns and has divided the income of his business between himself and his wife. It is believed that no partnership existed and that that can be clearly proved. With the elimination of the partnership, the additional taxes and penalties for 1940 to 1943, inclusive, as tentatively computed, approximate \$380,000. A representative of the Chief Counsel expects to review the evidence in this case, beginning on April 3. If he concludes that it is suitable for prosecution, it is believed that arrangements can be made to refer the case to the United States Attorney with a minimum of delay.

Mr. Master has recently participated, with two or three associates, in the purchase of surplus materials from the Lockheed Corporation in Los Angeles. The materials are said to have cost upwards of \$600,000 and there is reason for the belief that a substantial part of his black market profits are invested in that property. In connection with the review of the case from the viewpoint of prosecution, consideration will be given to the practicability of making a jeopardy assessment and the filing of notices of lien in California.

It may be added that Mr. Master is a man of bad reputation and is notorious in Chicago. He has recently been publicized in the newspapers as a result of several physical encounters, including an attack which he is said to have made, in the Drake Hotel, upon a disabled soldier. He is now awaiting trial in the Municipal Court in connection with the latter charge.

J. C. Ferry and Company, et al., Indianapolis, Indiana.
SI-21280-F

The report in this case is now being written. It involves a corporation and several individuals for the years 1939 to 1943, inclusive. Taxes and penalties aggregating \$542,642.35 will be recommended for assessment. J. C. Ferry and Company is engaged in the wholesale grocery and liquor business. In 1943 it sold 9000 cases of whisky at \$37.00 per case, which was \$19.00 per case in excess of the ceiling price. Income tax returns filed by the corporation and its officers did not reflect the excess. There are many other elements in this case, but the file is not in Chicago and for that reason it cannot be referred to in detail herein. One of the principals is suffering from a serious physical ailment and it is doubtful, on that account, that a recommendation will be made for prosecution.

Amazon Rose and Rubber Company, Harry E. Jacoby, President,
Chicago, Illinois, SI-22118-F.

In January, 1944, this office received a very brief communication, originating with the branch office of the Intelligence Unit at Miami, Florida, stating that an anonymous informant had submitted information indicating that on December 4, 1943, Mr. Jacoby had a "roll of bills" aggregating \$100,000 on his person. The informant stated, among other things, that Mr. Jacoby had been spending his winters in Florida; had horses entered at the race tracks; had purchased a home on North Bay Road, at Miami Beach, and, in general, had indicated that he was spending money lavishly. This matter was taken up in Chicago in due course. It was ascertained that Mr. Jacoby is the president of the Amazon Rose and Rubber Company, and the owner of all of its capital stock. For the years 1941 to 1943, inclusive, the corporation reported net income aggregating approximately \$23,000. For the same years, Mr. Jacoby reported net income aggregating approximately \$20,000. The investigation in its early stages indicated that proceeds of sales of the Amazon Rose and Rubber Company were being diverted to Mr. Jacoby, and that he was using the funds for personal purposes. On March 23, 1945, Mr. Jacoby admitted that his business had earned approximately \$400,000 during the years 1941 to 1944, inclusive, and that only a small portion of the net income had been reported, either by the corporation or by himself.

This case has not been regarded as a black market case, but Mr. Jacoby is apparently typical of the "spenders" who go to resorts in the south in the winter, and dissipate large amounts of money in gambling and other diversions. In this instance, it appears that Mr. Jacoby's spending was done at the expense of the government. Evidently it will be necessary to restore the proceeds of diverted sales to the income of the Amazon Hose and Rubber Company, and then to charge Mr. Jacoby with the receipt of undeclared dividends. If that procedure is followed the taxes and penalties applied to the corporation and to the individual probably will exceed the amount of the diverted proceeds of sales. A recommendation for prosecution probably will be made.

Empire Packing Company, Samuel Chapman, President, Chicago,
Illinois, SI-22140-F.

An investigation is now in progress of the Empire Packing Company, and its president, Mr. Samuel Chapman, for the years 1942 and 1943. The corporation is engaged in the meat business and has been making sales in the black market. At this time there is an indication of diverted sales aggregating approximately \$160,000. Some question has arisen as to whether the sales may be properly charged to the corporation rather than to Mr. Chapman. It is too early to predict the outcome of this case, but the indications are that the taxes and penalties will be fairly substantial, and it may be that the evidence ultimately will warrant a recommendation for prosecution.

There are other black market cases under investigation in the Chicago Division, by the Intelligence Unit, by Internal Revenue Agents in Charge, and by Collectors. Since this report should go forward today, if it is to be in Washington on April 2, there is not sufficient time available to submit additional information. That will be done in later reports.

I returned from Washington yesterday morning. Internal Revenue Agent in Charge E. G. Wright was on the train. We discussed at length ways and means of going forward with black market income tax investigations. Two conferences were had with Collector of Internal Revenue Nigel D. Campbell yesterday. Another conference will be held on April 2, at which time it is expected that a plan that can be followed will be fairly well formulated. The objective, of course, is to make a selection of cases, or projects, which offer the greatest promise of progress in the shortest period of time.

I stated at the meeting in Washington on March 28, that the First National Bank of Chicago, since September, 1941, has been keeping records on \$500 and \$1,000 bills paid out by paying tellers. Special

Agent O. D. Coan originally procured that information from one of the bank's officers. This morning he called upon that officer in an effort to get access to the files. The officer took him to the law department, where he talked to the General Counsel for the bank. The latter was friendly, as he usually is, but he declined to permit access to the files. I expect to talk to him myself on April 2, or very shortly thereafter, but in view of past experiences, I am not hopeful that he will do any more for me than he did for Special Agent Coan. Some means will have to be devised to get access to those files, because they may contain information of great value.

A. F. Madden
A. F. Madden
Special Agent in Charge



INTELLIGENCE UNIT

PHILADELPHIA

(Office of Divisions)

SI-ANF-cks

TREASURY DEPARTMENT

INTERNAL REVENUE SERVICE

Philadelphia, Pa., March 31, 1945.

Mr. W. H. Woolf,
Chief, Intelligence Unit,
Bureau of Internal Revenue,
Washington, D. C.

In accordance with the request of Mr. Joseph D. Munan, Jr., Commissioner of Internal Revenue, there is set forth herein a brief outline of the activities of the Philadelphia Division of the Intelligence Unit, and cooperating agencies, in conducting investigations of alleged evasion of income taxes by persons operating in the black market.

Newspaper Clippings

As a source of information and possible leads, we have maintained files of newspaper clippings containing over 650 names of persons said to be engaged in black market activities in this area. These files, containing names of individuals, have been indexed according to the commodity involved as follows:

- 1 Automobiles - Trucks
- 2 Cleaners
- 2 Coal
- 1 Eggs
- 1 Fuel Oil
- 73 Gasoline
- 158 Liquor
- 127 Meat
- 60 Poultry
- 11 Onions
- 14 Potatoes
- 17 Tires
- 187 General
- 654 Total

A survey has been made of fifty-four news items involving such principal commodities as liquor, meat, poultry, gasoline, tires and produce, with a tentative determination as follows:



- 28% appear to be good leads for possible evasion cases
- 24% possible leads for recovery of revenue
- 48% considered of no possible interest to Internal Revenue Service from information given in the news items

Information taken from these files, augmented by preliminary inquiries made by special agents, has been submitted to appropriate offices of Revenue Agents in Charge and Collector of Internal Revenue.

J. A. Dougherty's Sons, Inc.,
Involving: Joseph Binenstock, President,
and
Frank Fogel (SI-21497-F)
Philadelphia, Pennsylvania.

The most cogent leads on black market transactions have been received from the Alcohol Tax Unit on cases investigated by them for the Office of Price Administration. The income tax evasion features of these violations have been expeditiously investigated and are in various stages of completion.

The above named corporation, Joseph Binenstock, Samuel E. Rosenbaum, Frank Fogel, Charles Levy, Samuel Lazar, all of Philadelphia, Pennsylvania, and one, Harry Scowits of New York City, were convicted of selling distilled spirits at over-ceiling prices.

Frank Fogel has now submitted to a special agent of this division lengthy testimony in question and answer form, covering the sales by him in the black market to various individuals or groups of individuals of almost 23,000 cases of Dougherty whiskey, from approximately June to and including December, 1943. In his detailed testimony, Mr. Fogel has specifically referred to payments of over-ceiling currency to Joseph Binenstock approximating \$270,000.

It is believed very probable that the completed investigation will result in the indictment and successful prosecution of the Dougherty corporation and its president, Joseph Binenstock, and in the imposition of taxes and penalties on all parties concerned in the neighborhood of \$500,000 to a million dollars.

Brookside Distilling Products Corporation
Joseph M. Gentile, President
Scranton, Pennsylvania. (SI-22013-F)

During the year 1942, the above named corporation emerged from a reorganization, engineered by Mr. Gentile, the immediate results

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of which were that the corporation disposed of 10,000 barrels of whiskey without paying tax on the profit. Mr. Gentile reporting instead a capital gain on the sale of his stock in the predecessor corporation.

It has been established that during the latter part of 1943 one Lawrence Parks, acting as salesman for Brookside, sold 2,600 cases of whiskey to various retail dealers in Ohio and that in addition to the ceiling price, Mr. Parks collected and turned over to Gentile, \$15 per case in cash. Mr. Parks has cooperated with the Alcohol Tax Unit and will testify for the Government in the event an income tax case is presented.

The cash received by Mr. Gentile in connection with the black market sales has not been traced, but as a result of this investigation into his financial transactions evidence has been developed showing that sales amounting to approximately \$200,000 were omitted from the records of Brookside in 1943 and the cash involved was used by Mr. Gentile in the acquisition of a winery. The circumstances surrounding the omitted sales are being developed and it is believed that fraud can be proven in connection with that item.

Mr. Gentile has acquired extensive wine interests in California and the details of those acquisitions are now being checked. The investigation will probably be completed within the next six weeks, unless unforeseen circumstances prevent. The additional tax and penalties which will be recommended for assessment in the cases of the corporation and individual may amount to over a million dollars.

Alexander Young Distilling Company
Philadelphia, Pennsylvania. (SI-22083-F)
Charles S. Levy (SI-22180-F)
Ess Ess Import Company (SI-22211-F)

The records of the above named corporation reveal no indication of over-ceiling prices or side money receipts. Charles S. Levy, doing business as Sheldon Importing Company, and Ess Ess Import Company appear on the books of the Young Company as sales representatives in 1943 and 1944, and are credited with commissions and/or brokerage fees on the sales orders during said years. These representatives have been convicted of violating Office of Price Administration regulations but no evidence has been obtained as yet to prove that the Young Company or its officers received any part of the over-ceiling payments made.

Charles S. Levy was found guilty of selling 4,072 cases of whiskey in violation of Government price ceilings and of collecting over-ceiling

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profits of approximately \$26,000 in 1943. The only income reported by Mr. Levy in 1943 consisted of his salary of \$10,000. Mr. Levy has refused to make any statements or to discuss any matters with the agents investigating his income tax liability. It is believed that Mr. Levy sold approximately 11,300 cases of whiskey at over-ceiling prices amounting to \$86,000. It is further believed that Levy also represented Cooper's Brewery of Philadelphia and had boasted to the effect that he had an allotment of five to ten carloads per week which, it is believed, were sold at over-ceiling prices of between \$1,800 and \$2,000 per car.

Albert Spiegelman and Samuel Simon, partners of Ess Ess Import Company were convicted of black market liquor operations during the year 1943. They have filed amended income tax returns for that year reporting thereon amounts which appear to have been received in the black market.

Based upon the incomplete investigations it is estimated that the over-ceiling cash payments received by Charles Levy which were not reported for income tax purposes are in excess of \$300,000.

Standard Provision Company
Involving Sol Gutterman
Philadelphia, Pennsylvania (SI-22271-F)

With the constant and valuable assistance of an informant a preliminary investigation of the black market activities of the above named meat dealer has been in progress. The income tax return filed by the corporation for the year 1944 has been located and final investigation will be instituted during the coming week.

This company bones and processes all of its meat and sells it in manufactured form. However, Mr. Gutterman, beginning in July 1944, trimmed the choice cuts of carcasses and sold the same to butchers for amounts above the legal ceiling not including said sales either on the corporation's or his individual income tax return.

The informant asserted that Mr. Gutterman has bragged that he has accumulated over \$500,000 in cash through sales of unprocessed beef. It is believed that Gutterman averages \$5,000 a week on the sale of meat in the black market. It has been ascertained that Gutterman entered into an agreement on July 1, 1944, to purchase the entire outstanding stock of the corporation for \$135,000 and that he paid toward that amount \$64,000 during the latter half of the year 1944.

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Poultry Dealers
Delmarva Peninsula, Delaware (SI-21523-F)

Based upon opinions expressed by members of the Office of Price Administration it is believed that the unreported income in Southern Delaware resulting from black market operations in the poultry business ran into millions of dollars in 1942 and in 1943, and was probably shared by hundreds of growers, dealers and dressing plants. A list of the larger poultry dealers in said territory was prepared from returns assigned to revenue agents for examination in 1944, which includes names of over 150 taxpayers.

In cooperation with five agents assigned by Mr. J. C. Wilmer, Internal Revenue Agent in Charge, Baltimore, Maryland, preliminary investigations have been conducted. In one instance the taxpayer reported on his individual return for 1943, miscellaneous income totaling \$36,000 from undisclosed sources. This taxpayer explained in an informal interview that said total represented over-ceiling profits which were not recorded on his books and consisted of about twenty percent of the amount of over-ceiling money received. He claimed that at least eighty percent or approximately \$150,000 over-ceiling money was paid to poultry growers. He further asserted that at least ninety-eight percent of the growers demanded black market prices.

William Lafferty, Sr.,
New Sharon, New Jersey (SI-21133-F)

The method used by this taxpayer in an attempt to evade the payment of income taxes was his failure to include as business income a great amount of cash received from the sales of pigs, payment for which was made by checks drawn payable to the members of his family.

Due to the taxpayer's lack of formal education prosecution was not recommended in this case, which was settled by the taxpayer signing an agreement to pay additional taxes and fraud penalty in the amount of \$75,892.51.

Lee Weller
Philadelphia, Pennsylvania (SI-21616-F)

The above named taxpayer, who operated the Brewerytown Garage, was acquitted in the United States District Court sitting at Philadelphia, on charges concerning the improper sale by him of automobile tires in the so-called black market. Judge Harry E. Kalodner, who heard the case, feels that this man's acquittal was a gross miscarriage of justice for which reason he instructed the

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United States District Attorney to submit all information concerning the matter to this office. This case is under active investigation which reveals that Weller sold thousands of tires in the black market at very substantial profits during the year 1942.

Other Cases

In addition to the foregoing this division has under investigation the income tax features of the alleged black market activities of the following named taxpayers:

<u>Taxpayer</u>	<u>Business</u>
Delaware Packing Company Wilmington, Delaware (SI-21853-F)	Meat
Joseph N. Lightman Camden, New Jersey (SI-22129-F)	Hog Raiser
Louis R. Cohn Reading, Pennsylvania (SI-21104-F)	Whiskey Dealer
Daniel H. Kinsley Sewell, New Jersey (SI-22234-F)	Pig Grower
William W. Miller Collingdale, Pennsylvania (SI-20430-F)	Pig Dealer
Monarch Silk Co., Inc. Philadelphia, Pennsylvania (SI-22088-F)	Silk
Acorn Iron and Supply Co. Philadelphia, Pennsylvania (SI-21649-F)	Scrap Metals

Alfred W. Fleming
Alfred W. Fleming,
Special Agent in Charge.

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INTELLIGENCE UNIT

Detroit
(Office of Internal Revenue)

ACG:bba

Chief, Intelligence Unit
Bureau of Internal Revenue
Washington, D. C.

In accordance with instructions issued at the conference held in the Bureau under date of March 28, this report is submitted to give the status of cases in this District which involve black market operations in liquor and other commodities.

Cases in the Bureau:

SI-21600-F - Ben Meyers

This is the case mentioned to you while in your office, and is a black market case in connection with the handling of second-hand machinery. This case involves about \$80,000 and criminal action has been recommended.

Active Cases in the Field

SI-21473-F - Oscar E. & Mildred V. Bussner, Cincinnati
SI-21825-F - S. S. Freedman, Cincinnati
SI-21821-F - Robert Gould, Cincinnati
SI-21358-F - Henry A. Ungerleider, Cincinnati

These cases are black market liquor cases and will involve at least \$700,000 in taxes, with possible prosecution. (There are at least 8 or 9 cases in other Divisions which are an outgrowth of the Gould case, and which cases will involve a very substantial amount of tax.)

SI-21425-F - Fred Garmone, Cleveland, Ohio
SI-21926-F - Joseph Deutsch, Lorain, Ohio
SI-21612-F - Dominic Olivo, Akron, Ohio
SI-21511-F - Anthony Deluca, Akron, Ohio
SI-21925-F - David Godes, Lorain, Ohio
SI-21898-F - William Bauer, Cleveland, Ohio
SI-22041-F - Louis H. Barkan, Cleveland Heights, Ohio
SI-22087-F - Nick V. Mangione, Cleveland, Ohio



TREASURY DEPARTMENT

INTERNAL REVENUE SERVICE

1028 Federal Building
Detroit 26, Michigan
March 31, 1945



Chief, Intelligence Unit
Washington, D. C.

These cases are under active investigation and several will involve a substantial amount of tax with possible prosecution.

Cleveland Unjacketed Cases Involving Black Market Liquor:

George Shmela	William A. Kahan
Karl Freiburger	Anthony Golubich
Ed Siegel	Ray and Sherman Sharwell
Sam Siegel	

Cases in Detroit, Michigan:

SI-21982-F - Tom Haudros
SI-21856-F - Samuel Meyers
SI-21855-F - Sol Osborne
SI-22027-F - Paul and Bertha Van Denabeele
SI-21136-F - James A. Bradley

These are retail liquor dealers and will average approximately \$5,000 per case, but it is doubtful whether prosecution will be recommended.

In the Collector's office at Detroit the following individuals are under investigation, most all of these cases involving black market operations in liquor, fur, furs, etc. Some of these are large operators, but there is a fair amount of tax involved, and as a matter of fact, the Collector's office working in cooperation with the Special Agents and Revenue Agents have closed out a large volume of this type of case in the past year.

Victor Fur Company	A & A Tool and Gauge Company
Stanley G. Mason	William Goldman
Joseph Trowkowski	Walter Shaffer
James A. Buysse	Louis Kostel
John Walke	Sunny Wilson
Harry Glick	Barrelhouse Beer

Conferences were had with the Collector and Revenue Agent in Charge at Detroit today, and arrangements have been made to follow out the line of investigation suggested at the conference mentioned above. The Federal Reserve Bank in Detroit is a branch of the Chicago bank and I have made arrangements with Special Agent in Charge Madden to contact the Chicago Bank and advise me whether they have any information concerning bills of large denomination in this area.

I have arranged to have a meeting with the Collector and the Internal Revenue Agent in Charge at Cleveland on April 3 and will make a report next week on developments at that point.

Chief, Intelligence Unit
Washington, D. C.

Today this office also received a communication from our Chicago office, advising that one Charles Polizzi of Cleveland, Ohio, had made a deposit of \$75,000, consisting of three checks, under date of July 26, 1943, with the P & M Liquor Corporation, Chicago, Illinois, as an advance payment of \$15 per case on an order for 5,000 cases of whiskey. That order was not filled and the deposit was returned. On this information it is expected that something will develop, because Polizzi is a brother to a notorious underworld character in Cleveland and undoubtedly this money probably belongs to the brother of Charles Polizzi. This will be followed through.

A. C. Grunewald
A. C. Grunewald
Special Agent in Charge

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

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TO Secretary Morgenthau
FROM J. W. Pehle

DATE
April 3, 1945

FOR YOUR INFORMATION

This is with further reference to the unfortunate debate in the Senate last Friday on the Treasury Department appropriation relating to surplus property.

We drafted a letter to be sent by Chairman Gillette of the Surplus Property Board to Senator McKellar, who is Acting Chairman of the Senate Appropriations Committee. Mr. D. W. Bell spoke to Gillette about the matter and I took the proposed letter down to Gillette and discussed the matter with him.

Gillette signed the letter to McKellar which was sent yesterday, April 2. A copy of the letter is attached. It follows our draft exactly.

Attachment.

J. W. Pehle

Copy

April 2, 1945

Honorable Kenneth McKellar
United States Senate
Washington, D. C.

My dear Senator:

My attention has been called to the discussions on the Floor of the Senate on March 30th with respect to the appropriation for the surplus property activities of the Procurement Division of the Treasury Department and the amendment thereto which was adopted by the Senate. It seems clear to me that the discussion leading up to the introduction and adoption of such amendment was in large part based upon an erroneous impression of statements made by me and reported in the public press. A newspaper account of what I said is quoted on page 3020 of the Congressional Record.

My comments were directed not at the Treasury Department or any other disposal agency, but to the practice of owning agencies in disposing of surplus property without declaring it surplus under the Surplus Property Act of 1944. The Treasury Department is a disposal agency under the jurisdiction of the Surplus Property Board and its disposals of surplus property are subject to such regulation as the Surplus Property Board may impose under the Surplus Property Act of 1944. Under the Act the Board not only designates the disposal agencies but has the full power to adopt appropriate regulations governing their activities in such detail as the Board deems desirable. I refer specifically to Sections 9 and 10 of the Surplus Property Act of 1944. As I see it, therefore, the Senate Amendment to the Treasury Department's appropriation is not necessary, serves but to add confusion, and in my opinion should be eliminated.

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Honorable Kenneth McKellar

4/2/45

I think that it is also appropriate for me to say that I believe much of the criticism of the surplus property activities of the Treasury made on the Floor of the Senate on March 30th is unwarranted. We agree with the statement made in the recent report of the Mead Committee that in the disposal of surplus property the Procurement Division of the Treasury "is doing as good a job as can be expected under the circumstances. They have been forthright in admitting and attempting to correct their inevitable mistakes, and are intelligently attempting to solve their problems."

If you have no objection, I would welcome the inclusion of this letter in the Congressional Record.

Very sincerely,

/s/ Guy M. Gillette

GUY M. GILLETTE
Chairman



TREASURY DEPARTMENT

WASHINGTON 25



April 3, 1945

To: Secretary Morgenthau

From: J. W. Pehle

The following is a summary of significant developments in the Surplus Property and Procurement offices for the week ending March 17, 1945:

Surplus Property:

Total disposals for the period March 1 to March 15 amounted to \$8,837,968 and the inventory balances as of March 15 totaled \$82,539,018 reported cost.

Sales programs are being prepared in connection with the disposal of drawing paper and wooden trainer rifles. Sales programs have been completed for the disposal of pocket compasses and aerial panchromatic film. The pocket compasses are to be sold to three of the four original producers, with the exception of a small quantity which is to be sold to the Boy Scouts. The sales program for the aerial panchromatic film contemplates the sale of such film at a fixed price to any purchaser who has, or can obtain, the facilities necessary to test, slit, spool and package the film for resale. The Army has relaxed its inspection standards with respect to surplus tires to an extent which will permit us to resume our previous sales program of disposing of repairable tires in substantial numbers for civilian use.

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2,800,000 feet of surplus motion picture film were transferred to the Office of War Information for use in making reprints of shorts of the Dumbarton Oaks Conference. This transfer will release a similar amount of new film for essential civilian use that had previously been allocated to the Office of War Information by the War Production Board.

We are collaborating with UNRRA in an effort to supply from surplus stocks as much as possible of that agency's estimated need of \$6,000,000 worth of textiles and medical and surgical supplies. An agreement has been reached with the Reconstruction Finance Corporation to deduct 13% of realized proceeds for administrative expenses and care and handling costs of surplus property declared to us by the Reconstruction Finance Corporation and its subsidiaries on a reimbursable basis.

In view of the possibility that the Surplus Property Board will designate Treasury a disposal agency in Hawaii, a field survey was made to determine the extent of surplus property to be handled there. Later developments make our opening of an office in Hawaii doubtful.

A liaison officer has been assigned to the Navy's surplus property office in New York, making it possible for us to secure advance information concerning the Navy's declarations. We are collaborating with Navy now to decide the problem of storage space for contract termination inventories, with a view toward facilitating disposition of Navy surpluses.

We are collaborating with the General Accounting Office and Mr. Irey's office in investigations of apparent irregularities in our Chicago and San Francisco offices.

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- 3 -

An agreement has been reached whereby the Reconstruction Finance Corporation will assume the responsibility for the disposal of all surpluses at the Keystone Ordnance Works. We will assist the Reconstruction Finance Corporation, however, in planning the sale so that consumer goods will be disposed of in a manner consistent with our policies.

We are working closely with the Surplus Property Board and assisting it in the formulation of regulations to be issued in connection with the priorities for Federal and state agencies and preferences for veterans contemplated by the Surplus Property Act.

An informal hearing was held before the House Agricultural Committee with respect to the policies followed in the disposal of surplus farm equipment and the extent to which the Agricultural Adjustment Agency cooperates in the formulation of such policies.

We have submitted to the Surplus Property Board for its consideration the many problems confronting us in connection with the sale of surplus property for export. It was pointed out to the Board that disposal agencies were not the appropriate authorities to determine the availability or unavailability of commodities for export.

The Kansas City regional office participated jointly with the Smaller War Plants Corporation and the Office of Price Administration in a radio program relating to surplus disposal. Conferences were held with public relations officers of the Surplus Property Board with a view to creating cooperative channels for publicity regarding surplus property matters.

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A complaint was received from a purchaser of flashlight batteries who had paid for batteries in January but had not received such batteries until February. The OPA reduced our ceiling price from 5½¢ to 5¢ on February 2, and the purchaser demanded a refund of ½¢ per battery. According to OPA regulations, a sale takes place when delivery is made, but records proved that Treasury had issued delivery orders to the Army prior to February 2. Due to railroad traffic conditions, the Army was unable to complete deliveries. Since there were undoubtedly several hundred cases in the same category as the complainant's, the matter was placed before the OPA. An appropriate amendment to the applicable regulation was adopted.

Since the Department of Justice has found it impossible to assign a lawyer from its Antitrust Division to act as liaison officer between Treasury and the Department of Justice, arrangements have been made to assign a lawyer from our staff to be trained by the Antitrust Division in antitrust problems which might arise in the sale of surplus property.

Procurement:

Total purchases for the week amounted to \$24,241,286.85, including \$24,000,000 for Lend-Lease (schedule attached) and \$241,286.85 for regular purchases.

Carloadings of Lend-Lease materials for the week totaled 3,805 cars. 283,499 net tons of material were exported during the month of February.

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Unusual requisitions for the week included 258 dozen physicians' coats for Algeria; 500,000 pounds of nylon weaving yarn for production of parachute cloth for the RAF; and \$335,445 worth of truck and bus tires and tubes for maintenance of essential civilian transportation in Iran.

Unusual purchases for the week included 13,500 lineal yards of a special crepe paper treated with glue, glycerin, formaldehyde, shellac and a primer solution to be used in sealing food cans, radio batteries and airplane parts being shipped to tropical areas; 1,225,000 pounds of louse powder for civilian relief in liberated areas; 100 safes, 2,315 typewriters, 400 adding machines and 400 mimeograph machines for the Philippine Government; and 20 portable steel buildings for the Soviet Government, to be delivered "knocked down" and erected overseas for warehouse purposes.

A conference was held with representatives of the Bureau of the Budget to acquaint them with the types of surplus commodities contemplated to be stockpiled for subsequent issue through our warehouses to federal agencies.

The Price Adjustment Board disposed of four 1943 cases and four 1944 cases, recovering excessive profits in the amount of \$40,336.60.

Required centralized purchasing by the Division of passenger automobiles, electrical equipment, machinery and lumber has been suspended because of war conditions.

After consultation with the Foreign Economic Administration, proposals were drafted and dispatched to the licensors concerned in the Russian Oil Refinery Project stating that the Government was prepared to give favorable consideration to licenses providing for lump sum payments if the licensors should agree to extend the licenses for use in connection with any Lend-Lease disposition of the plants

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and to the assignability of the licenses if the plants are not used for Lend-Lease purposes.

Treasury's petition for intervention on behalf of the United States in the current annual rate hearings of the Potomac Electric Power Company was granted by the Public Utilities Commission, while Federal Works Agency's petition on its own behalf was denied. The Commission ruled that having admitted the United States as a party on Treasury's petition there was no reason why an agency of the United States should be admitted separately. We are conferring with representatives of the Department of Justice and the Federal Works Agency in preparation of the hearing.

Administration:

To meet the operating exigencies which will arise following the issuance of the Surplus Property Board's regulations governing Federal, state and local government surplus purchase priorities, we are taking preparatory steps to develop an adequate organization to deal with these problems. We have submitted our program for Civil Service clearance and are initiating personnel recruitment measures.

A financial statement representing the first accounting of surplus property operations from February 1, 1943 to February 29, 1945 was prepared for submission to Mr. D.W. Bell.

The Finance Division has \$800,000 on hand representing cash reimbursement requisitions covering materials requisitioned by various foreign governments on a cash sale basis. These funds are being held pending allocation instructions from the Foreign Economic Administration.

J. W. Bell

LEND-LEASE
TREASURY DEPARTMENT, PROCUREMENT DIVISION
STATEMENT OF ALLOCATIONS, OBLIGATIONS (PURCHASES) AND
DELIVERIES TO FOREIGN GOVERNMENTS AT U. S. PORTS
AS OF MARCH 17, 1945
(In Millions of Dollars)

	<u>Total</u>	<u>U. K.</u>	<u>Russia</u>	<u>China</u>	<u>Administrative Expenses</u>	<u>Miscellaneous & Undistributed</u>
Allocations	\$6014.3 (5977.1)	\$2623.0 (2623.0)	\$2457.4 (2457.4)	\$ 172.3 (172.9)	\$18.6 (18.6)	\$737.4 (700.2)
Requisitions in Purchase	\$ 167.7 (138.6)	\$ 19.4 (21.5)	\$ 27.3 (20.9)	\$ 1.6 (.2)	-	\$119.4 (96.0)
Requisitions not Cleared by W.P.B.	\$ 115.1 (132.7)	\$ 22.5 (26.7)	\$ 42.4 (40.9)	\$.5 (1.9)	-	\$ 49.7 (63.2)
Obligations (Purchases)	\$4757.9 (4733.9)	\$2094.5 (2090.4)	\$2099.3 (2084.2)	\$ 105.1 (104.9)	\$17.3 (17.2)	\$441.7 (437.2)
Deliveries to Foreign Governments at U. S. Ports*	\$3085.5 (3054.5)	\$1631.1 (1626.7)	\$1366.3 (1340.5)	\$ 26.4 (26.4)	-	\$ 61.7 (60.9)

*Deliveries to foreign governments at U. S. Ports do not include the tonnage that is either in storage, "in-transit" storage, or in the port area for which actual receipts have not been received from the foreign governments.

Note: Figures in parentheses are those shown on report of March 10, 1945.

ADDRESS OFFICIAL CORRESPONDENCE TO
THE SECRETARY OF STATE
WASHINGTON, D. C.



DEPARTMENT OF STATE
WASHINGTON

April 3, 1945

In reply refer to
A-C

CONFIDENTIAL

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith for his information a copy of a policy document recently approved by the Executive Committee on Economic Foreign Policy. The document, ECEFP D-54/45, contains recommendations concerning the position which this Government should take in respect of such proposals as might be made for regulating, with Brazil, exports of cotton to Canada.

The Secretary of State concurs in the recommendations.

Enclosure:

Confidential document
ECEFP D-54/45



RUC

CONFIDENTIAL

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ECEFP D-54/45
March 30, 1945

CONFIDENTIAL

EXECUTIVE COMMITTEE ON ECONOMIC FOREIGN POLICY
Committee on International Commodity Problems

PROSPECTIVE BRAZILIAN PROPOSAL FOR
A BILATERAL DIVISION OF THE CANADIAN MARKET

(As approved by the Executive Committee on
Economic Foreign Policy on March 30, 1945)

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CONFIDENTIALEXECUTIVE COMMITTEE ON ECONOMIC FOREIGN POLICY
Committee on International Commodity ProblemsPROSPECTIVE BRAZILIAN PROPOSAL FORA BILATERAL DIVISION OF THE CANADIAN MARKETTHE PROBLEM

It is probable that the Brazilian delegation to the forthcoming meeting of the International Cotton Advisory Committee will propose a bilateral allocation of the Canadian market with this Government. The principal questions raised by such a proposal are as follows:

1. Is the situation in Brazil so critical that some way must be found to alleviate it prior to exploring the possibilities of arriving at a successful solution of the world cotton problem on a multilateral basis?

2. Should the situation in Brazil be found to be sufficiently critical to warrant immediate action

(a) would this Government be willing as a matter of policy to agree to the division of a foreign market?

(b) would the Canadian Government acquiesce in such an arrangement?

(c) would the sharing of the Canadian market make an appreciable contribution toward improving the situation for Brazil?

RECOMMENDATIONS

If requested by the Brazilian Government to divide the Canadian cotton market, it is recommended:

1. That this Government not favor a bilateral division of foreign markets as a means of easing the Brazilian cotton situation;

2. That this Government express a willingness to consult with representatives of the Government of Brazil -

(a) 2.

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(a) To determine the urgency of that country's immediate cotton problem.

(b) To receive from the Brazilian Government any alternative suggestions for dealing with the Brazilian cotton problem should the urgency of the problem appear to require action.

3. That any suggestions alternative to that of a bilateral division of markets be reported back to this Government for consideration in the light of the possible recommendations of the International Cotton Advisory Committee at its forthcoming meeting.

CONSIDERATIONS

1. Presently available information indicates that the cotton situation in Brazil is not likely to attain sufficiently serious proportions from an economic point of view as to require the immediate assistance of the United States.

It is true that Brazil's present carry-over stocks of about 3 1/2 million bales are six times the average pre-war carry-over and that a considerable portion of the new crop may be carried over into the next season. Furthermore, the Brazilian Government is now pledged to support the price of the 1944-45 crop of all Brazil and the remaining stocks of the 1943-44 crop of Southern Brazil at a level about equal to the present market price in Brazil. Earlier crops were supported at lower price levels.

Nevertheless, the situation does not appear to be critical because

(a) an estimated two-thirds of the old crop cotton in Brazil is believed to be owned by the governments of foreign importing countries, principally the United Kingdom, or financially strong foreign corporations, and

(b) the financing of the 1944-45 crop at the support level should not be a heavy burden for the Brazilian Government, since if loans were made on the entire crop it is unlikely that more than 150 million dollars would be involved.

2. Even though the cotton situation in Brazil did warrant immediate action the bilateral sharing of the Canadian market would not be acceptable to this Government. Any bilateral arrangement would weaken this Government's announced policy of dealing with the cotton problem through multilateral cooperation and might jeopardize the success of the forthcoming meeting of the International Cotton Advisory Committee in

contributing

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contributing to the attainment of that objective. Furthermore, except as a war time measure, a bilateral allocation of a foreign market would be inconsistent with this Government's general economic foreign policy. Also we are opposed in principle to producer agreements designed to allocate export markets without full participation of interested importing countries.

There would probably be considerable opposition in Congress and elsewhere to an agreement to share the Canadian market in which United States cotton had a competitive advantage under free market conditions before the war.

3. While the Canadian Government might acquiesce in such an arrangement under the exigencies of war, there is no reason to believe that it would do so in peace time.

4. The annual utilization of cotton in Canada during the war has averaged approximately 450 thousand bales. Even if Brazil should be able to dispose of half that amount in the Canadian market it would not improve their situation appreciably since Brazil's exportable surplus from the current crop and stocks will probably be between 4 and 5 million bales including stocks held by foreign purchasers.

Before the war in a relatively free market, the United States was naturally almost the exclusive supplier of cotton to near-by Canada. Brazilian cotton went mainly to the United Kingdom, Germany and Japan although the quantities taken by Germany and Japan were subject to considerable variation from year to year.

In 1940, after United States domestic prices had risen substantially above the Brazilian export price, 290 thousand bales of Brazilian cotton were imported into Canada and in the following year 116 thousand bales were imported. In order to counteract this movement of cotton from Brazil to Canada the United States, in September 1941, adopted a policy which in effect provided for a subsidy of from 6 1/2 to 7 1/2 cents per pound on United States cotton exported to Canada. This program was in operation until March 1942 and effectively stopped Canadian purchases of Brazilian cotton. During the operation of this subsidy program an attempt was made to negotiate an agreement to divide the Canadian market. The Brazilians were disappointed at the failure to conclude such an agreement due to the passage in the United States of legislation which made the agreement impractical from the United States viewpoint since it prevented the Commodity Credit Corporation from exporting cotton at a price below the domestic price as would have been required under the agreement. This legislation would have probably eliminated United States cotton from the Canadian market but the shipping situation tightened and cargo space for the shipment of cotton from Brazil to Canada became unavailable.

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At that time the Canadian Government was not sympathetic with the proposed United States-Brazil arrangement but agreed not to interfere with its operation.

At the present time, there is some prospect that Brazil might soon be able to ship cotton to Canada but Canadian importers are not interested in purchasing Brazilian cotton in view of the existing United States export subsidy program which permits the sale of cotton abroad at a "competitive price". Because of the uncertainty with regard to export cotton prices, Canadian mills are not making substantial future commitments for any cotton. Under such a situation the proximity of United States cotton is, therefore, the determining factor. Under current conditions it is unlikely that Brazilian cotton will move into Canada unless the United States should agree to a division of the market. The representatives of the Government of Brazil made an informal proposal to this effect at the recent Mexico City Conference. It is probable that the Brazilians will again raise this question while their representatives are in Washington during the forthcoming meeting of the International Cotton Advisory Committee.



BRITISH AIR COMMISSION

1785 MASSACHUSETTS AVENUE
WASHINGTON 8, D. C.

TELEPHONE DECATUR 9000

PLEASE QUOTE

REFERENCE NO.

With the compliments of British Air Commission
who enclose Statements Nos. 181 and 182 --
Aircraft Despatched -- for the weeks ended
March 16th and March 23rd respectively.

The Honourable Henry Morgenthau, Jr.
Secretary of the Treasury
WASHINGTON, D. C.

April 3, 1945.

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STATEMENT NO. 181

SECRET

Aircraft Despatched from the United States
Week Ended March 16, 1945

TYPE	DESTINATION	ASSEMBLY POINT	BY SEA	BY AIR	FLIGHT DELIVERED FOR USE IN CANADA
<u>LOCKHEED</u> Fortress III	U.K.	U.K.		5	
<u>CONSOLIDATED</u> Liberator B-VI	M.E.	M.E.		1	
<u>FORD</u> Liberator B-VI	M.E.	M.E.		10	
Liberator B-VI	India	India		1	
Liberator GR-VIII	U.K.	U.K.		4	
<u>DOUGLAS</u> Dakota IV	U.K.	U.K.		21	
Dakota IV	R.A.F.T.O.	300 wing		2	
Master	U.K.	U.K.		1	
<u>MOOREHEAD</u> Harvard	U.K.	U.K.		26	
<u>VOUGHT-SIKORSKY</u> * Corsair	Australia	Sydney		5	
<u>GRUMMAN</u> * Avenger	Australia	Sydney		2	
<u>BECH</u> Beechcraft	India	Karachi		9	
<u>REPUBLIC</u> Thunderbolt	India	Karachi		1	
Total:			43	45	0

* with radio equipment.

Movements Freight I
RafaelMarch 22, 1945.
m-b
File V-11-45

STATEMENT NO. 182

Aircraft Despatched from the United States
Week Ended March 23, 1945.

SECRET

TYPE	DESTINATION	ASSEMBLY POINT	BY SEA	BY AIR	FLIGHT DELIVERED FOR USE IN CANADA.
<u>FORD</u>					
Liberator B-VI	M.E.	M.E.		10	
Liberator B-VI	India	India		3	
Liberator GR-VIII	U.K.	U.K.		2	
Liberator GR-VIII	Bahamas	Nassau		1	
<u>DOUGLAS</u>					
Dakota IV	U.K.	U.K.		32	
<u>HARVARD</u>					
Noorduyn	U.K.	U.K.		21	
<u>GRUMMAN</u>					
* Avenger	India	Cochin		1	
* Hellcat	India	Cochin		19	
* Wildcat	India	Cochin		16	
* Wildcat	U.K.	U.K.		15	
<u>NORTH AMERICAN</u>					
Mustang	U.K.	U.K.		42	
Total:			114	48	0

* with radio equipment.

Movements Freight 1
R.A.F. Delegation

March 30, 1945.

msh
File V-11-45

April 8, 1945

Dear Lieut. Putzell:

In the absence of Secretary Morgenthau, I am writing to acknowledge receipt of your letter of April 2 with which you transmitted a summary of recent developments affecting the Soviet manpower position. I shall be glad to bring this to Mr. Morgenthau's attention as soon as he returns to his desk.

Yours sincerely,

(signed) H.S. Klots

H. S. Klots,
Private Secretary.

Lieut. E. J. Putzell, Jr.,
Acting Executive Officer,
Office of Strategic Services,
Washington, D. C.

In coming to page 152
at Langdon Beach
4/7/45

SECRETOFFICE OF STRATEGIC SERVICES
WASHINGTON, D. C.

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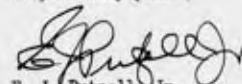
2 April 1945

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

My dear Mr. Secretary:

We are submitting herewith as of possible interest to you a summary of recent developments affecting the Soviet manpower position (Current Notes on the Soviet Manpower Position) which was prepared by our Research and Analysis Branch.

Respectfully yours,


E. J. Putzell, Jr.
Lieut. (jg), USNR
Acting Executive
Officer**SECRET****SECRET**

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OFFICE OF STRATEGIC SERVICES
Research and Analysis Branch

R & A No. 2534.4

CURRENT NOTES ON THE
SOVIET MANPOWER POSITION

Description

A summary of recent developments affecting the Soviet manpower position.

This document contains information affecting the national defense of the United States within the meaning of the Espionage Act, U. S. C. 51 and 52, as amended. The transmission or the revelation of its contents in any manner to an unauthorized person is prohibited by law.

Washington
20 March 1945Copy No. 14**SECRET**

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SECRET

This issue of Current Notes on the Soviet Manpower Position summarizes the latest available information on the problem of repatriation of Soviet citizens deported by Axis forces to Germany or German-dominated countries. The report also contains a survey of recent evidence on the importation of foreign labor into the Soviet Union, and data on Russian trade union membership.

SECRET

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SECRET

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CURRENT NOTES ON
THE SOVIET MANPOWER POSITION

A. Soviet Deportees and Their Repatriation

1. General. According to OSS estimates, 1/ about 2.3 million Soviet civilians from within the pre-1939 borders of the Soviet Union had been deported by July 1944 for work in Germany. An additional 1 million persons had been deported from the areas annexed by the Russians in 1939-40. Significantly, in a speech delivered at the British Trades Union Congress at Blackpool in October 1944, V. V. Kusnetsov, Chairman of the All-Union Central Council of Soviet Trade Unions, said: "The Germans deported not less than 2 million people, chiefly young men and women, to Germany." Kusnetsov 2/ does not indicate what area he refers to, but if his figure is interpreted as referring to the pre-1939 USSR alone, it would be in striking agreement with the corresponding OSS estimate.

Machinery for repatriation was established by the Soviet Government on 4 October 1944. 3/ Although most of the deportees are still in Germany and not yet liberated, tens of thousands already have returned and extensive preparatory work for the repatriation of others is being carried on, according to the official in charge (Colonel-General P. I. Golikov, plenipotentiary of the Council of People's Commissars of the USSR for repatriation of Soviet citizens from Germany and German-occupied countries). 4/ Repatriation will be very difficult because of the large number of persons involved, and because of the fact that many of the deported workers, having escaped from Germany or having been liberated by the Western Allies, will not be in Germany proper but in former Axis satellite countries,

1/ R & A No. 2175, AN ESTIMATE OF RUSSIAN WORKERS DEPORTED TO AXIS EUROPE (BASED UPON RUSSIAN CHARGES), and R & A No. 2225, RUSSIAN RECRUITING CHARGES IN ANGAS INCORPORATED INTO THE SOVIET UNION IN 1939-1940.

2/ Investigative, 21 October 1944.
3/ SSC, Daily Digest of World News, #1926, 25 October 1944.

4/ Investigative, 11 November 1944.

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and "scattered over the territory of France, Belgium, Holland, Italy, Luxembourg, Great Britain, Egypt, French North Africa and even the United States. 1/ Russia's experience up-to-date with respect to the repatriation of her citizens is discussed below.

2. Repatriations from Rumania. Registration by the Allied Control Commission in Rumania of Soviet citizens forcibly deported by the Rumanians during their occupation of Bessarabia, Northern Bukovina and parts of the Ukraine, as required by Article V of the armistice agreement with Rumania, was evidently started in October 1944. By the fifteenth of that month 8,911 Soviet nationals were registered in Bucharest and Craiova, of whom 1,027 had been returned to the Soviet Union and 800 were departing in the near future. 2/ By 2 December 1944, 8,000 citizens had returned to the USSR. 3/ A little later in the same month reports showed a large increase in the figures, with more than 55,000 Soviet citizens throughout Rumania registered by the Allied Control Commission, of whom 36,000 had already been sent home and the remainder were scheduled to leave shortly. At the end of December 1944 it was reported that the fulfillment of the provisions of Article V was almost complete, 4/ and in the following month the number of repatriates had increased to 56,882. 5/ No final figure can be given now, since further repatriations are scheduled. 6/

The Soviet Government, on the other hand, has agreed to repatriate all Jews deported to Transnistria while Rumania was under Nazi control. According to Rumanian sources, all Jews from Southern Bukovina and from the Old Kingdom will be repatriated and commissions will be organized, under the supervision of the Rumanian Commission for the implementation of the Armistice, to receive repatriated Jews at the frontier. 7/

1/ Ibid.

2/ Cable, Moscow, #3999, 20 October 1944 (Restricted).

3/ Pravda, 2 December 1944, p. 3.

4/ Cable, Moscow, #6048, 29 December 1944 (Restricted).

5/ Cable, Moscow, #275, 29 January 1945 (Restricted).

6/ News Digest, #1691, 23 February 1945.

7/ News Digest, #1680, 10 February 1945.

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3. Repatriations from Finland. The work in connection with the repatriation of Soviet citizens from Finland started in November 1944 when the Soviet Control Commission, through an advertisement in the press, called on Soviet Russian subjects to report for the journey home. At the same time, the Evacuee Department of the Finnish Ministry of the Interior informed all Russian citizens in Finland that the Finnish authorities would promptly advise all those returning to Russia of the time when they should proceed to the assembly centre organized for the purpose. Transport would be arranged at Finland's expense in specially reserved vehicles. 1/

By December 1944, a Tass report stated that applications had been received from 60,783 Ingermanlanders — Soviet citizens from territories located in the vicinity of the Neva river and around the Bay of Finland in Leningrad oblast — who had been evacuated to Finland between March 1943 and June 1944. During that period a total of 82,000 Ingermanlanders had entered Finland, according to Finnish sources. 2/ By the 8th of December, 602 Soviet citizens, collective farmers of Leningrad oblast, had been repatriated from Finland, and another group of 300 collective farmers, had been returned from Finland to Petrosavodsk. 3/

Early this year, Soviet sources reported that the fulfillment of Article Ten of the Armistice Terms — for the return of Soviet citizens forcibly deported to Finland — was nearing conclusion. By 18 January the Allied Control Commission had registered 56,033 Soviet citizens who had been forcibly taken to Finland during the period of occupation by German-Finnish troops of various regions, chiefly in Leningrad oblast. These deported persons, including 11,450 men, 25,029 women and 19,554 children, began to return home after 5 December 1944. By the middle of the following month 55,725 Soviet citizens — 11,429 men, 24,995 women and 19,301 children — had gone back to the Soviet Union. Their personal property, including household equipment and livestock, was sent with them. The rest of the Soviet citizens were to leave Finland in the near future. 4/

1/ News Digest, 6 November 1944 and 14 November 1944.

2/ Source X.

3/ Cable, Moscow, No. 4696, 8 December 1944, (Restricted).

4/ Cable, Moscow, No. 167, 18 January 1945 (Restricted).

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4. Population Exchanges with Poland and Repatriation of Deportees. Soviet citizens leaving Poland include both deportees and persons going to the USSR under the terms of the population exchange agreements concluded by the Polish Committee of National Liberation with the governments of the White-Russian and the Ukrainian Soviet Socialist Republics in September 1944. 1/

The first group of Ukrainians to reach their homeland under this agreement arrived by the end of November 1944. They consisted of some 122 families, and brought with them their belongings, livestock and poultry. They will settle in rural Kherson and Veliko-Lepetikhaki raions. 2/

In January 3,200 Ukrainian families from Lublin Province arrived in Zaporozhe. About 600 families have already joined the Agricultural Artel in the Province, while many others have expressed their wish to join the collective farmers. 3/

The progress of the repatriation of deportees from White Russia under this agreement is apparently more rapid. Over 10,000 of them, mostly women, children and old men — returned home by 20 November 1944. 4/ A more recent report states that 3,000 children whom the Germans forcibly deported to Polish territory have also been returned to Soviet Belorussia. These children were picked up in different Polish towns and villages. Representatives of the Belorussian Government are continuing their search for others who may be still on Polish territory. 5/

At the same time, Poles in the formerly occupied territories of the USSR are being returned to Poland. Thus, a group of Polish citizens left Lvov in early December 1944. 6/

1/ New York Times, 15 September 1944.

2/ Izvestiya, 29 November 1944, p. 1.

3/ BBC Daily Digest of World Broadcasts, 12 January 1945.

4/ Pravda, 20 November 1944, p. 2.

5/ Soviet Embassy Information Bulletin, 13 January 1945, p. 8.

6/ Pravda, 6 December 1944, p. 2.

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5. Soviet Deportees in Italy. So far, little is known about the exact number of Soviet citizens in Italy. According to Russian sources, a "number" of them were found in the liberated area. The Chineschita camp near Rome, for example, had about 50 Soviet citizens. Soviet representatives were said to be taking steps to arrange for repatriation of these persons. 1/ Likewise, the first trainloads of Poles being returned from White Russia to Poland left Baranovici, Grodno, Stoppel and Volkovisk around the beginning of December 1944. 2/

6. Deportees Freed While Still in Soviet Territory. In the past few months, a number of reports have appeared in the Soviet press concerning Soviet citizens who were freed from the Germans while still on Russian soil. Although no over-all estimate of the number of persons freed in this way can be made, their number probably runs into thousands since the Red Army advances have been so rapid that the Germans had to retreat suddenly and quickly, and therefore were unable to take the prospective deportees with them. For example, in Investiya of 2 September 1944, it is reported that a crossroad at the front was blocked by about 1,500 exhausted children, ranging in age between 6 and 14 years. They were abandoned by the Germans in their hasty flight and were picked up by the advancing Red Army. Another issue of Investiya (11 November 1944), reports that near the town of Mukachevo, in the area of the Carpathian Ukraine, Red Army troops took away from the Germans about 200 Soviet children ranging in age from 2 1/2 to 15 years. For two months the Germans had moved them by railroad in an effort to take them to Germany. An earlier report claimed that Soviet troops liberated 30,000 civilians who were held in Finnish concentration camps in Petrozavodsk. 3/ Presumably, either all or many of these people would have been deported if they had not been overtaken by the Red Army. Kalinin oblast, for example, is receiving its repatriates from former enemy-occupied territory — Gomel, Mogilev, Smolensk, Latvia, Estonia, Lithuania. 4/

1/ Investiya, 11 November 1944, p. 4.

2/ New York Times, 13 December 1944.

3/ Soviet Monitor, 29 June 1944.

4/ Investiya, 25 November 1944, p. 2.

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7. Soviet Deportees Returning from Unspecified Countries. In November 1944, two transports arrived at Murmanak from Britain, carrying about 10,000 Soviet prisoners-of-war and citizens of the USSR freed by the Allied troops. Among the repatriates were women, and orphan children who will be placed in children's homes. 1/ Similarly, press reports of December 1944 state that "large groups of deported Belorussians are returning daily from German-occupied territories" and describe the enthusiastic reception by the local population. 2/ A later report claims that "hundreds of thousands of railwaymen have been freed from German slavery and have returned to the Soviet family." Whether among this number are included some of the repatriates enumerated above cannot be determined. 3/

1/ Investiya, 15 November 1944, p. 4.

2/ Pravda, 1 December and 13 December 1944.

3/ Soviet Embassy Information Bulletin, 9 January 1945, p.1.

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SECRETB. Foreign Workers in the Soviet Union

The Soviets not only are continuing their demands for the eventual employment of large numbers of German workers on reconstruction work in the devastated areas, but are already deporting to Russia workers from countries which they have recently defeated. Foreign workers are being brought into the Soviet Union in spite of protests from some of the governments of the countries concerned, and sometimes also despite lack of concurrence from non-Soviet members of Allied Control Commissions. Furthermore, in some instances, such deportations are said to cause manpower shortages in the defeated countries, thus, in turn, handicapping them in their efforts to fulfill the armistice terms. 1/

1. Deportations from Rumania. Written instructions regarding deportations to the USSR were issued by the Russian High Command to the Rumanian government on 7 January 1945 and were publicized in the Rumanian press on 17 January. According to these instructions, mobilization was to be carried out from 10 to 20 January, and was to cover all of German origin able to work, whatever their citizenship. Men from 17 to 45 years of age and women from 18 to 30, except those nursing children under one were to be included. 2/ According to the Russians, the deportation plan is not a mass transfer but a temporary draft of labor for the war effort. 3/ The number of persons to be affected by the order was estimated by a Russian representative of the Allied Control Commission at 80,000 men and women; 4/ but according to Rumanian sources, the number approximates 170,000. This latter figure appears to have more validity. According to the latest Rumanian census, the German minority in Rumania numbered some 744,000 persons, of these 157,000 were in ceded areas and 55,000 in northern Transylvania, and another 100,000 either joined the Nazis or left for Germany before the Russians reached Rumania. This leaves about 430,000 persons in the present German group in Rumania. According to Rumanian census estimates, 40 percent, or about 170,000 persons, of this remaining German minority are within the age groups prescribed by the Soviet deportation decree. 5/

1/ Current Foreign Relations, Nos. 15, 16 and 17, of 13, 20 and 27 January 1945, respectively; Source D, #238; and Source S, 16 and 17 January 1945.

2/ CID # L51509, 6 January 1945.

3/ Source D, #048.

4/ CID # L51509, 6 January 1945.

5/ Cable, Bucharest, 11 January 1945 (Restricted).

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By 19 January 1945, 57,000 persons had been mobilized and 26,700 deported. 1/ Their distribution by sex is not available, but among those leaving in one train, approximately as many women as men were reported. 2/ In addition, Rumanian sources claim that 130,000 Rumanian soldiers, taken prisoner by the Russians in the autumn of 1944, are now working in USSR. 3/ Apparently other categories of the Rumanian population may also be affected. The Grand Mufti of Rumania has recently informed Rumanian authorities that the Russians in Constantza have ordered a list of all the persons in that area of Tatar ethnic origin, irrespective of citizenship. This would include about 25,000 people. 4/ It is assumed that they will be deported for work in Russia.

2. Deportations from Bulgaria

At the request of the Russian Military Commander in Bulgaria, the director of the Bulgarian militia issued the following deportation order in January 1945: all Germans and Austrians in Bulgaria who are subjects of Germany, Hungary, Yugoslavia, Czechoslovakia, Rumania or Bulgaria, between the ages of 17 and 45 in the case of males and from 18 to 30 in the case of women, and who are capable of working, are to be mobilized for labor service. 5/ In Bulgaria this order affected only about 150 persons. Of these, 60 were sent to the USSR and 90 were released through the efforts of the Bulgarian Minister of Foreign Affairs. It appears that the order affected chiefly women of German origin married to Bulgarian nationals. 6/

3. Deportations from Hungary

Hungarian officials have recently reported that the Russians have deported large groups of men and women from the farming areas, and some authorities say that as many as 200,000 have been sent to Russia. 7/ But in view of the much smaller numbers deported from Rumania to date, the figure of 200,000 is probably somewhat of an exaggeration.

4. Deportations from Yugoslavia

Volkendeutsche in Vojvodina, Banat, Baosa and Baranja, in Yugoslavia, who remained after the German withdrawal are held in concentration camps. Some of them are being sent to Russia to work. 8/ No estimate of the number of such deportees is available.

1/ CID # L51560, 19 January 1945.

2/ CID # L51637.

3/ Source D, #236.

4/ CID # L52129.

5/ Cable, Sofia, #9, 4 January 1945 (Restricted).

6/ Source D, #114.

7/ Source S, 16 February 1945.

8/ Source D, #377.

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SECRETC. Soviet Trade Unions 1/

In view of the increased part Russia is playing in world trade union activities, it is interesting to trace briefly the development of the trade union movement in Russia and to note some of its characteristics.

Modern trade unionism in Russia had its origin in the political disturbances of 1905 and the ensuing strike wave. By December 1905, there were only 100,000 organized workers; a year later, membership had doubled, and there was "not a single large town in Russia where a trade union had not been formed." By 1907 there were 652 unions representing 245,555 members. Tables 1 and 2 (below) present the numerical growth of Russian trade unionism from 1905 to 1946.

The first national conference of trade union representatives in Russia was held on 24 September and on 1, 5, and 7 October 1905. A second conference was convened at the end of February 1906, but the third did not take place until June 1917. This long lapse was due to the fact that after 1907 the Tsarist government applied a policy of suppression. As a result, the membership in Moscow shrank from 48,000 in 1907 to 7,000 in 1909. In St. Petersburg, there was a decline from 51,782 members in 1907 to 29,300 members in July 1908. By the end of 1909, the trade union movement had practically ceased to exist. A brief revival in 1911-13 was terminated during the first World War. By the winter of 1916-17 there were "not more than 1,500 members in what we would call real labor unions in Russia."

After the February Revolution in 1917, factory committees sprang up everywhere and the trade unions grew rapidly. Early in 1917 trade union membership reached 700,000. Rapid growth continued during the years immediately following the Revolution and is apparent from the number of workers represented at Trade Union Conferences and Congresses:

Number of workers represented

3rd Conference (June 1917)	1,475,429
Ist Congress (January 1918)	2,532,000
IIInd Congress (January 1919)	3,638,812
IIIrd Congress (April 1920)	4,326,000

By the beginning of 1921, trade union membership had increased to almost 7 million.

1/ This discussion is a summary of the material in the forthcoming The Development and Functions of Soviet Trade Unions, R & A No. 2741, which gives all sources.

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Table 1. NUMBER OF WORKERS IN RUSSIAN TRADE UNIONS
FROM 1905 to 1946

Date	Number of members	Proportion of members to total number of workers in industrial labor force (in percent)
1905, December	100,000	
1906, December	200,000	
1907, January	245,555	3.5
1916-1917	1,500	
1917	693,278	
1918	1,946,235	
1919	3,706,779	
1920	5,222,006	
1921	6,856,900	
1922	6,740,000	90.0
1923	4,577,400	90.0
1924	5,621,000	90.0
1925	6,604,700	93.0
1926	8,303,000	
1927	9,624,800	94.0
1927, July 1	10,250,000	
1928	10,995,000	
1930	13,000,000	
1933	15,900,000	78.4
1934, October 1	17,947,300	81.1
1935, October 1	19,041,000	84.6
1937, April 1	21,999,000	
1937	23,000,000	
1938	23,788,000	86.0
1939		84.0
1940	25,500,000	85.0
1941	25,500,000	90.0
1942	26,000,000	
1943	23,000,000	
1944	22,000,000	90.0-95.0
1946	27,000,000	

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Table 2. MEMBERSHIP OF TRADE UNIONS, BY INDUSTRIES a/

Industrial branches :	1907 :	1917 :	1921 :	1923 :	1935, 1 October :
Agricultural and forest workers	-	577	260,000	253,600	1,995,900
Workers in industry b/	173,752	273,934	2,508,900	1,804,500	8,066,500
Building workers	22,323	7,788	299,500	107,200	1,763,600
Transportation and Communication c/	-	3,027	1,694,600	984,500	2,810,400
State, public institutions and commercial enterprises	-	14,389	1,904,900	1,245,100	4,176,900
Miscellaneous d/	32,475	6,494	289,100	182,500	892,300
Other	17,005	367,069			
Grand total	245,555	693,278	6,856,900	4,577,400	19,041,000

a/ No breakdown of trade union membership by industries is available for a period later than 1935.

b/ Among workers in industry are included the following: miners, paper, wood, leather, metal, food, sugar, textile, chemical and clothing workers, printers and others.

c/ Among those in transportation and communication are the following: water transport, railroad, local transport, and postal, telegraph and telephone workers.

d/ The miscellaneous group included municipal workers, hotel and restaurant workers, and others.

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With the introduction of the New Economic Policy in 1922, trade union membership began to fall, decreasing to 6.7 million by the beginning of 1923, and to 4.5 million in 1923. It should be pointed out, however, that "a large part of the reduction in membership at the beginning of the New Economic Policy was due to the exclusion of members of artsels, producers' cooperatives and communes, as well as single home craft workers (kustari), all of whom had previously been enrolled in the unions."

By 1923 the unions had recovered from the drastic change in economic organization caused by the New Economic Policy, and thereafter the growth in trade union membership was uninterrupted until 1942, rising from 5.6 million in 1924 to 26 million in 1942.

Due to special conditions arising out of the war economy - mobilization for the armed forces and the influx of large numbers of new workers into industry - there was a decrease in Soviet trade union membership during 1942-1944, inclusive. It is, therefore, surprising that as of the beginning of 1945 membership is claimed to be 27 million. A possible explanation may be that trade union members who have been mobilized into the armed forces are retained on union rolls. In this connection it is interesting to note that in the administration of State social insurance payments, time spent in the Red Army, Navy or partisan units is considered as time spent at work. 1/

Table 3 (below) presents the proportion of organized workers, in comparable industries, for 1926, 1935, and 1945-44. Although the absolute number of workers in the unions of the various industries during the war years is not available, there are indications that the proportion of workers in the various trade unions is lower than before the war. For example, in 1943 the lumbering and building trades workers were only 60 percent organized, the poly-metallic industry workers 67 percent organized, and the medium machine-building industry workers 74 percent organized. No exactly comparable data are available for the immediate prewar period, but it is known that 75.6 percent of the workers in the building trades were organized in 1935, and 89.8 percent of those in the medium machine-building industry. True for 18 January 1944 reported that in June 1942 only 65 percent of the workers in the machine-tool industry were members of trade unions. However, at the end of 1943 the proportion of unionized workers in this industry had risen to 90 percent.

1/ Pravda, 1 September 1944, p. 2.

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In 1943 Trud announced a new drive to enroll war workers in labor unions, pointing out that only 68.6 percent of the workers in transport, 66 percent of those in the basic chemical industry, and 76.9 percent of labor in wool weaving, were union members. By 1 April 1944 the trade unions of several industries, ammunition and the cotton industry of Moscow, Ivanovo and Leningrad oblasts and of the newly liberated districts, reached the prewar proportion of membership, but most of the trade unions have apparently let the proportion of membership to labor employed in the industry decline. This is regarded as a serious matter by the central trade union leadership, which is devoting a great deal of attention and energy to remedying the situation.

Table 3. PROPORTION OF ORGANIZED WORKERS, BY INDUSTRIES
(In percent)

Industrial branches	1 October :		1 October :
	1926	1935	1943-1944
Forest workers	-	60.8	60.0 (1943)
Miners	85.6	81.5	87.0 (Oct. 1943)
Leather	95.6	88.2	83.7 (April 1944) 84.3 (March 1944)
Metal	92.2	88.7	91.9 (April 1944) 81.3 (April 1944) 87.0 (1943) 74.0 (1943) 90.0 (Dec. 1943)
Food workers	92.1	77.9	73.0
Textile	96.6	87.9	76.9
Chemical	93.6	86.1	75.0 (Aug. 1944)
Clothing	92.2	90.8	91.3 (April 1944)

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DEPARTMENT
OF
STATE

INCOMING
TELEGRAM

DIVISION OF
CENTRAL SERVICES
TELEGRAPH SECTION

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EDM-1603

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

DIVISION OF
CENTRAL SERVICES
TELEGRAPH SECTION

155 APR 4 AM 9 20

Dated April 3, 1945

Rec'd 11:58 a.m.

DC/L
LIAISON

Secretary of State

Washington

668, April 3, 5 p.m.

FOR SECRETARY OF TREASURY FROM ADLER,

REUR 515, March 30. Have informed O.K.Yui
accordingly and he has expressed full approval of
Dr. Chi's assignment.

ATCHESON

RB

EXECUTIVE OFFICE OF THE PRESIDENT
WAR REFUGEE BOARD
WASHINGTON 25, D. C.

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OFFICE OF THE
EXECUTIVE DIRECTOR

APR 3 - 1945

My dear Mr. Secretary:

I am pleased to send you herewith a copy
of the report of the War Refugee Board for the week
of March 19 to 24, 1945.

Very truly yours,

William O'Dwyer
William O'Dwyer
Executive Director

The Honorable,

The Secretary of the Treasury.

Enclosure.

Report of the War Refugee Board
for the Week of March 19 to 24, 1945

EVACUATION AND RELIEF OPERATIONS FROM SWITZERLAND

The results of the meeting of the President of the International Red Cross with German officials were reported by Representative McClelland in a cable in which he indicated that Bueckhardt's principal achievement was the obtaining of permission for Intercross delegates to be stationed in all major camps, both for Schutzhaeflinge and for prisoners of war, to exercise personal supervision of relief distributions. Presumably on grounds of military security, since certain numbers of Schutzhaeflinge are employed in war industries, this permission was conditioned on the delegates remaining in these camps until the end of the war and not traveling back and forth to Switzerland. Willingness on the part of the Germans to permit deliveries of relief of all types by truck or other means of transport to Schutzhaeflinge without regard to nationality or race was indicated, although it was requested that, in view of the difficulties of the food supply situation for the Germans themselves, any such distributions of relief, especially to marching columns along the roads, be discreetly conducted. Appropriate delegates for the camp posts are being selected by Intercross and will be sent into Germany as rapidly as possible.

With respect to the evacuation of Schutzhaeflinge, final detailed authorization from Berlin as to the specific persons whose evacuation by Intercross will be permitted has not as yet been received, although it was agreed in principle that women, children, elderly and sick people, regardless of religion or race, would be permitted to leave. Apparently there was a general attempt to create the impression that throughout the past years of mass arrests and deportations of civilians to Germany from occupied countries the SS was really only an executive organ and that it would be willing to allow useless Schutzhaeflinge to leave Germany now that the internal housing and food situation is becoming difficult. No transportation for such evacuations would be furnished by the Germans, and they regarded unfavorably the suggested use by Intercross of parcel ships returning from Lübeck to Göteborg, on the ground that these waters are thickly mined and they do not wish to be held responsible for the sinking of any ships loaded with evacuees. It is the intention of the International Red Cross to utilize for this purpose returning prisoner-of-war relief trucks, although it is an inadequate and difficult method of evacuation, particularly for persons who are ill. The suggestion was made by Bueckhardt that the inmates of Ravensbrück, numbering some 30,000 or more women of various

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nationalities, be among the first to be evacuated, both because conditions in that camp are very bad and because of the camp's proximity to the approaching battle front.

It was Representative McClelland's conclusion that the Board can most effectively act to advance this two-fold program by assisting in the procurement of transportation equipment and by organizing arrangements for the evacuation from Switzerland of groups arriving there who are for the time being non-repatriable.

EVACUATIONS FROM SWITZERLAND

We were advised by Representative Mann that the United Nations Relief and Rehabilitation Administration has indicated that it can provide doctors, nurses, and welfare workers to accompany the two groups of Bergen Belsen and Theresienstadt evacuees on the journey from Marseilles to their destination. Inquiry was made, however, as to whether such personnel can be recruited by the Board to accompany the refugees from Switzerland to Marseilles, and the suggestion was made that such personnel should, if possible, accompany the refugees to their destination, where they would be replaced by UNRRA personnel, rather than only to Marseilles.

SUGGESTED MEASURE TO PROTECT DETAINEES

The Intergovernmental Committee representative in Italy has submitted for consideration a proposal suggested by an individual who recently escaped after four and one-half years in German concentration camps. Briefly, the proposed plan envisages an intensive campaign by leaflets and broadcasts to invite German camp guards to procure from persons in their power statements attesting to the humane treatment which they have received, such statements, subject to confirmation after their release by the persons who signed them, to be taken into consideration in trials of war criminals. It was declared by the individual in question that such action might well save large numbers of detainees from ill treatment and death. In support of the plan it was pointed out that it cannot react unfavorably on those whose protection is sought and that favorable psychological conditions would be found in currently lowering German morale.

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INTERGOVERNMENTAL COMMITTEE

In connection with the consideration now being given to the estimated expenses of the Intergovernmental Committee for the year 1945, our Embassy in London was recently informed by cable that it is the feeling of the War Refugee Board that the estimate of 2,000,000 pounds for operational expenses may be inadequate for the needs which the Committee will have to meet this year. The suggestion was made that the presentation to Congress of a recommendation with respect to the contribution to be made by this Government for such expenses be withheld pending a review of the plans and estimates of the Committee by the newly appointed United States Government representative on the Committee. Information has since been received from the Embassy concerning the suggestion made by the British Foreign Office that the Intergovernmental Committee seek to obtain voluntary contributions from other member governments to finance its operational requirements for 1945. The view was expressed by the Foreign Office that, with the liberation of Europe, the activities of the Committee can be expected to become considerably more extensive, and while it is not the intention of the Government of Great Britain to avoid any obligation, the continued payment of all of the Committee's operational expenditures by the British and United States Governments will create an increasingly inequitable situation. It was pointed out that the undertaking of the two governments at the Bermuda meeting to underwrite jointly the operational expenditures of the Intergovernmental Committee was a temporary measure in order to get the Committee's relief activities under way and that the undertaking accordingly should not become nor be looked upon as a permanent measure. The Embassy was advised by cable of this Government's accord with the British suggestion and of our agreement that the Intergovernmental Committee should request contributions for this year from other member governments.

William O'Dwyer
William O'Dwyer
Executive Director

Ankara
Dated April 3, 1945
Rec'd 10:16 p.m., 4th

Secretary of State,

Washington.

450, April 3, 7 p.m.

Inasmuch as there is no War Refugee Board representative in Turkey the subject raised in our telegram No. 19 of March 29, 12 noon was discussed today by a member of the Embassy staff with the official of the Turk Ministry of Foreign Affairs charged with such matters. This official confirmed that the 134 Jewish refugees on the SMOTTEINGHELM were without identification papers and said that they had been put on the vessel by the German Government without the knowledge or acquiescence of the Turk Government. The official added that under Turk law it would be impossible to allow these refugees to stay here and that the British Government through the British Embassy in Ankara had been asked whether it could disembark these people at Port Said in order that they might be transported to Palestine. The official added that if the American and British Governments were to guarantee that these refugees would be accepted elsewhere the Turk Government might be disposed to permit them to land and remain for a short time in Turkey.

To this last suggestion the member of my staff pointed out that the Embassy had no authority to make such a guarantee and that it was entirely for the British Government to decide whether these people should be admitted to Palestine. In conclusion the Turk official was reminded of the unfortunate effect which Turkey's refusal to permit these refugees to land might have on public opinion in the United States particularly since Turkey is now a member of the United Nations.

Sent to London repeated to the Department as
No. 450.

PACKER

JMS

176

MB-1866

PLAIN

Lisbon

Dated April 3, 1945

Rec'd 10:06 p.m.

Secretary of State,
Washington.

713, Third

WHB 373 JDC 209.

FOR LEAVITT FROM HAROLD THOM

899 persons arrived Palestine from Italy.

Jerusalem requests you remit Central Bank 30,000
pounds for repayment funds left by this group in
Italy.

CHUCKER

186M

177

MB-1858

PLAIN

Lisbon

Dated April 3, 1945

Rec'd 10:07 p.m.

Secretary of State,
Washington.

714, Third

WHB 375 JDC 211 FOR LEAVITT FROM HAROLD THOM

Saly advises "Red Cross delegate recently visited
Budapest estimates present Jewish population approximately
150,000 besides thousands reappearing from deportation
labor and concentration camps."

CHUCKER

RB

PLAIN

178

April 3, 1945

AMEMBASSY

LOWEN
2075, Third
FOR EARL G. HARRISON

Recommendation on this Government's contributions to administrative and operational expenses of IGC for 1945 has gone to Bureau of Budget today. Will do everything possible to secure consideration and final action by Bureau of Budget before meeting on April 11th. Reference Embassy's 3231 March 28.

You are authorized to vote favorably on acceptance of proposals of French Government (your 3287 March 30) at meeting of IGC April eleventh.

SENTINUS
(GHW)

WHR:GLW: aj
4/3/45

BO WE BF

PLAIN

179

Lisbon

Dated April 3, 1945

Rec'd 10:05 p.m.

Secretary of State,

Washington.

713, Third

WHR 374 JDC 210 FOR LEAVITT FROM HAROLD THORP

Greenleigh advises \$300,000 received by Brussels Committee which now named Aide aux Israelites Victimes de la Guerre. Please change records accordingly.

CROCKER

RE

NOT TO BE RE-TRANSMITTED

COPY NO. 4

181

PLAIN

Lisbon

Dated April 3, 1945

Rec'd 6:43 a.m., 4th

Secretary of State,

Washington.

714, Third.

VMS 375 JDC 211 FOR LEAVITT FROM HAROLD THORN.

Sally advises "Red Cross delegate recently visited

Bulancet estimates present Jewish population approximately

180,000 besides thousands reappearing from deportation

labor and concentration camps".

CROOKER

VMS

SECRET

OPTEL No. 107

Information received up to 10 a.m., 3rd April, 1945.

MILITARY

1. WESTERN FRONT.

Southern Sector: Armoured elements of 7th U.S. Army reached Western outskirts of Wursberg. Heavy fighting taking place in Aschaffenburg where stubborn resistance being met.

Northern Sector: Infantry of 20th U.S. Corps reached point six and a half miles south of Cassel. 3rd U.S. Armoured Division captured Paderborn and Lippstadt contacting units of 9th U.S. Army. Units of 8th Corps captured Lengerich. 7th Armoured Division advanced 4,000 yards and captured Rhine. Guards Armoured Division advancing 12 miles towards Northern held up by badly cratered roads and demolished bridges.

2. EASTERN FRONT.

Southern Sector: In Czechoslovakia Russians claim advances to within five miles of Bratislava and Piestany (about 50 N.E. of Bratislava) and have occupied important railway station Topolcany (east of Piestany). In Hungary oil centre Nagykanizsa (S.W. of Lake Balaton) captured.

3. MEDITERRANEAN FRONT.

British Commandos made successful attack on Isthmus south of Lake Comacchio, have advanced to depth of nearly three miles and captured about 150 prisoners.

4. BURMA.

Village six miles south of Kyaukse occupied. British troops reached point two miles east of Gektek viaduct 20 miles S.W. of Kynukme.

AIR

5. WESTERN FRONT.

1st. (Additional Results). 737 fighters and fighter bombers (5 missing) operated over Central and Southern battle areas. 95 locomotives and nearly 1,000 road and rail vehicles destroyed or damaged.

2nd. SHAEF (Air). 116 bombers dropped 156 tons on barracks and M.T. workshops in Southern battle area and 16 tons on targets in La Rochelle area. Results good. 1235 fighters and fighter bombers (9 missing) operated over battle fronts, road and rail vehicles 950 destroyed or damaged. Enemy casualties 21,000. 15. Mosquitoes attacked shipping off Norwegian coast. 4,000 ton tanker set on fire and numerous hits scored on six ships ranging from 2500 to 4000 tons.

2nd/3rd. (night). 251 Bomber Command aircraft despatched (1 missing) including Berlin 54, Magdeburg 50 and bomber support 77.

6. MEDITERRANEAN.

31st (night). 87 Liberators (1 missing) dropped 290 tons on Graz railway centre and 107 light bombers (1 missing) attacked railway and other targets in North Italy and Yugoslavia.

1st. 455 escorted heavies (3 bombers and 3 fighters missing) dropped 1071 tons on railway centres and bridges in Austria, Yugoslavia and targets in North Italy. 190 medium bombers attacked railway bridges and ammunition dumps in North Italy. Results good. 994 light and fighter bombers and fighters (7 missing) attacked communications in North Italy, Yugoslavia and Austria. Enemy casualties 12,000.

OPTEL No. 106 not sent to Washington.



DIVISION OF RESEARCH AND STATISTICS

TREASURY DEPARTMENT

WASHINGTON 25

April 4, 1945

Dear Mr. Secretary:

As I told you over the phone this afternoon, the market has been quite strong ever since your announcement of the maturities of the new issues. After being moderately weak last week and Monday morning, it turned around between one and two o'clock on Monday afternoon and has been rising ever since.

The following table shows the recent price changes, in thirty-seconds, for each of six issues -- two in the area of the market most affected by the new 1-1/2's, two in the area most affected by the new 2-1/4's, and two in the area most affected by the new 2-1/2's:

Recent Price Changes in
Selected Government Securities

		Last week and early Monday	Late Monday, Tuesday, and Wednesday
		(in thirty-seconds)	
2%	3/15/50-52	-1	+10
2%	9/15/50-52	-1	+11
2-1/4%	9/15/56-59	-8	+11
2-1/2%	6/15/62-67	-11	+7
2-1/2%	3/15/66-71	-7	+5
2-1/2%	9/15/67-72	-8	+9



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- 2 -

As you will see from the preceding table, during last week and Monday morning, the market was rather weak in the sectors where the new 2-1/4 percent and 2-1/2 percent bonds will fall, but quite stable where the new 1-1/2 percent bond will fall. Since Monday afternoon, it has been strong in all sectors, but the strength has been most pronounced in the area of the new 1-1/2 percent bond. The market closed today at its high for the move.

I am enclosing a table showing the closing prices and yields of the issues used in the table in the text of this letter.

Since talking to you over the phone, Mr. Kilby has told me that Mr. Bell called him from New York and instructed that the new issue of Treasury bills should not be increased.

Very truly yours,

Henry C. Murphy
Henry C. Murphy

Honorable Henry Morgenthau, Jr.
Sheraton Plaza Hotel
Daytona Beach, Florida

Enclosure

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Prices and Yields of
Selected Issues of Government Securities(Mean prices at the close of the market,
Wednesday, April 4, 1945)

Description		Price	Yield
2%	3/15/50-52	102.28	1.40
2%	9/15/50-52	102.28	1.45
2-1/4%	9/15/56-59 (restricted)	102.14	2.01
2-1/2%	6/15/62-67 (restricted)	102.06	2.34
2-1/2%	3/15/66-71 (restricted)	101.11	2.42
2-1/2%	9/15/67-72	102.18	2.35

Office of the Secretary,
Division of Research and Statistics.

April 4, 1945

April 4, 1946

Dear Mr. _____:

I should have liked, were it possible, to shake the hands of every War Bond volunteer and particularly the many thousands of loyal citizens who are serving as the nation's field commanders in war financing in every city, county and town.

You have given unstintingly of your time and effort for this vitally important wartime work, often at great personal sacrifice. I want you to know how much your efforts are appreciated by your Government.

As a result of your patriotic activity a total of 165 billion dollars in Government securities has been purchased by non-bank investors, of which 54 billions was bought by individuals alone. Today, more than 85 million Americans hold a direct stake in their Government. You have also contributed mightily to the stabilization of prices and the cost-of-living, and helped to maintain our economy on an even keel. Of this accomplishment, you may well be proud.

The Seventh War Loan will be our greatest challenge to date, with its quota of 7 billion dollars for individuals, 4 billions in E Bonds alone. I am confident you will accept this new responsibility, as you have those in the past, with eagerness and determination -- eagerness to outdo your previous best and show that the job can be done; determination to keep the faith with our fighting men who are counting on us at home to see that they get what is needed to finish the job.

Sincerely,

WALTER D. WINTERROW JR.

Mr. _____
War Finance title
Street Address
City and State

4/4/46

✓
100
April 4, 1945

MEMORANDUM FOR THE SECRETARY

From: Mr. Blough

(For your information; no action required)

Attached are copies of two documents submitted about March 31 to Chairman Doughton for the Joint Committee on Internal Revenue Taxation for Postwar Taxation, and presumably distributed to the Committee for their use at the next meeting scheduled for Tuesday, April 10.

One of these documents is Part 8, relating to "suggestions for speeding up refunds," previously outlined in brief in Part 7, and explains in some detail the methods for carrying these into effect.

The other document is a special memorandum summarizing the suggested tax changes to be effective after the end of the war in Europe. These changes were previously suggested in Part 7 along with certain other materials. It was deemed desirable to submit this special memorandum so that the Joint Committee would have in convenient form the suggestions of the two staffs for the interim period between the end of the German war and the end of the Japanese war.

Roy Blough

Attachments

145
Lil
April 4, 1945MEMORANDUMTo: Mrs. Klotz
From: Mr. Gaston

Secretary Wallace called me at 1:20. I gave him Secretary Morgenthau's veto on Donald Nelson and told him of the Secretary's suggestion of the New York banker who was helpful on the Swedish negotiations. The man's name is Stanton Griffis. I also mentioned Laughlin Currie, Flanders of the Federal Reserve Bank of Boston, Clifford Durr of the FCC and Harriner Eccles, all of which names had been mentioned to me by Harry White. Wallace was enthusiastic about Durr, who was on the legal staff of the RFC from 1933 to 1941, and for the last five years was assistant general counsel, and vice-president and a director of the Rubber Reserve Corporation and general counsel and director of the Defense Plant Corporation from the time of their organization in 1940 until he was appointed to the FCC in 1941.

WJ

28

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*No part of this print to be released or published by any person
unless specifically authorized by the Joint Committee on Internal
Revenue Taxation.*

PRELIMINARY PRINT
STUDIES IN POST-WAR TAXATION

SUGGESTIONS FOR SPEEDING UP REFUNDS
FROM CARRY-BACKS, AMORTIZATION RECOMPU-
TATIONS, AND POST-WAR CREDITS

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 31, 1945

PART 8



UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1945

50128

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JOINT COMMITTEE ON INTERNAL REVENUE TAXATION FOR
POST-WAR TAXATION

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(2)

Revised 1945
 Printed by the Government Printing Office
 16-40000-1

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**SUGGESTIONS FOR SPEEDING UP REFUNDS
FROM CARRY-BACKS, AMORTIZATION RECOMPUTATIONS,
AND POST-WAR CREDITS**

I. INTRODUCTION

This report discusses in more detail the changes suggested in Part 7 of these studies for speeding up the benefits from tax refunds and credits to take effect in 1945, assuming victory in Europe this year. The suggested tax revisions are designed to improve the cash position of business in the reconversion period without decreasing its ultimate tax liabilities. The suggested revisions apply to tax refunds resulting from the carry-back of net operating losses and unused excess-profits credits, the recomputation of amortization deductions, and the post-war credit of 10 percent of excess-profits taxes.

II. SPEEDING UP REFUNDS FROM CARRY-BACKS

A. THE NEED FOR PROMPT REFUND

If, in any year, a corporation or individual engaged in business sustains a net operating loss, or a corporate taxpayer has an unused excess-profits credit, the loss or the unused credit may be carried back to the 2 preceding taxable years.¹ The amounts carried back are absorbed, in order of time, as deductions from gross income in the case of operating losses, or as offsets to taxable excess profits in the case of unused credits.² A taxpayer entitled to a carry-back will recompute his tax liability for the earlier years, with the inclusion of the increased deductions or credits, and make an appropriate claim for refund of the overpayment of taxes.

The announced purpose of the carry-back provisions in the Revenue Act of 1942 was to permit war-induced costs and expenses to be deducted from income at normal wartime rates, even though such costs and expenses actually were to be incurred in later years.⁴ Under existing law a claim for credit or refund of taxes resulting from a carry-back is treated in the same manner as any other claim. The claim is filed and acted upon after the close of the taxable year. A final determination by the Bureau of Internal Revenue involves a

[illegible]

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complete audit of the claim, including consideration of the facts, questions of law, offsetting items, and other related matters. This administrative process may unavoidably require a considerable period of time after the year of loss or unused credit, ranging from 1 to 3 years, or much longer if litigation is involved. While the tax readjustment under the carry-backs will ultimately be achieved, it is clear that the refunds made available to the taxpayer through carry-backs will not, under existing law, be available as liquid assets at the time the loss or reduction in earnings is realized. Because losses and unused credits will often be accompanied by shortages of cash, earlier refunds would undoubtedly be of great importance for many taxpayers during the recovery period. They will make possible a quicker resumption of peacetime operations.

6. SUGGESTED CHANGES IN CARRY-BACK REFUND PROCEDURES

To make possible a prompt improvement in working capital position when losses and unused credits arise, the following plan is suggested, involving two mechanisms: (1) A deferment of current tax payments on the basis of anticipated losses and unused credits; and (2) a prompt payment of refund claims filed after the loss or unused credit has been sustained.

The first part of the plan, the deferment of current tax payments, would operate as follows:

1. A corporate taxpayer anticipating a loss or unused credit could, upon submission of an appropriate statement, elect to defer current payments of the preceding years' taxes.
2. In the statement filed, the taxpayer would be required to set forth reasonable grounds for anticipating the loss or unused credit. However, once the statement in proper form had been filed, and a receipt had been issued to the taxpayer evidencing the filing, the tax deferment would become immediately effective without any examination by the Government of the merits of the case.
3. The Commissioner of Internal Revenue would be empowered, but not required, to examine the statement. Should he find it to be patently unfounded or the ultimate collection of revenue to be in jeopardy, the deferment would be canceled.
4. The amount of the tax deferred could not exceed the refund that would result from the anticipated loss or unused credit.
5. The period of deferment would be long enough to permit the taxpayer to file a claim for refund after the year has ended and to have it acted upon by the Commissioner of Internal Revenue before the deferment expired.
6. Amounts of deferments in excess of the ultimate refund allowed would bear interest at 6 percent per annum. Deferments not in excess of the ultimate refund would bear interest at only half this rate (3 percent).
7. A flat 6-percent penalty charge would be added to the portion of the tax deferred in excess of 125 percent of the carry-back refund ultimately ascertained. However, the penalty would not

* This part of the proposal covers only the corporate taxpayer. Under the Current Tax Payment Act individuals are not a current payment basis, hence, already pay taxes on the basis of estimated income for the current year.

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apply to excessive deferments which are readjusted by the end of the taxable year in which deferment commences.

The second part of the plan, the prompt payment of refund claims, would operate as follows:

1. After the close of the year in which a loss or unused credit was incurred, the corporation or individual engaged in business would file a claim for the resulting refund on or after the date of filing the return for that year.
2. At the election of the taxpayer, a pre-audit net refund will be made available within 90 days from the filing of the claim. In the case of corporate taxpayers which had deferred tax payments in anticipation of the refund, this refund would be reduced by the amount deferred.
3. This net refund would be computed, without audit, on the basis of the taxpayer's claims and returns.
4. Subsequently, upon audit, any additional refund due would be paid or credited, and any amount found to have been erroneously paid would be recoverable on notice and demand, without suit.

An example of the operation of this proposal for a corporation subject only to the 40-percent normal tax and surtax follows:

March 15, 1945.—The M corporation files its 1944 calendar year income-tax return showing a tax liability of \$100,000. It elects to pay in quarterly installments and remits \$25,000. The balance of \$75,000 is due in equal installments on June 15, September 15, and December 15, 1945.

June 15, 1945.—It pays the second installment of \$25,000 on its 1944 tax.

September 15, 1945.—The corporation's contracts are cut back. The plan being in operation, it estimates that it will suffer an operating loss in 1945 of \$200,000. The tax effect of this loss, when carried back against 1943 income, would be a refund of \$80,000. The corporation files a statement with the collector in its district electing deferment of the two remaining installments of its 1944 tax amounting to \$50,000.

September 15 and December 15, 1945.—The corporation has received from the collector a receipt indicating that the statement for deferment has been filed. The corporation, therefore, does not pay the remaining two installments.

March 15, 1946.—The corporation files its 1945 calendar year income tax return which shows an actual net operating loss of \$220,000 instead of the \$200,000 previously estimated. It submits a claim for refund of 1943 taxes of \$88,000—the tax effect of the \$220,000 loss.

Within 90 days from March 15, 1946.—The Commissioner prepares a certificate of overassessment for the year 1943 of \$88,000—the amount claimed as a refund by the M corporation. This amount, less the \$50,000 represented by the deferred installments due on September 15 and December 15, 1945, is refunded.

Subsequent to this refund.—The Commissioner audits the return and claims in the usual manner. It is determined that an erroneous refund of \$2,000 was made. Upon notice and demand the taxpayer

* For purposes of this example, interest on the tax deferment is not assumed.

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must pay this amount. If he does not agree with the Commissioner's determination he can file a claim for refund, followed by a suit, in the usual manner.

The procedures outlined above are indicated only to illustrate, in a general way, the procedures to be followed.

C. DISCUSSION OF THE SUGGESTED PLAN

1. Risk of revenue losses.

It is most important to recognize in this plan, as in any such plan, that the present audit of claims prior to allowance is to be abandoned. Predictions, estimates, and allowances of claims without prior audit are necessarily involved. Since speed is of the essence, mistakes and abuses will almost certainly occur and revenue will undoubtedly be lost in some cases. This is inherent in the proposal, for if the scheme were completely hedged around with protection for the Government it would not meet the basic objective of speedy adjustment. However, it is not believed that the revenue losses involved would be large in proportion to the total amounts properly allowable, or excessive as compared with the benefits that might be derived.

2. Eligibility for tax deferment.

To become eligible for tax deferment, the taxpayer would be required to furnish a statement, under penalties of perjury, setting forth facts and estimates showing a reasonable expectation that a specified loss or unused credit will be incurred. Although the taxpayer would be required to indicate the events giving rise to the anticipated refund, it would be impracticable and inequitable to make eligibility for tax deferment contingent upon the occurrence of only certain specified events.

The plan contemplates the imposition upon the taxpayer of the responsibility for a reasonable determination of the amount of tax deferment. If responsibility in this matter were placed upon the Commissioner, relief would come too late. Were the Commissioner required to be satisfied that a sufficient showing of a reasonable anticipation of a refund had been made, too much time would elapse prior to deferment to afford much hope that the deferment would have any great effect. For example, if a calendar-year taxpayer's war contracts were terminated at the beginning of September and a loss for the year appeared probable, it would be virtually impossible to complete action on an application until after the September 15 and December 15 installments of the preceding year's taxes had been paid.

3. Prevention of abuses in tax deferment.

Since the determination of eligibility is to be left with the taxpayer, the formulation of some type of control to avoid abuses is essential. Under the plan, the Commissioner would be empowered, but not required, to examine deferment claims and to cancel any deferment, in whole or in part, should he have reason to suppose that the stated basis for deferment is clearly inadequate or that ultimate collection of the taxes due is in jeopardy.

In the absence of any effective administrative control by an audit prior to deferment, and as a means of discouraging unfounded deferments by the taxpayer, the plan provides a penalty upon substantially

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excessive tax deferment. The penalty would be a flat 6 percent of deferred amounts in excess of 125 percent of the carry-back refund ultimately found to be due. To prevent the penalty from operating too harshly, it would not apply where excessive deferments are readjusted by the end of the taxable year in which tax is deferred.

4. Interest on deferred tax payments.

Under the plan, all deferments of tax would bear interest. If the deferment exceeded the ultimate refund, the usual 6 percent per annum rate would apply to the excess. Deferments not in excess of the ultimate refund would bear interest only at half the usual rate on past due taxes (3 percent). This would discourage taxpayers from using the deferment privilege unless there is real need for cash. In the absence of an interest charge strong pressure would be exerted upon corporate officers to claim deferment even if no need existed for its benefits. The difficulties connected with the operation of the plan are such as to warrant limitations of its benefits to firms without easy access to alternative sources of funds. Moreover, the policy of charging interest would be in harmony with the existing policy reflected in the provision that refunds due to carry-backs do not bear interest prior to the filing of a valid claim for refund.¹ If interest were not charged upon deferments, those who deferred payments would, in effect, be receiving more interest upon carry-back refunds than those who waited and filed claims after the loss or unused credit arose. On the other hand, the suggested rate of interest on proper deferments is low enough not to discourage taxpayers in real need of funds.

5. Payment of pre-credit refunds.

Upon the election of the taxpayer (either corporate or individual) the net amount of the refund claimed after the end of the year of loss or unused credit would be credited or paid within 90 days from the filing of the claim and current return. Proper adjustment would be made in any case where tax has been deferred in anticipation of the claim. There would be no opportunity within so short a period to make any audit of the claim. The time involved would permit no more than the clerical operations involved in computing the refund on the basis of the taxpayer's returns and claims filed.

As a minimum safeguard, the Commissioner should be empowered to recover, upon notice and demand, any refunds subsequently determined on audit to have been erroneous. In the event a refund is ultimately found not to be due, this provision would restore the Commissioner and the taxpayer as promptly as possible to the same position as though the claim had been audited prior to payment in the usual manner and disallowed.

It is recognized that by providing for payment of claims without audit, in addition to the provision for tax deferment, the amounts involved and the risk of loss of revenue are increased. However, various considerations indicate the desirability of this additional feature. Primarily it will serve to eliminate incentive to taxpayers to claim deferments of tax solely because it would be the only way of obtaining a prompt refund. Were taxpayers to be faced with the choice between a tax deferment or a possible delay of several years

¹ Internal Revenue Code, sec. 207 (a).

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before a refund claim would be paid, many would seek the deferment even though they were in no need of cash. However, if such taxpayers know that a refund would be available within 90 days from the filing of a claim, the deferment procedure would not force itself upon them. Moreover, this feature would be a means of benefiting unincorporated business and would also offer an increased measure of benefit to taxpayers whose earnings decline moderately in one year and sharply in the next, so that the tax that may be deferred in the year of sharp decline is relatively small and the deferment, without the additional refund, would offer little improvement in cash position. Since the claims for refund will be made only after the close of the year of loss or unused credit, the largest element of uncertainty and potential abuse in the tax-deferment proposal would be absent.

2. Review by the Joint Committee on Internal Revenue Taxation.

Under present law refunds in excess of \$75,000 must be reported to the Joint Committee on Internal Revenue Taxation prior to payment. The objective of speeding up the refunds could not be met unless the refund procedure with respect to this special class of pre-audit refunds were amended to eliminate the committee's review prior to payment. Since such refunds would be paid prior to audit, conformity with existing policy would require a provision that such refunds be reported to the committee after payment.

III. SPEEDING UP REFUNDS FROM RECOMPUTATION OF AMORTIZATION DEDUCTIONS

A. THE NEED FOR PROMPT REFUNDS

Another problem, somewhat akin to that of allowing carry-back refunds, is involved in the recomputation of amortization allowances with respect to emergency facilities. The tax law permits taxpayers to amortize emergency facilities over a 5-year period. This period may be shortened if the emergency period is terminated, or if the particular taxpayer's facilities cease to be necessary in the interest of national defense, within the original 5-year period.¹ An election to exercise this right must be filed by the taxpayer within 90 days after the end of the emergency period or the date of the certificate of non-necessity. The resulting recomputation of the taxes of earlier years is made and a claim for refund is filed. The examination of this claim for refund by the Commissioner would be subject to most of the same unavoidable delays that prevail now in the case of the carry-backs. Much the same reasons of policy favor prompt allowance.

B. SUGGESTED CHANGES IN REFUND PROCEDURE REGARDING AMORTIZATION RECOMPUTATIONS

It is suggested that claims for refund on account of recomputation of amortization allowances, either through issuance of non-necessity certificates or termination of the emergency period, be allowed within 90 days, on the basis of the taxpayer's claim and returns. These allowances would be subject to recovery on notice and demand if subsequent audit should disclose an erroneous allowance. This procedure is similar to that suggested in the case of pre-audit refunds upon carry-back claims, and is subject to much the same considerations.

¹ Internal Revenue Code, sec. 124 (5).

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IV. CURRENT ALLOWANCE OF EXCESS-PROFITS POST-WAR CREDITS, AND ADVANCE PAYMENT OF POST-WAR BONDS

A. THE NEED FOR EARLY AVAILABILITY OF POST-WAR CREDITS

For 1942 and subsequent taxable years, and also for some taxable years beginning in 1941 and ending in 1942, the present law provides that every taxpayer who has paid an excess-profits tax shall be entitled to a post-war credit. Generally the amount of the credit is equal to 10 percent of the excess-profits tax liability for the taxable year. Within a short time after the payment of the excess-profits tax for a given year, non-interest-bearing United States bonds must be issued to every taxpayer which does not elect to take the post-war credit currently in the form of the debt-retirement credit. These bonds are non-negotiable until the date of cessation of hostilities. Although redeemable at the option of the United States at any earlier date on 2 months' notice, the bonds will mature on December 31 of successive years beginning with the second calendar year and extending to the fifth calendar year after cessation of hostilities, in the order of the taxable years giving rise to the post-war credit for which they were issued. For example, if the war should end in 1946, bonds based on 1941 and 1942 credits would not mature until December 31, 1945.

Although one of the purposes of the post-war credit was to provide a fund for reconversion,¹ present provisions governing the negotiability and maturity of the post-war credit bonds are inadequate to achieve this purpose. Taxpayers whose contracts are terminated upon cessation of hostilities in Europe will not be able to negotiate these bonds until victory has been achieved in the Pacific. Thus they will have to obtain cash from other sources to meet their reconversion costs. Moreover, taxpayers reconverting after total cessation of hostilities will not have received, in most instances, all the bonds to which they will ultimately be entitled. They do not become entitled to the full post-war credit for any year until the excess-profits tax has been fully paid. Generally, final payment of the tax is made in December of the year following the year for which the tax liabilities accrue.

Moreover, the provisions of existing law present substantial administrative difficulties which enactment of the suggested legislation would eliminate. In addition to the sizable task involved in issuing the bonds within 3 months from the date of payment of the tax to the many thousands of excess-profits taxpayers, every subsequent adjustment of tax liability for the year may require the cancellation of previously issued bonds or the issuance of supplemental bonds. Also, in renegotiation proceedings where the taxpayer is credited with the total amount of excess-profits tax paid, it becomes necessary to call in and cancel bonds which may have been issued for the post-war credit.

¹ This provision is not desirable. It is desirable to provide a fund that will be available for purposes of post-war reconstruction after the war is peacefully concluded. S. Rep. No. 1461, 75th Cong., 2d sess., p. 26.

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D. SUGGESTED CHANGES IN PROCEDURE REGARDING THE POST-WAR CREDIT

To make the post-war credit available for reconversion operations at the time of its greatest need, it is, therefore, suggested that after cessation of hostilities in Europe (1) the post-war credit be allowed currently with respect to taxes of 1944 and subsequent years and (2) the maturity date of bonds issued for prior years be advanced to January 1, 1946. Subsequent assessments, collections, and refunds of excess-profits taxes for these years would be made on a net basis, i. e., the total tax less the post-war credit.

The operation of the proposal may be illustrated as follows: Suppose, for example, the legislation enacting the proposal were passed on October 1, 1945. The X corporation reports its income on the calendar-year basis. For the year 1944 on its return filed on March 15, 1945, it reported a total excess profits tax liability of \$40,000 and a post-war credit of \$4,000. On March 15, June 15, and September 15, 1945, it had paid an aggregate of \$30,000 of this total liability. By reason of the passage of the proposed legislation, its payment on account of excess-profits taxes due on December 15 would be reduced from \$10,000 to \$6,000, the difference being the amount of its post-war credit for 1944.

The same corporation had reported and paid excess-profits taxes for 1942 and 1943 of \$30,000 in each year, for which it had received bonds of \$6,000 representing its post-war credits. On or after January 1, 1946, the taxpayer would be entitled to cash for the \$6,000 in bonds previously received on account of tax liabilities for 1942 and 1943. If at some date after January 1, 1946, an audit of the X corporation's 1943 return should disclose that its total excess profits tax liability for the year 1943 was \$20,000 instead of the \$30,000 reported and paid, it would be entitled to a refund of \$9,000. It would have already realized, through the cashing of its bonds, on the \$1,000 portion of the overassessment represented by its post-war credit.

C. DISCUSSION OF THE SUGGESTED PLAN

1. Current allowance of the post-war credit.

If the law were amended to accord with the proposal, the making of the post-war credit available currently for taxable years beginning in 1944 and thereafter would involve no serious administrative or mechanical difficulties. The form of the corporation excess-profits-tax return for the year 1944 clearly indicates the amount of the post-war credit based on the tax liability as reported by the taxpayer. If the law were amended in 1945, the tax assessments currently being made on these returns in amounts which include the post-war credit can be readily adjusted to show only the net liability. With respect to taxpayers, the amendment would be reflected in a reduction of the payments to be made in the latter part of the year in cases where they elect to pay their taxes quarterly. In the case of those corporations which pay their total tax liability at the time of filing of their returns on March 15, 1945, it would be necessary to refund any amount representing the post-war credit included in tax payments made prior to the enactment of the proposed legislation. The returns for taxable years beginning in 1945 and for subsequent years would be designed

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to indicate clearly that the post-war credit should be taken currently in all cases.

2. Advance payment of post-war credit bonds.

That part of the proposal which relates to taxable years beginning prior to 1944 would set January 1, 1946, as the maturity date of bonds issued for such taxable years rather than dates which depend upon the date of cessation of hostilities. It is contemplated that prior to January 1, 1946, all bonds which are required to be issued for taxable years beginning in 1941, 1942, and for the calendar year 1943, will have either been issued or the credit giving rise to them will have been certified for issuance of the bonds. Under the proposal, these bonds, if issued, will be payable in full on January 1, 1946, or if certified but not issued, cash in lieu of bonds will be given to the taxpayer. In case of deficiencies in tax liability assessed for such earlier years after January 1, 1946, or in cases where through delay or postponement of payment the original tax is paid in full on or after January 1, 1946, the post-war credit arising from such deficiency or late payment will be handled as a current credit rather than through the issuance of bonds followed by an immediate redemption. The handling of these items as current credits would eliminate unnecessary duplication of effort.

With respect to overassessments for taxable years for which bonds have been issued, where such overassessments are scheduled after the maturity date of the bonds, the amount of such bonds would be considered as tax already refunded and would cut down the amount of the payment on the overassessment.

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The positive suggestions for tax revision to take effect for the interim period after victory in Europe are as follows:

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 deductions for amortization of emergency facilities.
3. Make the post-war credit of 10 percent of the excess-profits tax currently available for tax liabilities of 1944 and subsequent years.
4. Advance to January 1, 1946, the maturity date of outstanding post-war refund bonds.
5. Increase the specific exemption under the excess-profits tax from \$10,000 to \$25,000, effective for 1946.

No further changes are suggested for the interim period.

Speeding up the refunds, making the post-war excess-profits credits currently available, and advancing the maturity date of post-war refund bonds, involve no change in ultimate tax liabilities, but would improve the cash position of business during the interim period. A detailed description of these proposals is presented in part 8 of Studies in Post-War Taxation.

The increase in the specific exemption to \$25,000 would reduce the repressive effects of the excess-profits tax upon smaller corporations. A large number of the smaller corporations would be freed from liability under the tax and the burden for the remainder would be reduced, with no considerable loss of revenue.

The other suggestions relating to corporate taxation that have previously been made (see pt. 7) were suggested only for the period after the end of all major hostilities. The suggestions relate to reduction and repeal at designated appropriate times of the excess-profits tax, and the capital stock and declared value excess-profits taxes. Additional revisions of the corporate tax structure for the post-war period are being studied, including such matters as accelerated depreciation, special treatment of corporate dividends, and revision of the corporate tax rate. Consideration is also being given to revisions in the individual income tax, excise taxes, and the estate and gift taxes. In view of the necessity for maintaining high taxes during the interim period, tax changes in these fields were not considered appropriate for that period.

The suggestions in this memorandum are based on our present appraisal of the future economic situation. Subsequent developments might make it necessary to suggest additional changes for the interim period.

It will be observed that the suggestions in this memorandum are intended to take effect during the interim period following the end of major hostilities with Germany and prior to the end of the war with Japan. It is not intended thereby to suggest that other legislation may not be desirable during this period to take effect after the end of the war with Japan.

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No part of this print to be released or published by any person unless specifically authorized by the Joint Committee on Internal Revenue Taxation.

SPECIAL MEMORANDUM ON SUGGESTED TAX CHANGES TO BE EFFECTIVE AFTER THE END OF THE WAR IN EUROPE

Pursuant to resolution of the
JOINT COMMITTEE ON INTERNAL REVENUE
TAXATION

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

MARCH 31, 1946



UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1946

1947

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SPECIAL MEMORANDUM ON SUGGESTED TAX CHANGES
TO BE EFFECTIVE AFTER THE END OF THE WAR IN
EUROPE

In a letter to members of the Joint Committee on Internal Revenue Taxation for Post-War Taxation, dated March 24, 1945, Mr. Dougherty, the chairman, proposed that at the next meeting of the committee consideration be given to tax revisions to be effective in the interim period following the end of major hostilities with Germany and prior to the end of the war with Japan. He also indicated that the tax suggestions of the staffs of the Treasury Department (including the Bureau of Internal Revenue) and the Joint Committee on Internal Revenue Taxation, applicable to this period, would be available for consideration at that time. Accordingly, this special memorandum has been prepared summarizing the suggestions for the interim period, most of which have been presented in Studies in Post-War Taxation. It is suggested that all 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. This position, as indicated in part 7 of Studies in Post-War Taxation, is supported on the following grounds:

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 \$71,000,000,000.

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.

70075-45

(1)

JOINT COMMITTEE ON INTERNAL REVENUE TAXATION FOR
POST-WAR TAXATION

HOUSE OF REPRESENTATIVES
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(11)

SAVE

HEADQUARTERS, ARMY SERVICE FORCES
WASHINGTON 25, D. C.

4 April 1945

The Honorable,

The Secretary of the Treasury.

Dear Mr. Secretary:

As you know, one of the principal places to fill in the control group for Germany is that of finance in its broad implications.

I believe it would be most helpful to us in getting underway if you would loan to us for a period of about six months the Under Secretary or an assistant secretary of the Treasury. He would be given the responsibility for organizing the American side.

I would appreciate it if you would give this your consideration so that I may cable you for a final decision. This I will do shortly after I arrive on the other side and have had the opportunity to report to General Eisenhower.

Sincerely yours,

Lucius D. Clay

LUCIUS D. CLAY,
Major General, General Staff Corps.

April 4, 1945
3:07 P.M.

189-A

General Clay called me, and said he wants me to designate an Under Secretary or an Assistant Secretary to go to France and Germany for six months, and to be in complete charge of fiscal, taxes and the whole financial works. I said to him had he talked to General Hildring, and he said yes. I said well then did he know that our attitude was pretty tough towards Germany, and he said, "Yes," and I said, "Well, are we together?" and he said, "I think we are." So I said, "Well, I'd like to do it, but I'd have to think about it." He said he would come over as a civilian and a Treasury representative to take complete charge of the fiscal end.

Then he said, "I know about Colonel Bernstein, but," he said, "we need somebody with more authority." So I said, "Well, I'm going to be very frank with you," and I said, "What are you going to do about Robert Murphy?" So he said, "He's one of my headaches." So I said, "Well, I was in the office when the President appointed Robert Murphy. He only did it after two weeks of hesitancy and on the insistence of Cordell Hall." And I said, "I don't think Robert Murphy does what the President wants him to." I said, "I knew him from Africa," and he said, "Well, I know all about Murphy and I realize what the situation is." He wanted to see me - he's leaving Friday, but he said he would be coming back. I asked him to put it in writing and send it to you what he wanted. And he said he would do that, and that this man would be in complete charge of the whole fiscal works.

He said, "Now we've been talking about people like Leon Fraser." I said, "By God, you are not going to send him, are you?" He said, "No, no, but he's been mentioned," and he said, "I don't want him. I want a Treasury man to represent the Treasury."

Read by: Mr. White
Mr. Bell
Mr. Coe
Mr. Gentry

Read by Mr. Schmitt

DEPARTMENT OF STATE
CENTRAL SERVICES
DIVISION OF COMMUNICATIONS AND RECORDS

April 4, 1945

Received of M. A. Shipley, (DC/L)
one envelope addressed to Hon. Henry
Morgenthau, Secretary of Treasury,
containing an envelope marked "TOP
SECRET" addressed to him.*

Robert J. Schmitt

*Paraphrased copy of Brussel's 418,
of March 31, 1945.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Brussels
TO: Secretary of State, Washington
DATED: March 31, 1945
NUMBER: 418

TOP SECRET

From Judge Rosenman to President Roosevelt.

The ports of Cherbourg, Le Havre and Rouen were visited by me since I last wired you and before leaving France I conversed with General de Gaulle. Later I visited the forward headquarters of Generals Eisenhower, Patton, Simpson, Hodges and Bradley. Except for Patton, who was too far up forward, I was able to have a talk with each of them. Two days were spent in Germany and at Cologne I got as far as the inside of the cathedral. I then visited Luxembourg and had a talk with Dupong, the Prime Minister, and Beck, the Foreign Minister. At present I am in Brussels with Ambassador Sawyer and have conversed with Prime Minister Vanacker, Foreign Minister Spaak, Supplies Minister Lalmand, Finance Minister Eyskens and Communications Minister Rongvaux.

Through the genius of American engineers, the French ports that I visited have been restored to great working capacity. Each of these ports would, in fact, have been able at the time of my visit to take and unload additional ships. Seemingly unusually affable, General de Gaulle confirmed what

the

- 2 -

the other French Ministers had told me about the French need of a small amount of wheat, and of coal, meats, fats and transportation.

Generals of the American Army with whom I spoke are much more impressed with the necessity for adequate civilian needs in the liberated countries than are our civilian agencies, or our army officials at home. It was especially stated by General Eisenhower that I could quote him in as strong terms as possible concerning the necessity of furnishing civilian supplies to prevent unrest and disease in the countries in the rear of our lines and in our own lines of supply and communication. Equally emphatic were the other Commanders.

Some time was spent by me in Germany with our officers engaged in military government. With very limited personnel they are doing a good job and I think additional personnel in substantial numbers should be given them. If it is impossible to get commissioned officers, as seems the case, General McSherry would be willing and is anxious to get civilians to help the military government as more of Germany is occupied. He would prefer civilians, in some cases, such as financial investigators in Germany. These civilians could be put into some uniform bearing "military Government" label. Although McSherry has been unable to get them, he has asked the War

Department

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Department for additional men. In order to aid in searching out and tracing financial assets which have been sent out of Germany by high Nazis, perhaps Secretary Morgenthau could send some of his financial investigators. Civilian German ration has been cut to 1150 calories and, of course, it all comes from civilian food stocks of Germany. Despite some rumors I had heard to the contrary in France before I left for Germany, no American or other imported food is being fed to German civilians in Germany by any of the army groups I visited.

At Unrath and Brand in Germany I visited two displaced persons camps of 12,000 and 14,000 population respectively, the majority of whom were Russians and Poles; but there were a large number of Italians, Belgians and French. As Germany is occupied, there will, of course, be many more such camps, and those now existing are, with respect to officers and enlisted men, woefully undermanned. A special ration of about 2,000 calories is being fed to all the inmates of these camps, and for this purpose, where possible, captured Wehrmacht food stocks are being used. Including Eisenhower, the Commanding Generals do not feel that it is feasible to separate the displaced Russians and feed them, as the Russians think we agreed to do at Yalta, the ration of the American enlisted men. So far as I

can

- 4 -

can learn, they are not doing it now and have no such intention.

In Luxembourg the officials state that up to the time of the Ardennes bulge, Luxembourg was entirely self sufficient; but their food basket was destroyed, it being located right in that area. On my way to Brussels I drove through that district and can confirm the devastation and destruction of agriculture. Meats, fats and coal are needed in this area. The needed coal would enable them to operate their extensive steel mills for furnishing products which our armies could use.

I expect to go to Antwerp, thence to Holland and London, and to take part in the war crimes conversations, as per your instructions. My report on civilian supplies will then be written.

SAWYER

DC/LIMASIAN

4-4-45

Dear Mr. Bergson:

I have before me your letter to the Secretary of the Treasury and to me dated April 2, 1945, urging that stern warnings to the Germans be issued at this time.

The civilian internees with whom we are concerned will continue to be in grave danger as long as they remain under German control. Another strong warning, at this time, might contribute to the saving of human life. The issuing of such a warning, however, is an integral part of the whole war strategy and therefore a decision to issue any warning is and must be the sole responsibility of higher authority. The Board is pursuing with higher authority the matter of issuing another warning at this particular time.

You may be assured of the Board's continued vigorous action in all phases of safeguarding the lives of victims of enemy oppression, consistent with the successful prosecution of the war.

Very truly yours,

(Signed) William O'Dwyer

William O'Dwyer
Executive Director

Mr. Peter H. Bergson,
Chairman,
Hebrew Committee for
National Liberation,
2315 Massachusetts Ave., N.W.,
Washington 8, D. C.

PH:WO'D:hd 4/4/45

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APR 4 1945

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2315 MASSACHUSETTS AVENUE, N. W.
WASHINGTON 8, D. C.
ADAMS 8800

HEBREW COMMITTEE OF NATIONAL LIBERATION

April 2, 1945

Dear Mr. Secretary:

I take the liberty to enclose herewith a copy of an appeal addressed to the President of the United States.

In view of the grave urgency of this problem, I am writing to appeal for your aid in the hope that you will call upon the President with a view to securing immediate consideration and action upon our proposals.

During our conversation some time ago, you agreed with my contention that a clear statement would greatly affect the fate of the Hebrews still under German domination. General O'Dwyer was of the same opinion, yet no such statement has been made and the Germans are increasing the mass murders.

What reason can there be, Mr. Secretary, for opposing our proposals? Surely they can do no harm, and is not the effort involved amply justified by the possibility that they will save hundreds of thousands of lives?

What less can be done to counteract Germany's threat to murder every surviving Hebrew? If the Germans can find the time in the midst of their own destruction to broadcast such threats, time should be found to answer them.

I beg to remain, Mr. Secretary,

Faithfully yours,

Peter H. Bergson
Peter H. Bergson

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

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2315 MASSACHUSETTS AVENUE, N. W.
WASHINGTON 8, D. C.

HEBREW COMMITTEE OF NATIONAL LIBERATION

April 1, 1945

Mr. President:

Persistent reports from Europe, quoting official German radio broadcasts, disclose plans for a monstrous massacre of over a million Hebrew people still in Germany's concentration camps and slave labor battalions, as a climax to the planned extermination of our nation.

As servants of the Hebrew people, we appeal to you on behalf of these Hebrew men, women and children who have withstood six years of untold suffering and torture, deriving strength and endurance from their invincible belief in the ultimate victory of decent humanity. Only the sure knowledge that the leaders of the United Nations really do not care and will exact no punishment encourages the Germans to plan and commit these gigantic and ghastly crimes at the very hour of their own defeat.

For many months now not a word of warning has been given them. During those months a public debate has been carried on by the statesmen of the United Nations as to whether the extermination of Hebrews is a war crime or not. Indeed to this day the issue is undecided, to the everlasting shame of our own "legalists," whose pedantic minds have surely, though unconsciously, become infected with Germany's barbaric concepts of law. They have ignored your own clear and repeated pronouncements on punishment for these crimes.

Mr. President, there are no words to express the disaster that has befallen our nation. There are no words to express the strength of our demand and the humility of our appeal to you to take immediate action to avert this further tragedy - action which may still save more than a

His Excellency
The President of the United States of America,
Washington, D. C.

-2-

million lives.

The following steps taken now could be decisive in their effect:

1. A statement by the Secretary of State making it unmistakably clear that the Government of the United States regards crimes committed against Hebrews, even if committed on Axis territory and irrespective of the citizenship of the victims, as war crimes and punishable as such.

2. A stern warning from you expressing once again the abhorrence of the American people of the mass murder of the Hebrews, and the future consequences of these sordid deeds for the German people.

3. A similar warning beamed direct to the German people by General Eisenhower urging the German population to prevent the execution of this diabolic plan.

Aware of their defeat, the Germans have announced numerous concessions and improvements in the treatment of prisoners of war and of slave labor, obviously in an effort to gain some favor with the victors.

The above steps, therefore, are sure to be effective in making the Germans cease their crimes against the Hebrews, too, for they stopped torturing and murdering other peoples, not because they stopped hating them, but out of fear. That same fear can make them stop murdering Hebrews.

Mr. President, in your leadership the world rightly sees its greatest hope for the re-establishment of human decency and justice without which there can be no real peace. Tens of thousands of Hebrews are alive today in the liberated territories due to your previous action on their behalf. Hundreds of thousands more will owe their lives to you if you act again now to save them.

Respectfully yours,

Peter H. Hargison
Chairman

EXECUTIVE OFFICE OF THE PRESIDENT
WAR REFUGEE BOARD

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To: Mrs. Klotz 3400
 (1) (Name) (Address)
 (2) (Name) (Address)
 (3) (Name) (Address)

In your information: Wellenborn
 is the Swedish diplomat
 who went to Budapest last
 spring when the Jewish
 situation in Hungary was
 so precarious. He did a
 great deal of wonderful
 work for us.

From: Model (Name) (Address)

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Stockholm
TO: Secretary of State, Washington
DATED: April 4, 1946
NUMBER: 1251

SECRET

The Swedish Foreign Office is particularly concerned over the disappearance of Rosal Wallenberg, its attache to the Legation in Budapest. It is stated in unconfirmed radio reports that he has been murdered. In order to determine Wallenberg's fate, the Swedish Legation in Moscow has been instructed to request the assistance of the Russian Government.

Any support our Embassy at Moscow can give the Swedish Legation in Moscow with respect to this matter would be greatly appreciated by us, as we had a special interest in Wallenberg's mission to Hungary.

The foregoing message was repeated to Moscow by my 14, of April 4.

JOHNSON

DO/L:NAS:CVT

4-6-46

*Let Stettinnes
know I am personally
interested in this man
/M.J.*

OFFICE OF STRATEGIC SERVICES **CONFIDENTIAL**
WASHINGTON, D. C.

4 April 1946

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

Dear Henry:

I think you may be interested in the following report entitled "The Problem of German Morale" which was prepared by our research people in the European Theater:

"A WEALTH of recent evidence plainly indicates that German morale, both among troops at the fronts and among civilians at home, is now lower than at any other time in the war, and is still steadily declining. Inevitably, this condition will have some effect on Germany's will and ability to keep on fighting. But because of the peculiar political situation prevailing in the Third Reich, morale factors cannot be usefully appraised in a vacuum; only in relation to the Nazi control system does their true significance appear.

Decline of Military Morale

"The number of German P/W's who acknowledge that the war is lost increases every week. In the east, the Nazis have been forced to extraordinary measures to maintain military discipline and order. Neutral journalists visiting Silesia under German auspices found in the market place of one village the body of a soldier topped by a placard announcing his execution for looting, and saw many notices proclaiming the names of deserters who had been condemned to death by 'flying courts martial'. Similar reports indicating sagging morale within the Wehrmacht have come from the west.

"Especially significant is evidence that relations between officers and enlisted men are deteriorating. This tension was characteristic of the old Imperial army, but the Wehrmacht with which Hitler entered the present war was distinguished by good relations between officers

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and men and dominated by a spirit tying all members of the armed forces together. Now it appears that the more primitive class contrast between officers and men can no longer be concealed by artificial means. Combat forces seem to feel that the leadership has lost touch with them and burdens them with impossible tasks. For example, Hitler's order that men hailing from the east should be moved from other theaters to protect their homes against the Russians seems to have been widely disregarded as impracticable. Several captured officers declared that they disobeyed orders to divulge information about deserters because they disapproved penalizing families for the deeds of soldiers.

"Morale on the Home Front"

"Since the war has penetrated deep into German territory, it is impossible to separate home morale from army morale; the one is immediately influenced by the other. Civilians, perhaps even more than soldiers, in some of whom previous successful campaigns left a certain amount of martial pride, are perfectly aware that the war is lost. Frequent attacks against rumor-mongers in the German press suggest that the Reich is flooded with defeatist talk. Low civilian morale apparently has hampered cooperation with troops in many cases; country people especially tend to refuse quarters or food to military units because they have no wish to sacrifice their property in a lost cause. On the other hand, a spate of decrees threatening increasingly severe penalties for deserters and those who aid them show that civilians frequently help and harbor stragglers and deserters.

"It also becomes increasingly clear that the Nazis experience mounting difficulty in controlling the population in the turmoil of military movements and civilian evacuations. The administrative machine which for a long time effectively kept each German in his place shows serious signs of breaking down. Evacuation from the east subjected the population to nearly unendurable hardships and could not be carried out according to plan. Also in the west, evacuation seems to have become more and more accidental and unsystematic. Evacuees tend increasingly simply to disappear and withdraw from further participation in the war effort. The harshest measures, from refusal of ration cards to death penalties,

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are considered necessary to force people to re-register after evacuation of air raid victims.

"If the German situation were judged solely on the basis of these mounting social tensions and administrative breakdowns, the conclusion would be almost unavoidable that morale had reached a level so low as to make continuation of the war virtually impossible. But one of the most significant achievements of the regime is that the Nazis have made morale nearly superfluous. They have replaced morale by controls. By securing a firm grip on the entire population through a system removing all individual freedom of action and making each German merely a cog in the Nazi war machine, they have tried to obviate the consequences of a morale breakdown. The key point thus becomes not the low level of German morale, but the condition of the control system. The real question is whether the administrative difficulties are beginning to weaken the control system to such a degree that the low morale of the people can make itself felt.

"Adaptation of the Control System

"During the past year the Nazis have thoroughly overhauled their controls to adapt them to the present emergency. First of all, and most completely since the July putsch, they have eliminated from all key positions and from all posts of any power every competing group or class which was not entirely pacified. Directly below the highest Nazi ruling group - the Hitler, Himmler, Goebbels, Ley, Bormann, and Speer - there is the corps of Gauleiter, war criminals no less compromised than their top superiors. The Gauleiter, in direct and immediate contact with Goebbels and Himmler, are now the main centers of all administrative power. Though there probably are tensions and rivalries among these men, they can be considered a closely knit group, bound together if only because of a common conviction that loss of the war also means loss of their lives. Continued resistance depends mainly on the fact that measures decided on and ordered by this group are carried out. Yet measures which it was necessary to take against officials and local Party leaders demonstrate that civil servants and Party men below this highest group no longer form an entirely solid bloc; the danger does exist that some local leaders may give in to the desire of the exhausted population to end the war.

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"The ruling group has recognized this danger and tried to forestall it by new control methods introduced in recent months. Whereas at the top, power is strictly centralized, the Nazis recently have favored the opposite policy of administrative decentralization at the lower levels. This has been most pronounced in the field of municipal administration. In a number of cities the various boroughs have become more or less independent administrative units, with chief responsibility entrusted to the local Party leader. Similar phenomena can be observed in other fields; for instance, economic districts have been further subdivided. These developments are partly the result of difficulties created by air bombing and transport breakdowns; also they are designed to facilitate administration in case one part of a region is occupied by the Allies, while another part previously attached administratively to the occupied zone remains in German hands. Nevertheless, it is evident that the splitting up of administrative districts will also simplify the combatting and delimitation of any revolt. Opposition movements can be isolated and more easily suppressed. The atomization of social and economic life, produced partly by enemy action and evacuation and partly by conscious administrative policy, strengthens the hand of those in monopolistic possession of the means of communication, who alone are able to survey the German situation as a whole - in other words, the Nazi leaders.

"The Control System and the Army

"The greatest problem for the Nazi control system has always been the German army - an institution which by its very nature followed its own laws and which possessed a tradition which, though not entirely opposed, was at least not entirely identical with Nazi ideology. The Nazis early sensed the potential danger of the Wehrmacht in case of crisis and took a number of steps to prevent the possibility of independent action by the officers' corps. Establishment of Party para-military organizations raised the threat of armed internal conflict should the regular officers attempt independent action. Especially since July the interchange of officers between the SS and the army has tended to undermine the coherence of a military caste already weakened by heavy losses in the field. When Himmler became chief of the Home Army in the hour of Party triumph over Wehrmacht revolt last July, detailed investigations were instituted into the political reliability of individual officers, and the formerly nominal role of the National Socialist Morale Guidance Officers was vested with power factors. Organization of the

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Volks Grenadier divisions under Himmler also diminished the military autonomy of the army.

"Perhaps most important of all was the Party's ingenious solution for the threat to its control system from the Allied invasion of Germany, which seemed likely to give military commanders operational control and thus the decisive voice in large sections of the Reich. Control of the Volksturm by the Gauleiter until it went into battle was an initial limitation on the influence of the army at home, and the use of the civilian population for military defense increased the authority of the Party in the military sphere. Subordination of all para-military units to the Higher SS and Police Leader, and his appointment to the staff of the general commanding a threatened area, was a further step in the same direction. It is now reported that police and military units will be inter-mixed, which will also weaken the army's esprit de corps. Flying courts martial, organized by the Gauleiter and empowered to punish all defiant action, added still more to the Party's new power. Although freedom has been left to the officers in the tactical and strategic spheres, their chance of using their power of command for political purposes has been effectively checked.

Conclusion

"The Nazi control system was initially designed to achieve a smooth and powerful functioning of the entire Nazi war machine independent of human weaknesses and fluctuations of morale. Now, however, under the pressure of impending military disaster, it can do little more than thwart the organization of active opposition to the regime. Those Germans who are still under the spell of the Nazi idea fight on with fanatical determination; but the great majority, preoccupied with their own personal fate, continue the struggle simply because they see no alternative. As long as Nazi power lasts, it represents a greater threat to the average German than the more remote and unpredictable consequences of continuing the war. But the other side of the coin is that as soon as Nazi power is removed, resistance simply collapses and with it enmity to the Allies seems also to disappear."

William J. Donovan
William J. Donovan
Director

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Success to Harry
at his new position
4/1/45

April 4, 1945

Dear Lieut. Putzell:

I am writing to acknowledge receipt of your two letters of April 3 and to thank you for sending to Secretary Morgenthau the pamphlet "Textile Production and Distribution in Germany" and the memorandum "Left Resistance Views on the German Problem". Mr. Morgenthau is still away from Washington but I shall hold this confidential material for him to read upon his return.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz
Private Secretary.

Lieut. E. J. Putzell,
Acting Executive Officer,
Office of Strategic Services,
Washington, D. C.

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OFFICE OF STRATEGIC SERVICES
WASHINGTON, D. C.

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KSC
4/1/45
3 April 1945

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

My dear Mr. Secretary:

The attached pamphlet, Civil Affairs Information Guide, TEXTILE PRODUCTION AND DISTRIBUTION IN GERMANY, was prepared for the War Department by our Research and Analysis Branch.

I am submitting it herewith in the hope that it will be of interest to you.

Respectfully yours,

*Let me know
re: this*

E. J. Putzell Jr.
E. J. Putzell, Jr.
Lieut. (jg), USNR
Acting Executive
Officer

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WAR DEPARTMENT PAMPHLET NO. 31-139

B.A. No. 1950.142

CIVIL AFFAIRS INFORMATION
GUIDE

TEXTILE PRODUCTION
AND DISTRIBUTION IN
GERMANY



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WAR DEPARTMENT • 5 OCTOBER 1944

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WAR DEPARTMENT,

WASHINGTON 25, D. C., 5 October 1944.

War Department Pamphlet No. 31-139 Civil Affairs Information Guide, Textile Production & Distribution in Germany: A. Program, B. Adm. has been prepared by the Research and Analysis Branch, Office of Strategic Services and is published for the information and guidance of all concerned.

(A. G. 451 (18 Oct 44).)

BY ORDER OF THE SECRETARY OF WAR:

G. C. MARSHALL,
Chief of Staff.

OFFICIAL:

J. A. ULIO,
*Major General,
The Adjutant General.*

NOTE

Civil Affairs Guides and Civil Affairs Information Guides are designed to aid Civil Affairs Officers dealing with problems in theaters of operation, each Guide being focused upon a specific problem in a particular area. These Guides are not basic collections of factual information, as are the Civil Affairs Handbooks, nor are the recommendations (or action programs implied in the Guides) intended to take the place of plans prepared in the field. They are rather designed to point the factual information toward the making and executing of plans by those Civil Affairs Officers assigned to this work in the theaters of operation. *In no sense is a Guide to be taken as an order.* Such orders will be issued in the normal manner.

This Guide was prepared under the supervision of the Committee on Civil Affairs Guides and is approved by the Committee.

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PART I—PROGRAM

Summary

1. During the period of Allied occupation, German supplies of textiles could be maintained at a level adequate for essential civilian and industrial uses because of the virtual cessation of military demands and the sharp reduction in industrial and public needs (many of which were indirectly military). Such essential uses will probably not exceed 50 percent of wartime supply levels.

2. A policy of preventing Germans from being relatively better off than liberated Europeans would permit an even further reduction of German textile consumption.

3. If war damage to artificial-fiber facilities is not excessive, and if the raw materials required for artificial-fiber production are plentiful, then potential fiber supplies in the occupation period will be approximately three-fourths of wartime supplies. In this case, there will be a significant potential surplus of artificial fibers.

4. The requirements of German civilians have been met during wartime by textiles made largely from artificial fibers. Civilian requirements can continue to be met in this way during the occupation period, if such fibers are available.

5. If raw materials, particularly coal, should be in short supply, excess artificial-fiber production might be curtailed. In this event, it may even be desirable to reduce the production of artificial fibers necessary for the supply of the German civilian population and to import natural fibers instead. Serious damage to artificial-fiber facilities in excess of bomb damage to the end of 1945 may likewise necessitate fiber imports.

6. The exact extent of requirements for industrial fibers should be ascertained by a survey of industrial and agricultural needs. On the basis of present rough estimates, annual imports of 85,000 tons of industrial fibers or their substitutes could be effectively used by German agriculture and industry during the occupation period, assuming that domestic production of flax and soft hemp is maintained at the wartime level. If jute and hard hems cannot be made available, flax and soft hems, imported in somewhat larger quantities, can be substituted for these industrial fibers. If it is impracticable to import industrial fibers, German industry and agriculture will have to rely on paper and artificial-fiber products.

7. All German military stocks of textiles should be seized by the Allies, and nonmilitary stocks of textile goods and fibers should be frozen. Military as well as nonmilitary stocks should be held available for uses to be determined by the occupation authorities according to the exigencies of the moment.

8. Military Government supervision of the textile economy, especially of the production of synthetics, will be desirable. It will be necessary to continue clothes rationing under the Military Government.

I. THE GERMAN SITUATION IN THE WAR AND PRE-WAR PERIODS

A. The Over-all Supply and Utilization Pattern.

Germany is a large textile producing nation. In pre-war years, her textile production was large enough not only to satisfy all domestic needs but also to provide a considerable surplus of finished goods for export purposes. The German textile economy depended, however, on large imports of cotton and wool, as well as of such fibers as flax, hemp, sisal, and jute. Furthermore, the bulk of these imports came from non-European sources.

As part of her program for autarchy, Germany endeavored to free herself from dependence on imported fibers. First, she endeavored, with some success, to expand the domestic production of wool, flax, and hemp. Considering the short time in which the program has been in operation, production of these fibers expanded remarkably. Limitations to their expansion were encountered, however, in the form of increased need to utilize the land for food production.

The second, and by far the more important, part of the drive for self-sufficiency was the creation of a gigantic artificial-fiber industry. In 1938, this industry accounted for approximately one-fifth of the German supply of textile fibers. But for the wartime demands on German supply of textile fibers, Germany would have had sufficient raw material available from domestic sources to operate the artificial-fiber industry at full capacity. In order to fill the deficit created by explosives manufacturing, however, she had to import half of her total pulp requirements, but these imports were now obtained from the countries which remained accessible to Germany in spite of the Allied blockade.

In 1938, Germany provided less than 25 percent of her textile fibers domestically. In 1943, less than one-fourth of Germany's supply of textile fibers was imported, though an additional 30 percent of this supply depended on importations of pulp.

Until 1939, Germany was obtaining much natural fiber from imports. Most of her sources of supply, however, were cut off by the outbreak of war. To a considerable extent, this loss was offset during the early years of the war by the acquisition of the stocks of textiles

and textile fibers of the conquered countries. These stocks were practically exhausted by the beginning of 1943, however. Since then, supplies of natural fibers have declined sharply. In spite of the fact that acquisitions of textile goods by soldiers and purchases on the open market by German purchasing commissions have somewhat offset this decline in natural fiber supplies, it has been necessary increasingly to use artificial fibers as substitutes for natural fibers. For some purposes, the substitution has resulted in no marked deterioration in quality, but for many other purposes, especially where jute and hard fibers are required, artificial fibers have been inadequate substitutes.

In terms of total tonnage, nevertheless, German textile supplies during the war years have been adequate to cover her military requirements, as well as to meet the low civilian standards set by the exigencies of war. No surplus has remained for large exports, although Germany has been obliged to export some small quantities of artificial fibers to other countries in order to obtain imports of qualitatively superior fibers, and, in the case of some of the occupied countries, to maintain textile output at the desired level.

Textile production for military purposes has absorbed practically all of the limited supplies of cotton and wool; even so, it has been necessary to employ substitutes such as flax, hemp, rayon, and staple fiber for most of the military purposes for which cotton would have been preferable.

The fibers now available to Germany for technical purposes in industry and agriculture are, on the whole, considerably less satisfactory than those employed in pre-war years. This is particularly true of the manufacture of marine cordage, rope, twine, and sacking, for which Germany has neither the hard hems and jute used in pre-war years nor good substitutes for these fibers.

With the exception of a rather small amount of recovered wool, civilian consumption consists at present of fabrics made entirely of artificial fibers, because military, industrial, and agricultural consumption require the total supply of other fibers. Strict rationing controls in the clothing field have made it both necessary and possible for the civilian population to get along on smaller quantities and inferior types of textiles than those to which it has been accustomed in the past.

B. The Processing Facilities of the German Textile Industry.

1. *Capacity.*—The German textile industry is one of the largest and best equipped in the world. Its productive facilities are much greater than are necessary to meet purely domestic needs. Even in peacetime, the industry rarely worked at full capacity. During the war, the capacity of the industry has been even less fully utilized.

2. **Wartime Changes in the Industry.**—There is little evidence to indicate that the Germans have permanently reduced the capacity of their textile industry. There have been, it is true, programs of rationalization, elimination of the more inefficient firms, concentration of production in the more efficient plants, and use of textile-mill buildings for other purposes. In nearly every case, however, the changes have been of a temporary nature.

II. THE GERMAN TEXTILE SITUATION DURING THE PERIOD OF ALLIED OCCUPATION

A. The Supply Position of the German Textile Economy During Occupation.

1. German Supplies of Natural Fibers.

a. **Cotton.**—Producing no cotton herself, Germany must import all supplies of this fiber. Germany, consequently, cannot expect to obtain any cotton unless the Allies grant permission for such imports, which would have to come from non-European sources, since the annual demand for cotton in each of the European countries producing this fiber exceeds its annual cotton production.

Since flax, hemp, and artificial fibers have been utilized during the war years in place of cotton, this substitution pattern could be continued during the occupation period. Continuation of the wartime pattern, however, would mean a sacrifice of the most efficient fiber utilization, because, in many of the uses to which it is ordinarily put, cotton possesses qualities superior to those of substitute fibers.

b. **Wool.**—Germany can be expected to maintain her annual wartime level of wool production—approximately 2,000 metric tons, scoured basis—which is an insignificant quantity compared with pre-war German consumption. Imports obtainable from other European countries, even with Allied permission, will be negligible, since the other European countries are also normally large deficit nations in respect to wool production. Any imports would, accordingly, have to come from non-European sources, such as Australia, South Africa, South America, or the United States.

If wool imports are not provided for by the occupation authorities, it will be necessary to continue the wartime pattern of substituting staple fiber for wool, at the sacrifice of some durability and warmth.

c. **Flax and Hemp.**—Germany should also be able to maintain her wartime level of production of flax and hemp. This level of production falls considerably short—perhaps even to less than half—of what post-war industrial and agricultural requirements may be. Nevertheless, sizeable quantities of these fibers are available in other European countries, particularly Italy, Poland, and the Balkan and Baltic States, which are normally large net exporters of these fibers, but which are

not importers of cotton, wool, and artificial fibers. Should imports of industrial fibers be prevented, Germany would have to meet over one-half of her agricultural and industrial needs from paper or synthetic substitutes.

d. **Hard Hemp and Jute.**—Demand is likely to arise from German industry and agriculture for at least small supplies of hard hemp and jute, which are all of non-European origin, and may be difficult to obtain. During the war years, Germany has been forced to use flax and soft hemp for many purposes for which cotton, jute, and hard hemp are normally employed. Should Germany be able to import flax and soft hemp during the occupation period, the wartime pattern of substitution could continue, and need for cotton, jute, and hard hemp would be correspondingly reduced. If flax, soft hemp, cotton, jute, and hard hemp are not imported in sufficient quantities to satisfy industrial and agricultural demand, it will be necessary to substitute for these natural fibers paper and artificial fiber products to which resort has been had to some extent during the war years. The demand to be satisfied by the procurement of these fibers should, of course, be limited to the essential industrial and agricultural needs and should exclude those normal civilian uses of industrial fibers which are of a nonessential nature, such as linoleum and carpeting.

e. **Recovered Fibers.**—The German textile industry has always consumed large amounts of recovered fibers, particularly wool. The available supplies of such materials in the immediate post-war years are likely to be rather small as compared with pre-war, because the wool content of clothing is continually diminishing. It is unlikely that more than 30,000 tons of usable recovered fibers will be available annually from domestic sources in the immediate post-war years.

2. **German Supplies of Artificial Fibers.**—Artificial fibers are, strictly speaking, a product of the chemical industry and not of the textile industry. The production of these fibers is concentrated in a relatively small number of large plants, nearly all of which are controlled by the four large organizations dominating the synthetic-fiber industry.¹

The German production of fully synthetic fibers, such as perlon, Izo Ce Fibers, etc., is quantitatively small but qualitatively important. For these products, not only is the fiber form produced artificially, but the material of which the fiber is made is also synthesized. Fibers produced in this manner are exceedingly strong and resistant, and are utilized as substitutes for silk in such military equipment as parachutes and powder bags.

The bulk of the German artificial-fiber production is of semisynthetic fibers, such as rayon staple fiber. Though these fibers are as

¹See Civil Affairs Guide, Textile Production and Distribution in Germany; B. Administration.

artificially formed as the full synthetic fibers, they differ from the latter in that the material from which they are made—cellulose, in the case of the example given—is naturally produced. About 95 percent of German rayon and staple fiber is produced by the viscose process; both the acetate and cuprammonium processes are also used.

The artificial fiber industry requires large amounts of pulp, coal, and chemicals for its operation. For the production of each thousand tons of viscose fiber, a staple fiber factory requires the following quantities of raw materials:¹

	Metric tons
Wood pulp (92 percent sulfonated).....	1,240
Caustic soda.....	1,000
Carbon disulfide.....	350
Sulfuric acid.....	1,000
Glycerine.....	500
Zinc sulphate.....	50
Sodium sulphate.....	110
Sodium sulphide.....	100
Sodium hypochlorite.....	30
Hydrochloric acid.....	60
Acetic acid.....	10

The ability of the artificial-fiber industry to operate during occupation will depend largely on the availability of these materials. Only sulphur (or pyrites) would have to be imported. Domestic supplies of all other raw materials used in the production of artificial fibers should be adequate to sustain German artificial-fiber output at a level sufficient to meet domestic requirements. This, of course, assumes the continued operation of Germany's chemical and other byproduct industries at a level high enough to convert the natural resources into usable raw materials.

When Germany loses control of Austria, Czechoslovakia, and Finland, she will encounter greater difficulties in purchasing pulpwood, but the termination of German requirements for smokeless powder will relieve Germany of the necessity of importing pulpwood for textile purposes. The Old Reich has ample timber resources within her own borders to supply pulpwood in sufficient quantities to permit the operation of the artificial-fiber industry at full capacity for a considerable period of time. Nevertheless, full production of artificial fibers, in addition to the other important timber uses, may require the continuation of the wartime German policy of overcutting her timber resources.

It is possible that after the defeat of Germany there will be a drop in European coal production, the size of the decrease depending upon the extent of military destruction and decimation of power plants, mines, and mining equipment, loss of labor as a result of shifts of displaced populations, and disruption of transportation and other facilities. In

¹ Figures submitted by IFA.

this event, the European demands for German coal may be sufficiently great as to necessitate a reduction in the normal domestic German coal uses. If this should be the case, it will be necessary for the supply authorities to determine whether the production of artificial fiber in Germany (and in other European countries) will put unnecessary strain on Allied supplies of coal and shipping. Since Great Britain—a major source of coal for European use during normal times—will probably be unable to export anything like the pre-war quantities for a considerable period, the United States would have to be relied upon to meet a large part of any European coal deficit which might arise.

Estimates of the quantities of fuel necessary to carry out a staple-fiber production program of 100,000 tons run as high as 1,000,000 tons of bituminous coal. Shipment of this quantity to Europe to replace the coal consumed for German artificial-fiber production would require 111 average cargo-ship trips. On the other hand, shipment of 100,000 tons of natural fiber would require very much less shipping—only 15 average ship trips if the cargo were cotton.

3. Total German Supply of Textile Fibers.

a. Magnitude and Composition of the Total Supply of Textile Fibers.—

It is clear from the preceding sections that artificial fibers account for most of Germany's wartime supplies of textile fibers. OSS estimates of the magnitude and composition of the 1943 supply of textile fibers in the Old Reich are indicated below; in the absence of officially published figures, the following data, being estimates only, must be regarded as indicative of the magnitudes involved rather than as precise quantities:

Fiber type	Domestic production	Gross imports ¹	Total supply
Cotton.....	0	10,000	10,000
Wool.....	6,000	13,000	19,000
Recovered fibers.....	33,000	23,000	56,000
Artificial fibers.....	420,000	neg.	420,000
Flax, hemp, etc.....	470,000	120,000	590,000
Total.....	929,000	156,000	1,085,000

¹ On basis of percent of population of the Old Reich to that of United Germany.

In the occupation period, domestic production of natural textile fibers will probably approximate the wartime pattern, with the exception of recovered fibers, the production of which is expected to drop some 5,000 metric tons. Provided that war destruction to plant is not excessive, production of artificial fibers will drop below the wartime level to the extent to which raw materials are unavailable or, if raw materials are plentiful, to the extent to which production is restricted by fiat. Imports of fibers, however, will cease, unless provision is made by the occupation authorities for their continuance. Such pro-

vision will be required if artificial-fiber production is less than adequate for domestic needs.

It should be borne in mind that these estimates of post-war production of textiles in Germany are based on the present rate of productivity of the textile industry. If the existing controls over the German textile economy should be relaxed, productivity may decline. Though a relationship exists, to a certain extent, between degree of controls exercised and volume of output, it is very unlikely, in view of the excess productive capacity of the German textile industry, that productivity will fall below the level necessary to satisfy German requirements at the estimated post-war level of consumption.

b. Composition of Pre-War, War, and Post-War Supplies of Textile Fibers.—A comparison of the pre-war, estimated war, and post-war supplies of textile fibers available for domestic consumption yields the following observations. First, total net supplies of textile fibers did not decline very sharply from the pre-war level during the war years, because the import restrictions of the blockade were counteracted by increased production of artificial fibers and by requisitioning of fiber supplies from occupied and Allied countries. In the occupation period there will be a further decline in total supplies, owing to the reduction of imports of textile fibers and the possible decline in production of artificial fibers as a result of raw material shortages.

The second observation is that the composition of total supplies will have changed greatly. Large amounts of cotton and wool, as well as of jute and hard hemp, were consumed in pre-war years. The war has changed this pattern; artificial fibers have replaced cotton and wool, and flax and soft hemp have replaced jute and hard hemp. In the period of occupation, changes in the pattern will probably continue along the lines established during the war years. There is little reason for expecting large supplies of cotton, wool, jute, or hard hemp to be available unless importations of these fibers are deliberately made in lieu of producing artificial fibers.

c. Processing Facilities.—There should be no problem with regard to the adequacy of textile facilities in the occupation period. The widespread distribution of the textile industry and the comparatively large number of small plants make it very unlikely that war damage will greatly reduce the capacity of the industry. Furthermore, since the textile-processing facilities have been greatly underutilized in the past, this industry could sustain considerable war damage without impairing its ability to process the required quantities of textile fibers.

The labor force of the textile industry consists, to a great extent, of semiskilled workers, most of whom are women. There should be little difficulty in procuring or maintaining an adequate labor force.

4. Stocks.—Current military stocks of textiles and textile goods are well in excess of 50,000 tons and may be as high as 100,000 tons (excluding goods actually in use). The actual size of military stocks is uncertain at the present time, and it is even more difficult to estimate the probable magnitude of military stocks of textiles and textile goods at the time of Germany's collapse. The extent to which the Allies will be able to acquire possession of these stocks will depend, to a great extent, on the nature of the collapse. Moreover, it is very likely that the larger part of these stocks is distributed among the German supply depots in the east and will not be available to Military Government.

The military clothing items which are retained by the German soldiers will correspondingly reduce the demand upon the civilian textile supply by the demobilized veterans. Whatever military stocks fall into Allied hands will be subject to the disposal of the occupation authorities according to the exigencies of the moment.

Nonmilitary stocks of textiles and textile fibers will exist in substantial quantities. If it is decided that the present level of textile output should be sustained, the working stocks in the hands of the manufacturers must be maintained at approximately the current level. In this case, most of the nonmilitary stocks cannot be considered as increase in total textile supplies.

E. Textile Requirements of the German Economy During Occupation.

In 1943, total supplies of textile fiber in the Old Reich were approximately 700,000 metric tons, of which about 75 percent (about 525,000 tons) is estimated to have been produced domestically. As the preceding table indicates, German production of rayon and staple fiber contributed slightly over 60 percent of total supplies. Moreover, in 1943, the vast bulk of total supplies were utilized for purposes other than civilian consumption.

After the occupation of Germany, military requirements, which accounted for a large percentage of wartime utilization of fibers, will be entirely eliminated except for such quantities of special fibers as the Allied armies may require for use in the Far East. Industrial consumption will probably also be reduced when German industrial activity recedes from its wartime level. Uniformed services of National Socialism, including the Gestapo, SS, etc., will disappear upon the occupation of Germany and the wartime diversion of textiles to these agencies will be eliminated. Since production facilities have been sufficient to meet the wartime civilian clothing standards and essential industrial and agricultural needs, as well as those additional war requirements which will be eliminated with the entrance into Germany of Allied forces, production potential will not be a limiting factor

upon the achievement of a very comfortable level of industrial and civilian supplies during the occupation period.

Germany will probably not be allowed to live well while other European areas are relatively less fortunate. The German production facilities, as of the spring of 1944, would produce far in excess of any minimum requirements such as were established by the German Government during the war or such as may be later established by directives of the Allied authorities.

Production in excess of the consumption standard allowed Germany could be utilized in meeting export demands levied upon Germany through higher Allied authorities. However, this excess production available for exports may well be decreased considerably either by destruction of plant through bomb damage, shelling, and other war ravages, or by unavailability of essential raw materials. As a matter of fact, these influences might conceivably operate with such magnitude that no surplus at all will exist. Indeed, if plant destruction or raw material shortages are sufficiently severe, a deficit position may be created which will require a program of natural fiber imports. Nevertheless, it is possible that the German post-war supply of textile fibers will be one in which total domestic supply is larger than domestic requirements. In any event, the composition of the supply is likely to be very unsatisfactory. Although Germany may have an abundance of artificial fibers—assuming the availability of raw materials—she may face a shortage, compared with her normal peacetime supply pattern, of cotton, wool, hemp, and jute.

The requirements of German civilians have been met during wartime by textiles made in large part from synthetic fibers, and could continue to be met in the same manner during the occupation period, assuming the availability of such fibers. For specialized clothing items requiring exceptional strength, insulation, or durability, domestic wool, flax, and hemp should prove largely adequate. If it is decided to continue reliance upon synthetic fabrics during the occupation period, the maintenance (or increase, if possible) of domestic production of wool, and the admixture of this fiber with artificial fibers, would improve the quality of civilian clothing.

The requirements of industry and agriculture for specialized fiber products (such as marine cordage, binder twine,acking, transmission belts, etc.) cannot be satisfied so easily by substitutes for the hard humps and jute that were ordinarily used in pre-war and, to a much lesser extent, in wartime. Flax and soft hemp, substituted for the regular industrial fibers during the war, are not so satisfactory as the jute and hard humps themselves, whereas paper and artificial-fiber substitutes are even less satisfactory.

III. Recommendations

1. Military Government should count upon Germany's being able to meet her textile needs from her own resources subject, of course, to global supply limitations in basic raw materials and fuel.

2. Immediately upon the occupation of Germany by Allied forces, all stocks of textiles, goods in process, and textile fibers (including products, such as paper twine, made of substitute materials) should be frozen pending an inventory of stocks by all fiber, textile, and clothing factories, mills, wholesale enterprises, and warehouses, including military stores.

3. A survey of industrial and agricultural needs for fiber products should be made at the same time that the inventory of stocks is being taken.

4. A system of clothes rationing should be continued. Once the Military Government rationing system has control of the civilian economy, those supplies required to meet German domestic needs as defined by supreme Allied authorities can be released.

5. The textile program will not necessarily limit production to the quantities of goods necessary to satisfy domestic consumption, since high policy decisions may call for exportations from Germany of fibers or fabrics.

6. In the event of a shortage of industrial raw materials, such as coal, it will be necessary to reconsider the production programs of all industries which rely heavily on consumption of such commodities. In this case, production in the German artificial-fiber industry in excess of domestic consumption may not be possible. It may even be advisable to consider cutting still further the production of artificial fibers and importing natural fibers in their stead in order to economize the raw materials in scarce supply. The degree to which such a substitution should take place would depend on the relative world scarcity of textile fibers, on the one hand, and of critical raw materials required in the production of artificial fibers, on the other hand, as well as upon the relative shipping requirements for these two categories of supplies.

7. If certain artificial-fiber plants are to be chosen for operation in preference to others, proximity to public grids or brown-coal fields should be used as one criterion in their selection.

8. It may be advisable for Military Government directly to control the facilities producing fully synthetic fibers, in order to supply the Allied forces in the Far East with military goods requiring those special fibers.

9. For apparel purposes, natural fibers should be admitted with artificial fibers to whatever extent proves feasible, in order that full

*See Civil Affairs Guide, Distribution and Rationing of Consumer Goods Other Than Food in Germany.

advantage might be taken of the special qualities of the natural fibers. Standards of quality to be maintained will be governed by directives received by Military Government.

10. For psychological and political reasons it may be desirable to get the German soldiers out of uniform and into civilian clothes as quickly as possible. Whatever clothing items thus released become available to the Allied authorities should be treated like other textile stocks. (See 2 above.) It will, of course, be a simple matter to remove all strictly military appurtenances before issuing military clothing items for civilian use.

11. If imports of jute and hard humps or of non-German flax and soft humps should prove impracticable, then the textile program should provide for the production of artificial-fiber and paper products to meet those requirements of industry and agriculture which cannot be filled by domestically produced flax and soft hemp.

12. The question of transferring equipment is largely a reparations problem and, as such, involves a whole range of considerations which do not fall within the scope of this guide. Nevertheless, since the equipment of spinning and weaving mills consists of a relatively large number of small units that are readily transportable, it is possible that higher authorities may present Military Government with a program for the transfer of some German textile equipment to other countries. In planning for the textile economy during the occupation period, Military Government should be prepared for such a contingency.

13. All controls maintained over the textile economy should be supervised by Military Government.*

PART II—ADMINISTRATION

Summary

1. Various administrative agencies of the government exercise control over the German textile economy through a number of industrial organizations in the textile field. Completeness of the control is assured by compulsory membership in these organizations and by the application to them of the leadership principle.

2. Four large concerns dominate the production of artificial fibers. The concentrated structure of this industry facilitates governmental control of production.

3. In the fields of bast fibers, synthetic fibers, and textile finishing, the National Associations have usurped the functions of the Groups.

4. The Wool Federation is a private organization which controls the Groups in the field of wool fibers.

*See Civil Affairs Guide, *Textile Production and Distribution in Germany*; B. Adenot, *Textiles*.

5. The National Boards are two raw-material-allocating agencies for those Groups not dominated by the Wool Federation or the National Associations.

6. The Steering Spheres are coordinating agencies, one in the clothing field, and one in the textile field.

7. Allocation of raw and semiprocessed materials is achieved through a system of permits, called *Herstellen*.

8. Consumers are controlled through clothing ration cards and special purchasing permits, issued by the Economic Offices.

9. Retailers and wholesalers are controlled through a system of banking clothing-ration points.

10. Upon the occupation of Germany, Military Government should establish central supervision over the textile economy to ensure the accomplishment of United Nations war aims and post-war objectives.

I. ORGANIZATION OF THE GERMAN TEXTILE ECONOMY

Entrepreneurs in the German textile economy, like entrepreneurs in any other field of German business, are members of the Groups and of the Chambers.¹ Through the principle of compulsory membership of textile entrepreneurs in such organizations, and through the leadership principle, by which leaders of any organizational unit in a hierarchy of authority are appointed by an individual or unit higher in the chain of command, the German government controls the textile economy.

A. The Groups.

In the fields in which the Groups are the dominating organizations, they play an important role in elaborating the production plan, in distributing orders, in allocating raw materials, in rationalizing production and in procuring machinery and other equipment for members of the industry. Only two of the Economic Groups (*Wirtschaftsgruppen*) in the National Group for Industry (*Reichsgruppe Industrie*) have any direct bearing on the textile economy. These are the Economic Group for the Textile Industry and the Economic Group for Clothing.

Most of the 26 Sub-Trade Groups (*Fachuntergruppen*) of the Economic Group for the Textile Industry are organized according to the raw materials they use (wool, cotton, wool yarn, cotton yarn, etc.). The Sub-Trade Groups organized on this raw-material basis are merged into four Trade Groups organized on the basis of the type of fiber employed. There is one such Trade Group for cotton and staple

*A description of the general organization of German business is given in the Civil Affairs Handbook *Germany, Government and Administration*, section 27, "Economic Controls in Nazi Germany."

fiber, one for wool, one for bast fibers, and one for silk. Two additional Trade Groups have been established according to the type of work performed rather than according to the type of fiber employed. These are the Embroidery and Knit-Goods Trade Group and the Textile-Finishing Trade Group. To a certain extent coordinating the work of the six Groups, the Trade Group for Textile-Finishing sends a liaison officer to the meetings of the other five Trade Groups.

Six minor Trade Groups belong to the Economic Group for the Textile Industry, in addition to the above-mentioned six major Groups. The minor Trade Groups are those for (1) spun goods, (2) sewing cotton and embroidery threads, (3) ribbons, cords, laces, etc., (4) carpets, upholstery, and shoe materials, (5) tapestries and flags, and finally (6) other miscellaneous textile products.

The Economic Group for Clothing contains 10 Trade Groups, 5 Sub-Trade Groups, and some 30 Trade Sections. The Trade Groups are those for the following industries: (1) furs, (2) men's and boys' clothing, (3) work, professional, and special clothing, (4) women's outer clothing, (5) underwear, (6) hats and caps, (7) uniforms, (8) buttons and zippers, (9) sheets, mattresses, and comforters, and (10) commercial laundries. The Sub-Trade Groups are those for the following industries: (1) suspenders, (2) cloth leggings, (3) umbrellas, (4) artificial flowers and feathers, and (5) uniform accessories.

B. Combines in the Artificial-Fiber Industry.

Production and control in the artificial-fiber industry are concentrated in four large combines. These, and their headquarters in 1942, were: I. G. Farbenindustrie, at Frankfurt/M.; Vereinigte Glanzstoff-Fabriken AG, at Wuppertal-Eberfeld; Phrix-Werke AG, at Hamburg; and Deutsche Zellwolle- und Kunstwolle-Ring at Berlin.

I. G. Farben and Vereinigte Glanzstoff are old, powerful combines. While manufacture of artificial fiber is to some extent a side line among I. G. Farben's vast range of operations in the chemical industry, its Wolfen plant in the Leipzig region had a capacity of 100,000 tons of rayon a year.

While the two old combines are operated semi-independently, Glanzstoff has a minority interest in the rayon section of I. G. Farben. This relationship helps to make Glanzstoff the most important of the four synthetic fiber groups. Even if plant destruction up to mid-1944 is taken into account, Glanzstoff at that time directly controlled some 35 percent of the German rayon output. It wholly controls J. P. Benzon AG, which has important subsidiaries (with a monopoly on use of the cuprammonium process) in the United States, the United Kingdom, and other countries. Glanzstoff is probably a majority stockholder of Algemeene Kunstzijde Unie of the Netherlands. The Dutch corporation holds the foreign properties of Glanzstoff. One of Glanz-

stoff's most important units in Germany of the pre-Nazi period was built wholly with funds supplied by the British rayon trust, Courtaulds. In return for this aid, Courtaulds obtained an agreement through which it was to have the right to participate equally in future expansion of the Glanzstoff production potential. This right was not exercised but has been in suspension.

Majority control of Phrix, which was formerly held by the Dierig textile interests, in 1941 passed to Hans Kehrl, who has expanded the enterprise into a full fledged combine, with the largest production of staple fiber on the Continent. Kehrl is a textile industrialist who holds high positions in the government under Speer and in numerous subsidiaries of the Goering combine.

The Deutsche Kunstwolle- und Zellwolle-Ring began as a semicompulsory organization of textile interests to build rayon factories. It also received heavy government subsidies and has been a favorite instrument of the German government in obtaining control of the artificial-fiber industry in conquered and satellite countries. For example, when the principal rayon producers of France (already united under a holding company) were forced to form a new corporation the Ring received a third of the stock "in return for technical services."

C. Cartels and National Associations (Reichsvereinigungen).

Many cartels in the textile economy have been abolished and their functions taken over by the Groups. For example, half of the cartels in the textile finishing industry have been dissolved. All 29 clothing-industry cartels have been merged with the Economic Group for Clothing, and their functions are now exercised by this Economic Group and its Trade and Sub-Trade Groups.

This is not so with the cartels in the fields of chemical fibers, hemp, and textile processing. In these fields of enterprise the dominating cartels were so powerful and so efficiently organized that they could not easily be eliminated. Compulsory cartelization of the entire industry in each of these fields has taken place, and the cartels have been integrated into three national holding (or peak) cartels, designated National Associations (*Reichsvereinigungen*), and controlled by means of the leadership principle. The National Association for Bast Fibers—e. g., flax and hemp—(*Reichsvereinigung Bastfasern*) controls the industrial fiber economy. The National Association for Chemical Fibers combines the existing cartels in the field of rayon and cellulose-wool fibers. The National Association for Textile Finishing was formed by the amalgamation of the 29 finishing cartels that were not dissolved.

An individual businessman belonging to a National Association is still a member of his Group, but the latter connection is largely nomi-

nal, since, for all practical purposes, the Group has been absorbed by the cartel, and the National Association now performs the Group functions.

D. The Wool Federation (*Arbeitsgemeinschaften*).

The wool field likewise slipped away from rigid control by the National Group for Industry. The Trade and Sub-Trade Groups in this sector of the economy were combined in the Wool Federation. This is a private body which, at its inception, possessed administrative control over the whole domain of wool production and allocation from the sheep's back to the spindle, and was run exclusively by big businessmen, though controlled through the leadership principle. The Wool Federation thus closely resembles the National Associations.

E. National Board (*Reichsstellen*).

Two National Boards exist in the textile economy for the purpose of allocating raw materials. These are the National Board for Clothing and Related Fields (*Reichsstelle für Kleidung und Verwandte Gebiete*) and the National Board for the Textile Economy (*Reichsstelle Textilwirtschaft*), the latter embracing the fields of cotton, cotton yarn, silk, artificial silk, staple fiber yarn, and, more recently, asbestos.

Since they have no executive organs of their own, the Boards have utilized the cartels' sales organizations and the Trade and Sub-Trade Groups as distributing agencies through which their raw-material-allocation function is exercised. In the fields of wool and bast fibers, this function has been taken over by the Wool Federation and the National Association for Bast Fibers, respectively.

F. Steering Spheres (*Lenkungsgebiete*).

There are two Steering Spheres in the textile economy, one comprising both the National Board for the Textile Economy and the Wool Board, the other including (1) the National Board for Clothing and Related Fields, (2) the three textile National Associations, (3) the Economic Group for Clothing and its subordinate Groups, and (4) the Production Control Office for Sewing Yarns (*Auftragstelle Nähgarn*), composed of the four cartels in this field.

The National Commissioner in charge of each Steering Sphere is, *ex officio*, the director of the National Board under his jurisdiction. Lacking executive organs of his own, he operates through Allocation Offices (*Bewirtschaftungsstellen*), composed of the Groups or, in the case of the National Associations, of cartels. In some cases, Order Distribution Offices (*Auftragsverteilungsstellen*) have been created by

the Allocation Offices to assist in the distribution of governmental orders to the appropriate entrepreneurs.

The Steering Spheres were set up to combine under one name all organizations in any one sector of the economy, in order that an entrepreneur would have contact with only one "agency." The function of each Steering Sphere is to coordinate the work of the various agencies in its field.

G. Control.

The Ministry of Economics, in charge of the civilian sector of the economy, has administrative supervision over the organizations of the textile and clothing industries. Moreover, it possesses branch organizations on the regional and local levels, namely, the Regional Economic Offices (*Landeswirtschaftsämter*) and the Economic Offices (*Wirtschaftsämter*). Clothes are rationed through the Economic Offices.

Textile production plans have their inception in the Planning Office (*Planungsamt*), which is located in the Office of the Commissioner General for Armament Tasks and War Production in the Four-Year Plan. Also the Commissioner General, Albert Speer, issues decrees and rulings directly to the various organizations in the textile economy.

The real power over the textile economy, however, is exerted by the Ministry of Armaments and War Production, also headed by Speer, through its production departments. Of these, perhaps the most important in the textile and clothing fields is the Raw Materials Office (*Rob- und Grundstoffamt*).

Control is facilitated by using personnel important in the textile industry in key governmental regulatory positions. For example, Dr. E. H. Vitz, president of Vereinigte Glanzstoffwerke, controls the National Association for Chemical Fibers, as well as the National Board for the Production of Chemical Fibers (*Reichsstelle Herstellung Chemische Fasern*). Hans Kehlert, chairman of the board of directors of the Phurix combine, is not only director of the Raw Materials Office of the Speer Ministry but also manager of the Planning Office.

II. FUNCTIONING OF THE GERMAN TEXTILE ECONOMY

A. Planning and Execution.

1. **Over-all Program.**—Every three months, plans for the production of textile goods during the following quarter-year are drawn up in the Planning Office. At these sessions the demands of the following five groups are represented: (a) Army, Navy, and Air Corps; (b) Nazi Party, German police, Reich labor services, Reich Railway, Reich Post, and other national uniformed agencies; (c) trade and agriculture;

(d) export; and (e) civilian population. The demand of each group is investigated from the point of view of paring down requirements to the barest minimum; then the total demand, in terms of the raw materials required to fill it, is measured against the supply of raw materials potentially available. Estimates of the raw materials available are furnished the Planning Office through its director, Hans Kehrl, who also heads the Raw Materials Office of the Speer Ministry. If the fiber supply is estimated to be insufficient to meet the total demand, the amount of the deficiency is subtracted from the submitted requests of the five groups at those points capable of bearing the "cut" with the least injury to the national interest. The "deficiencies" have been borne almost entirely by the civilian sector of the population. When a balance between estimated supply and estimated demand is finally reached, the quotas of fiber allotted to each of the five sectors of the economy are translated into types of finished goods desired by each sector. The combined quantities of finished goods which can be produced from the quantity of available fibers constitutes the over-all production program for the textile economy for the following quarters.

2. Elaboration of the Plan.—The various parts of the program are channeled through the Raw Materials Office and the National Boards. It is the function of the Groups and the cartels of the National Associations to elaborate the program presented to them. The quantities and types of clothing called for by the program are translated into the necessary kinds of piece goods. These, in turn, are translated into the various types of yarn required, and the yarn is converted into fiber types. Each Group and National Association in the textile and synthetic-fibers industries is aware of the total volume of work which it probably will be called upon to perform during the ensuing three months.

3. Distribution of Orders.—Goods for governmental use are ordered through the cartels and the Order Distribution Offices of the Groups, the latter existing within the Gas Economic Chambers. Industrial requirements for textiles (transmission belts, tarpaulins, etc.) are also handled through the Gas Economic Chambers. On the other hand, wholesale orders for civilian goods find their way into the productive processes through the Regional Group Offices.

4. Raw Material Allocation.

a. The "Hersta" System.—In general, raw-material allocation takes place through the structure of the Economic Groups (that is, through the Trade and Sub-Trade Groups) under the supervision of the National Boards. The owner of a weaving mill, requiring a specified quantity of mixed yarn, applies to his Regional Group Office for a "Hersta" (*Herstellungszulassung*), or raw materials permit. The regional office makes a preliminary examination of his application and

forwards it to the appropriate National Board, which approves or disapproves of the "Hersta." If it approves, the "Hersta" is forwarded to a regional Group office having jurisdiction over one or more spinning mills. This office marks on the "Hersta" the number and quality of yarn desired. It also marks on the reverse side of the "Hersta" the name of the firm which is to deliver the yarn and the time when it will be delivered. The regional office then forwards the "Hersta" to the applicant. From now on, the applicant of the "Hersta" knows from whom and when he will obtain the yarn needed for the production of cloth in his mill.

At the same time that the spinning mill's regional office marks the "Hersta" it issues a permit to the spinning mill to produce the yarn, stating the quantity, quality, and time of delivery. This permit not only entitles but obligates the spinning mill to produce under the terms indicated on it. As soon as the spinning mill delivers the yarn to the weaving mill, the date of delivery is marked on the reverse side of the permit and returned to the Group from which it was obtained.

Sooner or later, the owner of the spinning mill applies for a "Hersta" entitling it to a quantity of wool. If the Group approves the application, it sends to the appropriate Group in the Wool Federation the correct amount of "spinning coupons" (*Gespinnstpat-scheine*) on which the name and address of the applicant are marked. Each spinning coupon represents a specific quantity and quality of wool which is available, and constitutes an order for delivery when endorsed by the Groups. These coupons are made available to the Groups by the Wool Federation. As in the case of the yarn "Hersta," when the wool is delivered the date of delivery is stamped on the coupons, which are then returned to the Wool Federation.

b. Allocation by the National Associations.—The National Boards in charge of the various raw materials going into the manufacture of artificial fibers have primary responsibility for the allocation of these raw materials to the specific artificial-fiber plants. The output of these plants is another matter, however; control of sales through allocation of staple fibers is within the province of the National Association for Chemical Fibers, operating through its subsidiary cartels, and a somewhat similar allocation control is exercised by the National Association for Bast Fibers. As with the Wool Federation, the National Association for Chemical Fibers provides "staple-fiber checks," each embodying a specific quota of staple fiber. However, instead of being distributed through the Groups, these checks are allocated on the basis of productive capacities.

B. Rationalization.

1. Standardization of Commodities.—Standardization of production is a function of the National Boards, exercised either directly or

through the Groups. Direct action is illustrated by the numerous National Board decrees prohibiting production of certain textile goods, proscribing the use of certain materials, and prescribing specific production methods.

All of the Economic Groups, and many of the Trade and Sub-Trade Groups, possess standardization committees which recommend to their members specific measures regarding scientific management, labor-saving devices, and the standardization of goods. The Minister of Economics can make the adoption of the standardization committees' recommendations binding on all producers, wholesalers, and retailers. A large number of such decrees have been issued concerning the tensile strength of yarns, the color and fiber composition of various types of cloth, etc. In fact, there is hardly a phase of the textile industry which has not been affected by the standardization committees of the Groups.

The National Associations have full authority to standardize products in their fields.

2. Exchange of Experience.—The Economic Group for the Textile Industry initiated the system of "Model Plants" (*Musterbetriebe*). "Model Plant" is a title bestowed upon an enterprise distinguished for its high production. As a result of this designation by the state, the owner of the "Model Plant" is obligated to permit all firms in his line of business to obtain knowledge of the processes of production and the technical devices of the plant. As a compensation, the "Model Plants" obtain steady orders, as well as priority in raw materials, machines, etc. In this manner, the continued existence of the enterprise as a "Model Plant" as well as its ability to carry out large and urgent orders is ensured. At the same time, this compensation is an inducement for other plants to seek promotion to the status of a "Model Plant."

Smaller plants may also become "Model Plants." Out of 190 plants so designated, 30 contain less than 120 employees.

C. Control of Consumers, Retailers, and Wholesalers.

1. Consumer Rationing.—The National Clothing Ration Cards, based on a "point" system, are issued to the population through the local Economic Offices. Each coupon on the card represents a certain weight of spinning material; however, the weight varies among different types of fibers. For example, the weight of wool represented by one coupon is much less than the weight of staple fiber represented by the coupon, since staple fiber is much more plentiful than natural wool. Nevertheless, the aggregate number of coupons in the hands of the population is roughly equivalent to the aggregate fiber supply available to the civilian populace. New coupons are issued only when additional spinning material is available.

Each National Clothing Ration Card contains a list of clothing items which can be bought on presentation of the coupons. The relationship between a textile item on this list and the number of coupons necessary for its purchase is indicated by a statement displayed in the retail stores. This statement assigns a value to each clothing item, indicating the number of coupons which must be relinquished before the article can be bought. This assigned value is not always the equivalent of the average measured weight of the fibers contained in that particular item of clothing, but is a figure currently adjusted to take into account the fiber-supply situation of the moment, and to favor certain population groups such as women, children, and laborers.

Supplementary clothing cards have been issued to expectant mothers, young persons, and air-raid victims.

Certain items, not listed on the National Clothing Ration Cards, cannot be purchased by means of ordinary coupons, but require special "Purchasing Certificates." Possession of these Purchasing Certificates is also necessary in order to obtain additional clothing items. Individuals performing services or living under circumstances requiring the use of special clothes may receive Purchasing Certificates.

Whenever the clothing supply is short, the rationing system is manipulated in order to reduce the civilian consumption of textiles. This is done by raising the assigned point values of clothing items, by lengthening the period of time which each clothing card must cover, by reducing the total number of points on successive cards, by blocking part of the points of each card, by reducing the number of rationed items, by increasing the number of items requiring Purchasing Certificates, and by making procurement of these Purchasing Certificates increasingly difficult. As the war has progressed, reliance upon certificates rather than clothing-card points has been more frequent. In August 1943, the textile situation was so tight that the validity of clothing cards was temporarily suspended.

2. Point-Check System.—In order to control wholesalers and retailers dealing in textile goods, "Point-Check Offices" have been established under the jurisdiction of the Economic Offices. The Point-Check Offices consist of the Economic Offices themselves or of the commercial or savings banks to which this function has been delegated.

Sellers of textile goods (either wholesalers or retailers) may establish a "point account" with the Point-Check Office. When coupons of the National Clothing Ration Card or Purchasing Certificates are obtained by sale of textile goods, they are forwarded by the sellers to the Economic Office of that area in which their sales office is located. The Economic Office counts the coupons, as well as the Purchasing Certificates, and reports to the Point-Check Office, which credits the point account of the seller.

As soon as the wholesaler or retailer desiring to purchase textile goods obtains acknowledgment of the sales order by the manufacturer or the wholesaler, respectively, he draws a check on his point account large enough to cover the point value of the merchandise he has ordered. The Point-Check Office confirms the check by stamping it, thus entitling the purchaser to the textile goods described on the check. The purchaser forwards the check to the manufacturer or wholesaler, as the case may be, and the Point-Check Office immediately debits his account by the amount of the check. Checks received by manufacturers must be held and accounted for according to instructions given by the National Board for Clothing and Related Fields.

The check contains the following statements: (a) name of seller, as well as the name of wholesaler or manufacturer respectively; (b) date and place; (c) number of check account; (d) type of merchandise; (e) number of item under which the merchandise is listed on the "List of Points for Procuring Merchandise"; (f) quantity in terms of meters, pairs, etc.; (g) total number of points of one unit of merchandise; and (h) total number of points of all units of merchandise. The "List of Points for Procuring Merchandise" is a special list published by the National Board for Clothing and Related Fields for the use of wholesalers and retailers in place of the National Clothing Ration Card's evaluation.

A simplified point-check system has been established for artisans and retailers who sell textile goods for a total amount of less than 30,000 Reichsmarks per year. A departure from the point-check procedure is also provided for branch offices or firms, and for the sale of merchandise deliveries in small parcels or packages.

3. Price Control.—Prices in the textile and clothing fields are generally fixed in the office of the Price Commissioner. For example, the whole range of administrative prices for spinning yarns is fixed by the Price Commissioner. More independence has been granted to the Price National Associations, however. They have been authorized to fix prices for all raw materials and semifinished and finished products within the general framework set by the Price Commissioner.

III. RECOMMENDATIONS

1. Allied supervision of the German textile economy should be maintained through a central organization, such as the Ministry of Economics, so that the industry may perform functions assigned to it in pursuance of United Nations' war aims and post-war objectives. The attainment of these objectives will require:

a. Establishing desired levels of production to meet domestic consumption and export requirements.

b. Assuring an appropriate allocation of raw materials to and within the industry pursuant to some general programming for German industry as a whole.

c. Assuring distribution of the output according to plan.

d. To facilitate accomplishment of b and c, maintaining the price structure pursuant to general price control regulations.

e. In connection with both b and c, integrating the operations of the industry with those of the foreign trade control.

2. This supervision should be exercised in such a way as to remove Nazi influence and Nazi personnel. The textile economy should be thoroughly exposed to the influence of the general denazification measures which are put into effect. For example, the abolishment of the leadership principle will constitute a powerful weapon for destroying the influential vestiges of National Socialism. In addition, however, the act of supervising the textile economy should have as one of its positive aims the ferreting out and extirpation of Nazi personnel. Lacking evidence to the contrary, the presumption must be that all individuals now in office are Nazis to some degree.

3. Subject to Military Government supervision, responsibility for operating the textile economy should be placed on the Germans themselves. Because of the large number of relatively small textile-processing plants, Military Government may not find it possible to supervise all establishments in detail. Not only should operation of the textile economy be left to the Germans, but the governmental control machinery should be allowed to remain in German hands to the greatest extent feasible. After a textile program has been developed by the Ministry of Economics in consultation with Military Government and approved by Military Government, supervision over the control machinery should include:

a. Supervision of allocation by the Ministry of Economics of orders, raw materials, and credit to individual production units;

b. Supervision of compliance with the established program on both a national and regional basis.

(1) An occasional review of outstanding "Herstas" by regional Military Government officers provides an effective means of identifying trouble spots on the production level.

(2) Comparison of quantities and dates of "Herstas" applied for with quantities and dates of "Herstas" issued provides a method of supervising the administration of civilian orders.

This machinery can, of course, be adjusted to the detail of supervision desired. A sacrifice in scope of supervision may be necessary in case of Military Government personnel limitations.

* See Civil Affairs Staff, *General Principles for the Dislocation of the Textile Industry and the Dislocation of Texts.*

4. Since the existing system of controls was designed for more extensive operations than those envisaged by Military Government, all functions not subsumed under the general program listed in Recommendation 1 should be abandoned. In some instances the abandonment of functions will permit the abolishment of entire agencies. For instance, the textile economy itself could offer no justification for the continued existence either of the Office of Commissioner General for Armament Tasks and War Production in the Four Year Plan or of the Ministry of Armaments and Munitions, since these exist for war purposes and whatever functions they now perform applicable to the textile economy in peacetime could easily be transferred to the Ministry of Economics.

5. Control of the synthetic-fiber industry should be vested in some central organization, such as the National Association. In general, the cartels and combines in the synthetic-fiber field have been particularly potent centers of Nazi activity, and, as such, may be especially troublesome to Military Government. Nevertheless, the organization of this industry—composed, as it is, of a comparatively small number of large firms—lends itself to such integrated control as has existed during the war. With the retention of compulsory membership of artificial-fiber producers in the National Association for Chemical Fibers, and with a strong Military Government supervision of the latter, Allied authority may be brought to bear on this potential source of trouble.

6. As far as processing facilities are concerned (spinning, weaving, etc.), controls should be limited to (a) allocation of raw materials and (b) distribution of finished goods.

7. The "Herrsta" system should be retained for the allocation of raw materials.

8. The "point-check" system should be continued for the distribution of finished goods.

9. A system of clothes rationing should be continued.¹

¹See Civil Affairs Guide, Distribution and Rationing of Consumer Goods Other Than Food in Germany.

UNITED KINGDOM TREASURY DELEGATION

BOX 888
BENJAMIN FRANKLIN STATION
WASHINGTON, D.C.

"Top Secret"

TELEPHONE EXECUTIVE 8088

REFERENCE 4A

4th April, 1945

Dear White,

I am writing as usual to advise you of the figures of our gold and dollar holdings at the 31st January, 1945. These were as follows:

	£ Millions	
Gold	1750	
Less gold liabilities	338	
Net gold	—	1412
Official dollar balances	444	
Less dollar liabilities	172	
Net dollars	—	272
Net Gold and Dollars	—	1684

Yours sincerely,

R. H. Brand

R. H. Brand.

Dr. H. White,
U.S. Treasury,
Washington, DC.

HKGacs

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FEDERAL RESERVE BANK
OF NEW YORK

April 4, 1945

CONFIDENTIALDear Mr. Secretary: Attention: Mr. H. D. White

I am enclosing our compilation for the week ended March 26, 1945, analyzing dollar payments and receipts in official British, French, Canadian, and Australian accounts at the Federal Reserve Bank of New York.

Very truly yours,

/s/ H. L. Sanford

H. L. Sanford,
Assistant Vice President

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

Enclosures 2

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TREASURY DEPARTMENT
OFFICE OF THE SECRETARY

April 5, 1945

CONFIDENTIAL

Received this date from the Federal Reserve Bank of New York, for the confidential information of the Secretary of the Treasury, compilation for the week ended March 26, 1945, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York and the means by which these expenditures were financed.

ANALYSIS OF BRITISH AND FRENCH ACCOUNTS
(In Millions of Dollars)Week Ended March 28, 1945 Strictly Confidential

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT)					BANK OF FRANCE (FRENCH GOVERNMENT)				
	DEBITS		CREDITS			DEBITS		CREDITS		
	Total Debits	Gov't Expenditures (a)	Transfers to Official Canadian Account	Other Debits	Total Credits	Total Debits	Gov't Expenditures (a)	Transfers to Official Canadian Account	Other Debits	Total Credits
War Years (g)										
First	1,793.2	605.6	20.9	1,166.7	1,828.2	1,356.1	32.0	3.9	416.2	+ 35.0
Second	2,203.0	1,792.2	3.4	407.4	2,189.8	1,193.7	274.0	16.7	705.4	+ 13.2
Third	1,235.6	904.8	7.7	223.1	1,361.5	21.8	5.5	97.4	1,276.8	+ 125.9
Fourth	764.0	312.7	170.4	280.9	1,072.3	-	0.5	155.1	916.7	+ 308.3
Fifth	1,197.7	300.4	61.4	835.9	1,362.6	-	-	253.0	1,116.6	+ 171.9
1944										
September	151.0	10.9	50.4	80.7	56.5	-	-	1.0	55.5	- 94.5
October	127.9	21.0	7.4	99.5	54.7	-	-	1.0	53.7	- 73.2
November	74.2	45.4	2.9	25.9	92.1	-	-	1.0	91.1	+ 17.9
December	80.4	24.7	-	55.7	91.6	-	-	-	91.6	+ 11.2
1945										
January	147.7	98.7	31.3	18.9	54.2	-	-	-	54.2	- 94.7
February	41.4	10.7	4.7	15.2	60.1	-	-	-	60.1	+ 19.1
March										
April										
May										
June										
July										
August										
Week Ended										
March 7, 1945	19.0	8.8	3.9	5.3	22.4	-	-	-	21.4	+ 2.4
March 14, 1945	9.7	4.8	2.3	2.6	11.2	-	-	-	21.2	+ 11.3
March 21, 1945	9.6	3.3	-	6.3	24.7	-	-	-	24.7	+ 15.1
March 28, 1945	34.2	27.4	-	6.8	6.0	-	-	-	(1) 6.0	- 28.2

Average Weekly Expenditures Since Outbreak of War

France (through June 19, 1940) \$19.6 million
 England (through June 19, 1940) \$27.6 million
 England (through June 20, 1940 to March 12, 1941) \$54.9 million
 England (since March 12, 1941) 21.5 million

See attached sheet for footnotes.

Reports and Analysis Division

- (a) Includes payments for account of British Ministry of Supply Mission, British Supply Board, Ministry of Supply Timber Control, and Ministry of Shipping.
- (b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December, 1940 amounted to \$334 million.
- (c) Includes about \$85 million received during October, 1939 from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts since October, 1939 apparently represent current acquisitions of proceeds of exports from the sterling area and other accruing dollar receipts. See (k) below.
- (d) Reflects net change in all dollar holdings payable on demand or maturing in one year.
- (e) For breakdown by types of debits and credits see tabulations prior to March 10, 1943.
- (f) Adjusted to eliminate the effect of \$20 million paid out on June 26, 1940 and returned the following day.
- (g) For monthly breakdown see tabulations prior to April 23, 1941; October 8, 1941; October 14, 1942; September 29, 1943; September 6, 1944.
- (h) Transactions for account of Caisse Central de La France E'Outre-Mer included for first time in week ended December 6, 1944.
- (i) Includes \$ 4.8 million apparently representing current and accumulated dollar proceeds of sterling area services and merchandise exports, and \$0.2 million in connection with the expenses of our armed forces abroad.
- (j) Includes \$23.0 million paid to account of Community Credit Corporation, to cover purchase of tobacco.

Reports and Analysis Division

ANALYSIS OF CANADIAN AND AUSTRALIAN ACCOUNTS
(In millions of Dollars)

Week Ended March 28, 1945

Strictly
Confidential

PERIOD	CANADA (and Canadian Government)				COMMONWEALTH BANK OF AUSTRALIA (and Australian Government)			
	DEBITS	OFFICIAL	OTHERS	PROCEEDS	DEBITS	OFFICIAL	OTHERS	PROCEEDS
	Total	to British		of	Total	to British		of
	Debits	A/C	Debits	Credits	Debits	A/C	Debits	Credits
War Years (a)								
First	323.0	16.6	306.4	504.7	42.7	20.7	38.7	32.4
Second	460.4	-	460.4	462.0	265.2	3.4	123.9	88.5
Third	525.8	0.3	525.5	566.3	198.6	7.7	-	360.0
Fourth	723.6	-	723.6	958.8	47.1	170.4	-	741.3
Fifth	849.3	1.0	848.3	938.5	38.1	61.4	-	859.0
1944								
September	76.5	0.1	76.4	91.8	-	50.4	-	41.4
October	22.1	-	22.1	24.2	-	1.4	-	76.8
November	38.8	-	38.8	33.7	-	2.9	-	50.8
December	41.5	0.7	40.8	32.7	-	-	-	32.9
1945								
January	35.1	-	35.1	91.6	10.0	31.3	-	50.3
February	27.3	-	27.3	103.9	-	4.2	-	77.9
March								
April								
May								
June								
July								
August								
Week Ended								
March 7, 1945	4.1	-	4.1	30.1	-	1.9	-	26.3
March 14, 1945	5.5	-	5.5	1.8	-	1.3	-	4.8
March 21, 1945	1.3	-	1.3	1.8	-	-	-	1.8
March 28, 1945	9.4	-	9.4	4.4	-	-	-	4.7

Average Weekly expenditures for

First year of war 6.2 million.
 Second year of war 8.9 million.
 Third year of war 10.1 million.
 Fourth year of war 13.9 million.
 Fifth year of war 16.1 million.
 Sixth year of war (through March 28, 1945) 8.1 million.

- (a) For monthly breakdowns see tabulations prior to: April 23, 1941; October 8, 1941; October 14, 1942; September 29, 1943; September 6, 1944.
 (b) Reflects changes in all dollar holdings payable on demand or maturing in one year.
 (c) Does not reflect transactions in short term U. S. securities.
 (d) Includes \$ 1.9 million deposited by War Supplies, Ltd.
 and \$ 0.5 million received from New York accounts of Canadian chartered banks, and \$1.7 million transferred from an account at this bank of the State Bank of U.S.A.

215

PLAIN

Norm

Dated April 4, 1945

Rec'd 8:29 a.m., 5th.

Secretary of State,

Washington.

1956, Fourth.

FOR WRB FROM MOORELAND.

Kindly deliver following message from Union OSE
Geneva to Lee Vulcan American OSE 20 West 40 NYC.

"Joint OSE Medicosocial Relief Mission consisting
of 6 physicians and 8 other staff members along with
7 tons of supplies medical and restorative left Switzerland
March 17 for Yugoslavia via Marseille. Their aim is
emergency relief to displaced persons particularly
Jews liberated from camps and diffused throughout
newly liberated territories. Received cabled news that
our previous mission consisting of 6 persons left Naples
for Hungary accompanied by JDC delegate Israel
Jacobsohn. Joint OSE Polish Mission has now been
provided with necessary supplies, is ready to start
and expecting visas shortly". 16.80

HANRISON

MJF

216

Stockholm

Dated April 4, 1945

Rec'd 5:45 p.m.

Secretary of State,

Washington.

1956, April 4, 6 p.m.

Rabbi Wilhelm Welbe wishes to deliver the following
message to Rabbi Abraham Kalmanovits of Vaad Mahasalah
Emergency Committee. This is our 132 for WRB.

Beginning message. Please confirm and answer
our cables. I received cable from Rabbi Shmulevits
that considerable clothing support urgent. Please
tell Meier Schenkelsky from Agudas-Israel World
Organization that World Jewish Congress has lists of
all rescued from Bergen Belsen. End message.

JOHNSON

EDA

215

PLAIN

Bern

Dated April 4, 1948

Rec'd 6:29 a.m., 5th.

Secretary of State,

Washington.

1958, Fourth.

FOR WRS FROM MOORELAND.

Kindly deliver following message from Union OSE
Geneva to Les Vulkan American OSE 20 West 40 NYC.

"Joint OSE Medicosocial Relief Mission consisting
of 6 physicians and 8 other staff members along with
7 tons of supplies medical and restorative left Switzerland
March 17 for Yugoslavia via Marseille. Their aim is
emergency relief to displaced persons particularly
Jews liberated from camps and diffused throughout
newly liberated territories. Received cabled news that
our previous mission consisting of 6 persons left Naples
for Hungary accompanied by JDC delegate Israel
Jacobson. Joint OSE Polish Mission has now been
provided with necessary supplies, is ready to start
and expecting visas shortly". 16,80

HARRISON

HJT

216

Stockholm

Dated April 4, 1948

Rec'd 6:45 p.m.

Secretary of State,

Washington.

1958, April 4, 6 p.m.

Rabbi Wilhelm Welbe wishes to deliver the following
message to Rabbi Abraham Kalmanovits of Vaad Mahasalah
Emergency Committee. This is our 133 for WRS.

Beginning message. Please confirm and answer
our cables. I received cable from Rabbi Shmulevits
that considerable clothing support urgent. Please
tell Meier Sholemolewsky from Agudas-Israel World
Organization that World Jewish Congress has lists of
all rescued from Bergen Belsen. End message.

JOHNSON

EMA

PLAIN

Bern

Dated April 4, 1945

Rec'd 2 p.m., 10th

Secretary of State,

Washington

1945, Fourth

FOR: WBS FROM ROCHELLELAND

Sternbach is having difficulty relaying messages from Shanghai to USA concerning relief questions and has therefore asked me pass following message on to you for Vaad Hatzala.

"Samuelovits in Shanghai has cabled as follows 'all need special holiday support and are requesting considerable clothing relief. Rabbis 'elmark, Szymonowicz, Krawiec, et cetera have cabled as follows: Avrombach Mirer 10,000 Kletsker 3,000 Felsner 3,000 Rabbis and Kollelts 2,000 Mahad 2,000 Kamenitzers 1,000 Lubliner 1,000 Ratjosef 800 Plenimer 200 Radiner 200 total 23,000. Urgent your confirmation receipt otherwise it will be impossible for these individuals and groups enjoy Vaad Hatzala emergency support. Please answer soonest'".

HARRISON

KDA

NOTE: Delay due to non-receipt.

JP

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

April 4, 1945
5 p.m.

US URGENT

AMEMBASSY
CHUNGKING

543

US Treasury informs FEA that it has informed Chinese Government authorities it has been able obtain facilities for export about 200,000 ounces gold. (From Crowley and Miller to Joyner. Your 528 March 29) and also of HRC request for immediate export 100,000 ounces. One half tonnage being made available or about 100,000 ounces will be devoted to export of gold acquired from sale of tin.

ATCHESON
(Acting)
(RLN)

DC/LRLH:KBN LA

McMiller
Liaisons:
SU-984-McMiller;FM
3/31/45
CC:Robert
Jewett
Bateman
Wolnow

efWopy
4-7-45

218

200

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

April 4, 1945
5 p.m.

219

AMEMBASSY
CHUNGKING

946

Joyner's certifying authority not revoked. Treasury will confirm.
(FROM CROWLEY AND AMMAN REA FOR JOYNER. Your 516, March 27). Joyner to
certify until arrival of Cannon or return of Stanton. Inadvisable to
designate additional certifying officers at present time.

ACHESON
(Acting)
(RIR)

DC/L:RHH:RHS

LLValentine
Liaison
FE-510-Tagosimac
3-31-45

af:ccw
4-7-45

220

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Stockholm
TO: Secretary of State, Washington
DATED: April 4, 1945
NUMBER: 1261

SECRET

The Swedish Foreign Office is particularly concerned over
the disappearance of Raoul Wallenberg, its attaché to the Lega-
tion in Budapest. It is stated in unconfirmed radio reports that
he has been murdered. In order to determine Wallenberg's fate,
the Swedish Legation in Moscow has been instructed to request
the assistance of the Russian Government.

Any support our Embassy at Moscow can give the Swedish
Legation in Moscow with respect to this matter would be greatly
appreciated by us, as we had a special interest in Wallenberg's
mission to Hungary.

The foregoing message was repeated to Moscow by my 14, of
April 4.

JOHNSON

DC/L:MANFOTT
4/6/45

Paris

Dated April 4, 1948

Rec'd 8:07 a.m., 8th

Secretary of State,

Washington.

1662, April 4, 5 p.m.

FOR O'DWYER FROM MANN AND KATSKI.

G-4 negotiations regarding shipment feed packages heretofore reported to you are now substantially completed. Katski is preceeding to Switzerland April 4 with arrangements made for immediate re entry into France if circumstances warrant. Pursuant to Treasury telegram 1277 March 31 Mann is preceeding to London April 5 but can return to Paris should such be necessary. Ground work laid with G-4 and G-5 for movement of group from Switzerland to Philippeville and southern Italy with preliminary target date set the first half of group set for April 30. G-4 and G-5 will make necessary arrangements for transportation from Swiss border are now arranging feeding and shelter accommodations for group while in France. We are also in touch with Jeungdahl the UNRRA representative, with G-5 (SHAWF main and French mission) and JDC representatives in Paris.

CAFFERTY

RM

CABLE TO MINISTERIAWISCH AND MCCLELLAND, BERN, SWITZERLAND FROM WAR REFUGEE BOARD

The Association of Yugoslav Jews in the United States has called to the attention of the board the plight of 1,000 to 1,200 Yugoslav nationals who are held under appalling conditions in concentration camps near Jasenovac and Stara Gradiska in Croatia. They represent this group to be the remnants of an original population of 20,000. Kindly call this matter to the attention of Intercess with a view (a) to making WFR food parcels available to this group, and (b) ultimate evacuation if such is possible.

Likewise, the Armenian Relief Corps, Inc. here has called our attention to the suffering of Armenian Refugees and prisoners of war within Germany. Their informant, one Arnik Djamelian, an Armenian national and resident of Geneva and Berlin, indicates that there are more than 40,000 who are in need of aid. Mr. Djamelian advises that Burkhard has promised to help with transportation of anything that can be sent to this group. Their needs are clothing, food and medicine. It is suggested that if this group can be reached, they, too, share in the distribution of WFR food parcels.

THIS IS NEW YORK CABLE NO. 484

2:15 p.m.
April 4, 1948

Paris

221

Dated April 4, 1945

Rec'd 8:57 a.m., 5th

Secretary of State,

Washington.

1662, April 4, 5 p.m.

FOR O'DWYER FROM MANN AND KATSKI.

G-4 negotiations regarding shipment food packages heretofore reported to you are now substantially completed. Katski is proceeding to Switzerland April 4 with arrangements made for immediate re entry into France if circumstances warrant. Pursuant to Treasury telegram 1277 March 31 Mann is proceeding to London April 5 but can return to Paris should such be necessary. Ground work laid with G-4 and G-5 for movement of group from Switzerland to Philippeville and southern Italy with preliminary target date set the first half of group set for April 30. G-4 and G-5 will make necessary arrangements for transportation from Swiss border are now arranging feeding and shelter accommodations for group while in France. We are also in touch with Youngdahl the UNRRA representative, with G-5 (SHAW main and French mission) and JDO representatives in Paris.

CAFFERTY

RS

222

CABLE TO MINISTRE D'INSTRUCTION AND SOCIELEND, BRUN, SWITZERLAND FROM WAR REFUGEE BOARD

The Association of Yugoslav Jews in the United States has called to the attention of the board the plight of 1,000 to 1,200 Yugoslav nationals who are held under appalling conditions in concentration camps near Jasenovac and Stara Gradiska in Croatia. They represent this group to be the remnants of an original population of 20,000. Kindly call this matter to the attention of Intercess with a view (a) to making UNR food parcels available to this group, and (b) ultimate evacuation if such is possible.

Likewise, the Armenian Relief Corps, Inc. here has called our attention to the suffering of Armenian Refugees and prisoners of war within Germany. Their informant, one Arshak Djazalian, an Armenian national and resident of Geneva and Berlin, indicates that there are more than 40,000 who are in need of aid. Mr. Djazalian advises that Burckhard has promised to help with transportation of anything that can be sent to this group. Their needs are clothing food and medicine. It is suggested that if this group can be reached, they, too, share in the distribution of UNR food parcels.

THIS IS UNR MEMO CASE NO. 484

2:15 p.m.
April 4, 1945

232

CABLE TO MINISTER JOHNSON AND OLSEN, STOCKHOLM, SWEDEN,
FROM WAR REFUGEE BOARD

Treasury has issued license permitting Methodist
Committee for Overseas Relief, New York, to remit \$1,000.
to Reverend Th. Arvidson, Sibyllegaten Eighteen, Stockholm
for relief of Norwegian Methodists in northern Norway.
License stipulates such funds shall be utilized only as
authorized by you as representative War Refugee Board.
Usual precautions in transmitting funds into enemy occupied
territory should be exercised.

THIS IS NEW STOCKHOLM NO. 343

2:15 P.M.
April 4, 1945

NOT TO BE RE-TRANSMITTED

COPY NO. 4

SECRET

OPTTEL No. 106

Information received up to 10 a.m., 4th April, 1945.

NAVAL

1. NORWEGIAN WATERS. 4th. Three of H.M. Destroyers and one Canadian Destroyer engaged convoy of four ships, two U-boats and three escorts off Egersund. One ship torpedoed, one probably torpedoed and one left on fire. An escort also damaged.

2. MEDITERRANEAN. 2nd. Two midget U-boats attacked by Spitfires off Pesaro (Adriatic), one was sunk.

3. ANTI-SUBMARINE OPERATIONS. 3rd. Escort Group, escorting convoy, made promising attack on U-boat in St. George's Channel.

MILITARY

4. WESTERN FRONT. Southern Sector: 7th U.S. Army extended gains on broad front from 10 miles south of Heidelberg to Wurzburg. North of Wurzburg infantry reached River Main just south of Karlstadt.

Central Sector: 3rd U.S. Army made two armoured thrusts due eastwards. Southerly thrust reached Keinigen and Northerly one reached Eisenach which is reported by-passed to north by an armoured column which is within four miles of Gotha. Further north stiff fighting in Cassel but town now reported clear. 1st U.S. Army consolidating its recent gains and mopping up.

Northern Sector: Armoured Division of 9th U.S. Army advanced 25 miles to reach Weser, south of Minden. Munster now cleared. Armoured and airborne troops of 2nd Army engaged in heavy fighting in Osnabruck which now reported clear.

5. EASTERN FRONT. Russians have captured Wiener Neustadt (Austria).

6. ITALY. Attack on spit of land to east of Lake Comacchio continuing satisfactorily; leading troops now within two miles of Porto Garibaldi; nearly 800 prisoners taken.

7. BURMA. Over 18,000 Japanese killed and some 300 guns captured in 14th Army victory in Mandalay Plain.

AIR

8. WESTERN FRONT. 3rd. 255 Bomber Command escorted aircraft (2 bombers missing) dropped 1158 tons through cloud, on Nordhausen Barracks (east of Cassel). 717 escorted U.S. heavies (2 bombers, 3 fighters outstanding) dropped 2012 tons, by Pathfinder technique, on two U-boat building yards Kiel.

218 SHAEF (Air) bombers (4 missing) dropped 356 tons on railway centres Bamel and Holzminde. 1104 fighters and fighter bombers (7 missing) operated over battle areas. Over 200 M.T. destroyed. 1774 aircraft carried supplies to continent and evacuated about 2,000 wounded. 20 fighters attacked railway targets in Holland.

3rd/4th (night). 134 Bomber Command aircraft despatched including 94 Mosquitoes to Berlin. 1 Mosquito missing.

9. MEDITERRANEAN. 2nd. 596 escorted U.S. heavies (2 bombers missing) successfully attacked railway centres Graz (672 tons), St. Polten (179 tons), Krems (228 tons), and a railway bridge south of Graz (254 tons). 1267 aircraft (9 missing) attacked communications in Austria and North Italy, gun positions S.E. of Comacchio and industrial targets Po Valley. 37 locomotives destroyed. Enemy casualties 19,28 in combat.

D. W. Bell

April 5, 1945

Joe O'Connell

Phil Wenchel and I met with Solicitor General Fahy this morning with respect to the change in the Bureau of Internal Revenue Social Security regulations directed by the President in his letter to the Secretary dated March 29, 1945.

We quickly reached an understanding that the Bureau people will immediately sit down with the Social Security Board people with a view to agreeing on the language of the new regulations. When and if agreement is reached (and it should be), the regulations will be submitted to the Solicitor General for his approval.

I do not think there is any necessity for replying to the President's letter at this time.

(Initialed) J. J. S'G., Jr.

cc Miss Chauncey (for her information)
Charles Oliphant
J.P. Wenchel

THE WHITE HOUSE
WASHINGTON

March 22, 1945

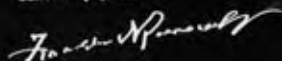
Dear Henry:

I have considered the suggestion of the Federal Security Administrator contained in his letter to me, dated March 15, 1945, and your reply to him, dated March 24, 1945, in which you indicate your disagreement. When a difficulty of this kind arises, concerning legal questions as to the scope and meaning of a statute, I am inclined to follow the recommendation of the Department of Justice. I understand that no formal opinion has been rendered by the Attorney General on this issue. However, the Solicitor General has expressed his view in a letter to the general counsel of the Federal Security Agency, dated January 12, 1945, a copy of which was forwarded to you. He states that he considers it necessary to amend the employee coverage definition in the Treasury and Social Security Board regulations "in order more fully to reflect the underlying objectives of the program."

Under the circumstances I think it desirable that the Treasury Department and the Social Security Board jointly amend their regulations along the general lines suggested by the Federal Security Administrator and approved by the Solicitor General. Agreement upon detailed language can be achieved by the Treasury Department, the Federal Security Agency, and the Solicitor General.

I am not unmindful of the impending study voted by the Ways and Means Committee. However, even if the ultimate resolution of this question by the courts is adverse to the coverage claimed, I think it unlikely that Congressional action upon the broad program will be materially affected by the proposed change in the regulations.

Sincerely yours,



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

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

April 5, 1945

TO Secretary Morgenthau
FROM Mr. Luxford

Re: Summary Report on Meeting with Bankers
in New York on Possible Bretton Woods
Compromise.

1. Mr. D. W. Bell arranged for E.M. Bernstein and me to have a preliminary discussion on this matter with Randolph Burgess at his office in New York on last Monday. Mr. Bell had previously spoken to Mr. Burgess about the desirability of seeking to iron out the differences between the Treasury and the bankers, and Burgess had indicated his wholehearted desire to explore the matter further. At Mr. Bell's suggestion, he had talked to Ned Brown when he had been in Chicago last week. Their conversation had lasted five hours. Apparently, Burgess was impressed by Brown's attitude.

2. Bernstein and I called on Burgess at 10 o'clock Monday morning. We made it very clear to him that the purpose of our meeting was merely to determine whether or not there was any basis for compromising the views between the bankers and the Treasury and that it was neither our purpose nor our authority to commit the Treasury to any proposal. Mr. Burgess readily agreed to this approach and made it equally clear that he was without power to speak except in a personal capacity and that he thought our discussions might proceed to best advantage if "we let our minds rove" and felt free to explore points without any degree of commitment involved in the discussions. It was also agreed that our discussions would be completely off the record. We made it very clear to Burgess from the beginning that we felt that the only basis on which a compromise was feasible was to start with the premise that the Bretton Woods agreements could not be amended at this time and that the Fund could not be postponed. On this premise we were perfectly prepared to explore what possible changes could be made in the legislation before Congress that would aid in meeting the bankers' objections.

- 2 -

3. As a result of our discussion with Burgess (which lasted the better part of the whole of Monday), the following points were developed as a possible basis for compromise:

(a) In order to satisfy the bankers' position that the Fund and Bank should be "combined" so that we would avoid the alleged danger of their operations not being coordinated, the legislation before Congress should stipulate that the United States would appoint one man to serve as both Executive Director for the Fund and for the Bank and another man to serve as both Governor of the Fund and the Bank. It would further be contemplated that if a compromise were effected between the bankers and the Treasury, we would informally sound out the Canadians, British, Dutch, Belgians, and perhaps the French on whether they would be disposed to follow the same practice. The purpose of this proposal would be that while it is not feasible at this time to actually consolidate the Bank and Fund the policies and management of the two institutions could be coordinated by having "a single Board of Directors." It was obvious that not all of the governors and directors would be the same on both institutions, but it was felt that if a number of the principal countries pursued this policy, there would be an important nucleus of influential governors and directors who would be fully familiar with both institutions and thus able to integrate and coordinate their operations.

(b) To meet the second major objection of the bankers, i.e. that the successful operation of the Fund depended on how well it was managed, two major proposals were evolved. They were:

(1) Responsibility for the formulation of American policy on the Fund and Bank should be vested in a Board to be comprised of the Secretary of the Treasury as Chairman, the Secretary of State, the Chairman of the Board of Governors, the Foreign Economic Administrator and the President of a Federal Reserve Bank elected by the open market committee of the Federal Reserve System. Burgess was extremely

- 3 -

adamant against the inclusion of the Secretary of Commerce on this committee. While he granted the significance of the Department of Commerce in the international economic picture, he felt strongly that Wallace would be regarded as "a red flag" in the eyes of the bankers and might constitute an impossible hurdle in our efforts to formulate a compromise. When queried about the naming of a President of a Federal Reserve Bank to the Board in the manner suggested, Burgess explained that they had originally thought in terms of having a banker named to the Board. They believed, however, that this was open to criticism for two reasons: First, because it might not be appropriate for a non-Government official to be on the Board and secondly, if they succeed in getting a banker on the Board, labor and other interests might also demand representation. Therefore, they felt that the bankers would have confidence in a Federal Reserve Bank President to represent their point of view. He was very open in his statement that "obviously, that man would be Alan Sprout as President of the Federal Reserve Bank of New York." It would also be expected that this Board in addition to laying down general policies for the American Governor and the Executive Director to pursue in the Fund and the Bank would also coordinate the policy of the various United States agencies interested in international monetary and financial matters.

(ii) Congress in enacting the Bretton Woods legislation should lay down the explicit rules of policy to guide the American representatives on the Fund and Bank. The philosophy behind this point was that if the American representatives on the Fund and Bank had specific policy instructions from Congress, it would strengthen their hand a great deal in seeing that the Fund and Bank were wisely managed. Moreover, it would serve as notice to the world of the American conception of how the Fund and Bank should operate. Any country accepting the Fund and Bank would be on

- 4 -

full notice of what the American position was. The following points, in particular, were included:

To secure a high degree of coordination between the Fund and the Bank;

To see that basic economic conditions in the various member countries are sound in order that stable exchanges may be practicable;

To see that the Fund does not begin exchange transactions with any member while its basic economic conditions make the maintenance of the stable exchange rate impossible;

To see that the Fund is not used for relief or reconstruction;

To limit the uses of the Fund to meeting seasonal, cyclical and emergency needs for foreign exchange and that long-term stabilization loans be made only by the Bank.

The legislation would require that Congress receive a quarterly report from the American representatives on the Fund and Bank regarding the operations and policies of such institutions and the extent to which they were pursuing policies consistent with those prescribed by Congress.

(c) Congress would require that the American representatives report within two years on how well the Fund and Bank were operating, recommendations as to how they might be made more effective; whether they should be merged into one institution; whether their resources should be increased or decreased; and whether the United States should continue membership in either the Fund or the Bank or in both. The basic principle involved, of course, is one of giving the Fund and Bank a test run so that at the end of a couple of years, we could all again consider what changes, if any, were desirable to improve their operations.

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(d) The CED proposal for making it clear that the Bank has authority to make long-term stabilization loans would be included in the legislation with the provision that the American Governor should ask for an amendment if the Bank management did not agree that the Bank already possessed the power to make loans for stabilization purposes.

In addition to the foregoing, Burgess indicated that the bankers would like to have assurances that the United States would press for the headquarters of the Bank and the Fund being in New York. He said that this would "reassure" the bankers that the institutions would not be under undue political influence. The other point that the bankers were interested in according to Burgess was who was going to be named by the United States to the positions of Governor and Executive Director. He was very explicit on the fact that the bankers would like to see Ned Brown named. On the point as to who would be named to the various posts, we made it very clear that this was not within the field of subjects which we felt that we could discuss. A full statement of the actual changes contemplated in the legislation is attached in the form in which it was considered by the various men in New York. The pencilled notations on this text are changes in form that we are presently considering.

4. After formulating this program with Burgess, he was anxious to try it out on several of the key people in New York. He indicated that he would like to sound out Sproul, Fraser, Potter, and Aldrich in New York and then Hemingway and General Ayers. He requested that we join him in the discussion with these various men in New York which he preferred to see first individually rather than in a group.

5. We saw Sproul late Monday afternoon and Burgess outlined to him the program. Sproul was extremely non-committal and said that he would like to talk to John Williams about it before expressing a view.

6. Tuesday morning, we called on Potter and discussed the program. He was warmly receptive. He made it clear that he still did not like the Fund but that he did feel that amendments of this character to the Bill before Congress would reassure him that the interests of the United States were protected and that on that ground, he was not going to oppose the Fund. It was

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quite clear that Potter was most anxious to see a compromise effected.

7. At Sproul's request, Bernstein and I had lunch with him and Williams. At this lunch, Williams was impossible, stating that it was nonsense to talk about a Fund until economic conditions abroad were more favorable and that it was far more important to work out a solution to the British problem in the matter of tariffs. Sproul echoed Williams. It was quite clear that with these two, the personal considerations were paramount.

8. Burgess then had Leon Fraser in his office to discuss the problem. Surprisingly enough, Leon Fraser was reasonably sympathetic and cooperative in spirit. He made no assurances and drew the distinction between being called upon to "support" the compromise and "accept" it. He was disposed to think in terms of accepting it but not in terms of supporting it. By supporting it, he referred to going around the country making speeches, etc. In the final analysis, he said that he would think in terms of telling Congress that he still thought the ABA report was the best solution to the problem but that he would be prepared to accept this compromise.

9. The next morning, Mr. Bell was in New York and a meeting was held in Sproul's office, at which the following were present: Bell, Sproul, Burgess, Fraser, Potter, Williams, Bernstein, and Luxford. At this meeting, Sproul opened by stating, in effect, that while the meeting was in his office, that did not imply that he was in agreement with the proposal. Mr. Bell then explained how he and Mr. Burgess had both felt that it would be an unfortunate thing if after ten years of cooperation between the bankers and the Treasury, they could not work out an amicable settlement of this Bretton Woods issue, particularly when fundamentally we all agreed on the objectives. The proposal was then outlined to the group collectively and Sproul and Williams opened up the attack. Williams, in particular, was very vehement in his criticism. During the bulk of the discussion, Fraser, Potter and Burgess remained silent. Finally, Mr. Potter said he had to leave but that he wanted to make clear that while he still did not like the Fund and probably never would, nevertheless, he felt that this proposal did protect the interests of the United States; that it sounded acceptable to him; and that he would like to see an agreement worked out. Fraser and Burgess then indicated

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that they were in sympathy with Potter's position.

Sproul then arranged for Bell, Bernstein and me to see Sloan Colt in the afternoon. We met in Sproul's office and, on this occasion, Sproul was more cooperative. Colt was extremely receptive and thought the compromise an excellent solution to our differences. At one or two points, Sproul even offered constructive suggestions.

10. The agenda as it was left Wednesday afternoon was as follows:

(a) Bell and Burgess were to see Aldrich on Thursday morning.

(b) Burgess was asking Meninway and General Ayers to come to New York and discuss the proposal with him on Friday.

(c) We were to consult Washington on their attitude on a compromise of this character.

(d) Burgess will submit the compromise to the Administrative Committee of the ABA, which is meeting in New York on April 14. The Reserve City Bankers are having a meeting in New York at approximately the same time and it was contemplated that the compromise would also be discussed with that group. The New York State Bankers would also be consulted.

11. If it should be concluded that a compromise of this character is feasible, then it would be contemplated that representatives of the two groups would probably sit down with Spence and Wolcott and under their auspices formulate proposed amendments to the legislation to effect the compromise.

AK

Attach.

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Secret - RevisedPossible Changes in H. R. 2211

1. Section 3: Section 3 is amended to read as follows:

Sec. 3. (a) The United States shall be represented on the Fund and Bank by one person serving as governor and another as executive director of both institutions. The President, by and with the advice and consent of the Senate, shall appoint a governor and executive director to represent the United States on both the Fund and the Bank. The executive director so appointed shall also serve as provisional executive director of both institutions for the purposes of the respective Articles of Agreement. The term of office for the governor shall be five years and for the executive director two years. An executive director shall remain in office, however, until a successor has been appointed.

(b) The President, by and with the advice and consent of the Senate, shall appoint an alternate for each of the positions specified in subsection (a) of this section who shall serve for the same terms as his principal; provided: (1) alternates for the positions of governor and

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executive director of the Fund and Bank respectively need not be the same person and (ii) any alternate for an executive director shall be selected by the President from names recommended to him by the executive director.

(c) No person shall be entitled to receive any salary or other compensation from the United States for services as a governor, executive director, or alternate.

2. Section 4: Section 4 is amended to read as follows:

"INTERNATIONAL MONETARY AND FINANCIAL

COUNCIL AND REPORTS"

Sec. 4. (a) There is hereby established the International Monetary and Financial Council (hereinafter referred to as the Council), consisting of the Secretary of the Treasury, as chairman, the Secretary of State, the Chairman of the Board of Governors of the Federal Reserve System, the Foreign Economic Administrator and a president of a Federal Reserve Bank selected by the Open Market Committee of the Federal Reserve System. The Council shall act under the general direction of the President and in accordance with such policies as the Congress may prescribe from time to time.

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(b) The United States governor and executive director of the Fund and Bank and their alternates shall keep the Council fully informed of their activities and shall act in a manner consistent with general policies established by the Council. Except as otherwise provided in section 5 of this Act, the Council is hereby authorized, through the governor and executive director to give or refuse the approval, consent, or agreement of the United States whenever, under the Articles of Agreement of the Fund or of the Bank, such approval, consent or agreement is required before any act may be done by the Fund or the Bank, respectively. No governor or executive director representing the United States shall vote in favor of any waiver of conditions under article V, section 4 or in favor of any declaration of the United States dollar as a scarce currency under article VII, section 3, of the Articles of Agreement of the Fund or on any other major question of policy before the Fund or Bank without prior consultation with the Council.

(c) The Council and the United States Governor and their alternates are directed:

(1) To exercise their full powers and influences to secure coordinated policies on the part of the Fund and the Bank and the highest degree of cooperation and collaboration

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at every point between their respective managements.

(ii) To exercise their full powers and influence to see that the Fund is used only where it can appropriately be used for current stabilization operations and that the Bank is used only where it can appropriately be used for reconstruction and development projects and for long-term stabilization loans.

(iii) To exercise their full powers and influence to stimulate the basic economic conditions essential to the establishment and maintenance of stable and orderly exchange arrangements among members; to encourage the Fund to communicate its views to members on economic and monetary conditions and developments which would tend to disturb stable and orderly exchange arrangements; to eliminate as soon as conditions permit all forms of restrictive and discriminatory currency arrangements among members; and to facilitate and encourage in other ways the elimination of discriminatory trade arrangements that hamper world trade and other forms of economic warfare that disturb harmonious international economic relations.

(iv) To exercise their full powers and influence to assure the constructive use of the resources of the Fund and the Bank and to see that they are not used

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in a manner that imperils the financial integrity of either institution; to see that the Fund does not begin exchange transactions with any member while its basic economic conditions are such as would lead to use of the Fund's resources to sustain an untenable exchange rate, and further, to see that the Fund does not continue exchange transactions with any member after its basic economic conditions are such as would lead to use of the Fund's resources to sustain an untenable exchange rate and thus defeat the purposes of the Fund and be prejudicial to the Fund and its members.

(v) To exercise their full powers and influence to prevent the use of the Fund, directly or indirectly, for relief or reconstruction or for indebtedness arising out of the war; to see that the resources of the Fund are used only by countries that can appropriately use such resources to promote exchange stability, to maintain orderly exchange arrangements, and to avoid competitive exchange depreciation; to see that the Fund is kept informed of the necessary corrective measures that are being taken by members that use the resources of the Fund; to limit the use of the resources of the Fund to meeting seasonal, cyclical and emergency needs for foreign exchange for current stabilization purposes;

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to have other reasonable needs for foreign exchange for long-term stabilization purposes considered by the Bank.

(vi) To exercise their full powers and influence to see that when a general scarcity of a currency is developing the report issued by the Fund shall set forth fully the causes of the scarcity and shall contain recommendations designed to bring it to an end; to see that the report recognizes fully the common responsibility of the countries whose holdings of the currency are scarce and of the country whose currency is scarce, and that the recommendations are made not only to the country whose currency is scarce but to the country whose holdings of the currency are scarce; to see that prompt corrective measures are taken so that the scarcity of any currency can be terminated as soon as possible, that the limitations on the transactions in a scarce currency are no more restrictive than is necessary, and that they are relaxed and removed as rapidly as conditions permit; and to see that the right of members whose currency is scarce to make representations on the administration of restrictions on exchange transactions in a scarce currency is fully safeguarded.

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(vii) To transmit to the President and the Congress a quarterly report in detail on the work of the Council, the operations and policies of the Fund and the Bank, and the activities of the United States governor and executive director and their alternates. The report shall include a full statement with respect to the degree to which the Fund and the Bank conform with the provisions of this Act.

(viii) To transmit to the Congress not later than two years after the date of enactment of this Act a special report on the operations and policies of the Fund and the Bank, the extent to which they have achieved the purposes for which they are established, recommendations as to how the Fund and the Bank may be made more effective, recommendations on whether the Fund and the Bank should be merged into one institution, recommendations on whether the resources of the Fund or the Bank should be increased or decreased, recommendations on whether the United States should continue membership in either the Fund or the Bank or in both, and recommendations on any other necessary or desirable changes in the Articles of Agreement for the Fund and the Bank or in this Act.

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(d) The Council, with the approval of the President, is also directed to coordinate the activities of all departments and agencies of the United States relating to international monetary and financial matters to the end that the policies of the United States in these fields should be integrated and uniform."

3. Section 9: Section 9 is amended to read as follows:

OBTAINING AND FURNISHING INFORMATION

"Sec. 9. So long as the United States is a member of the Fund, the President may require at any time, in the manner and under the penalties provided in Section 5(b) of the Trading with the enemy Act (U.S.C. title 50, App. Sec. 5), as amended, the furnishing of any data that may be requested by the Fund under Article 8, Section 5, of the Articles of Agreement of the Fund."

4. New Section: Add the following section:

"STABILIZATION LOANS BY THE BANK"

"Sec. 13. If the management of the Bank does not interpret its powers under the Articles of Agreement as authorizing the Bank to make or guarantee long-term loans for economic and financial reconstruction in connection with a comprehensive stabilization program, the governor and

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executive director of the Bank appointed by the United States are hereby directed to propose and support an amendment to the Articles of Agreement for the purpose of explicitly authorizing the Bank, after consultation with the Fund, to make or guarantee such loans. The Council is hereby authorized and directed to accept such amendment on behalf of the United States."

5. New Section: Add the following section:

"WITHDRAWAL"

"Sec. 14. The United States Government expressly reserves the right to withdraw from either the Fund or the Bank, or both, at any time in accordance with the provisions of Article IV, section 1 of the Articles of Agreement of the Fund and Article VI, section 1 of the Articles of Agreement of the Bank. Notice is hereby given that the acceptance of membership in the Fund and Bank shall not be deemed in any way to morally or legally bind the United States to continue such membership if (a) in the opinion of the Government of the United States the policies of either the Fund or Bank are not in accord with the letter or the spirit of the respective Articles of Agreement or the provisions of this Act or (b) if for any other reason the Government of the United States determines it to be in the interest of the United States to withdraw."

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79TH CONGRESS
1st Session**H. R. 2211****IN THE HOUSE OF REPRESENTATIVES**

FEBRUARY 15, 1945

Mr. SPENCE introduced the following bill; which was referred to the Committee on Banking and Currency

A BILL

To provide for the participation of the United States in the International Monetary Fund and the International Bank for Reconstruction and Development.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

SHORT TITLE

3
4 SECTION 1. This Act may be cited as the "Bretton
5 Woods Agreements Act".

ACCEPTANCE OF MEMBERSHIP

6
7 SEC. 2. The President is hereby authorized to accept
8 membership for the United States in the International
9 Monetary Fund (hereinafter referred to as the "Fund"),
10 and in the International Bank for Reconstruction and De-

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1 velopment (hereinafter referred to as the "Bank"), provided
2 for by the Articles of Agreement of the Fund and the
3 Articles of Agreement of the Bank as set forth in the
4 Final Act of the United Nations Monetary and Financial
5 Conference dated July 22, 1944, and deposited in the archives
6 of the Department of State.

7 APPOINTMENT OF GOVERNORS AND EXECUTIVE DIRECTORS

8 SEC. 3. The President, by and with the advice and con-
9 sent of the Senate, shall appoint a governor of the Fund and
10 an alternate, and a governor of the Bank and an alternate.
11 The term of office of each shall be five years. The Presi-
12 dent, by and with the advice and consent of the Senate, shall
13 appoint an executive director of the Fund and an executive
14 director of the Bank, who shall also serve as provisional
15 executive directors for the purposes of the respective Ar-
16 ticles of Agreement. The term of office of each shall be
17 two years, but they shall continue in office until their suc-
18 cessors are appointed. Each executive director shall, with
19 the approval of the President, appoint an alternate. Gover-
20 nors and their alternates shall be eligible to appointment
21 either as executive directors or as their alternates. No
22 person shall be entitled to receive any salary or other com-
23 pensation from the United States for services as a governor,
24 executive director, or alternate.

3

1 REPORTS

2 SEC. 4. The President from time to time, but not less
3 frequently than every six months, shall transmit to the Con-
4 gress a report with respect to the participation of the United
5 States in the Fund and the Bank.

6 CERTAIN ACTS NOT TO BE TAKEN WITHOUT

7 AUTHORIZATION

8 SEC. 5. Unless Congress by law authorizes such action,
9 neither the President nor any person or agency shall on
10 behalf of the United States (a) request or consent to any
11 change in the quota of the United States under article III,
12 section 2, of the Articles of Agreement of the Fund; (b)
13 propose or agree to any change in the par value of the
14 United States dollar under article IV, section 5, or article
15 XX, section 4, of the Articles of Agreement of the Fund,
16 or approve any general change in par values under article
17 IV, section 7; (c) subscribe to additional shares of stock
18 under article II, section 3, of the Articles of Agreement
19 of the Bank; (d) accept any amendment under article XVII
20 of the Articles of Agreement of the Fund or article VIII of
21 the Articles of Agreement of the Bank; (e) make any loan
22 to the Fund or the Bank. Unless Congress by law author-
23 izes such action, no governor or alternate appointed to
24 represent the United States shall vote for an increase of

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1 capital stock of the Bank under article II, section 2, of the
2 Articles of Agreement of the Bank.

3 PAR VALUE OF UNITED STATES DOLLAR

4 SEC. 6. When the United States is requested by the
5 Fund to communicate the par value of the United States
6 dollar, such par value shall not be communicated as other
7 than $15\frac{1}{2}$ grains of gold nine-tenths fine.

8 DEPOSITORIES

9 SEC. 7. Any Federal Reserve bank which is requested
10 to do so by the Fund or the Bank shall act as its depository
11 or as its fiscal agent, and the Board of Governors of the
12 Federal Reserve System shall supervise and direct the
13 carrying out of these functions by the Federal Reserve banks.

14 PAYMENT OF SUBSCRIPTIONS

15 SEC. 8. (a) Subsection (c) of section 10 of the Gold
16 Reserve Act of 1934, as amended (U. S. C., title 31, sec.
17 822a), is amended to read as follows:

18 "(c) The Secretary of the Treasury is directed to use
19 \$1,800,000,000 of the fund established in this section to
20 pay part of the subscription of the United States to the
21 International Monetary Fund; and any repayment thereof
22 shall be covered into the Treasury as a miscellaneous
23 receipt."

24 (b) The Secretary of the Treasury is authorized to pay
25 the balance of \$950,000,000 of the subscription of the

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1 United States to the Fund not provided for in subsection
2 (a) and to pay the subscription of the United States to the
3 Bank from time to time when payments are required to
4 be made to the Bank. For the purpose of making these
5 payments, the Secretary of the Treasury is authorized to
6 use as a public-debt transaction not to exceed \$4,125,000,-
7 000 of the proceeds of any securities hereafter issued under
8 the Second Liberty Bond Act, as amended, and the purposes
9 for which securities may be issued under that Act are ex-
10 tended to include such purpose. Payment under this sub-
11 section of the subscription of the United States to the Fund
12 or the Bank and repayments thereof shall be treated as
13 public-debt transactions of the United States.

14 (c) For the purpose of keeping to a minimum the cost
15 to the United States of participation in the Fund and the
16 Bank, the Secretary of the Treasury, after paying the sub-
17 scription of the United States to the Fund, and any part
18 of the subscription of the United States to the Bank required
19 to be made under article II, section 7 (i), of the Articles
20 of Agreement of the Bank, is authorized and directed to
21 issue special notes of the United States from time to time
22 at par and to deliver such notes to the Fund and the Bank
23 in exchange for dollars to the extent permitted by the re-
24 spective Articles of Agreement. The special notes provided

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1 for in this subsection shall be issued under the authority and
2 subject to the provisions of the Second Liberty Bond Act, as
3 amended, and the purposes for which securities may be
4 issued under that Act are extended to include the purposes
5 for which special notes are authorized and directed to be
6 issued under this subsection, but such notes shall bear no
7 interest, shall be nonnegotiable, and shall be payable on de-
8 mand of the Fund or the Bank, as the case may be. The
9 face amount of special notes issued to the Fund under the
10 authority of this subsection and outstanding at any one time
11 shall not exceed in the aggregate the amount of the sub-
12 scription of the United States actually paid to the Fund, and
13 the face amount of such notes issued to the Bank and out-
14 standing at any one time shall not exceed in the aggregate
15 the amount of the subscription of the United States actually
16 paid to the Bank under article II, section 7 (i), of the
17 Articles of Agreement of the Bank.

18 (d) Any payment made to the United States by the
19 Fund or the Bank as a distribution of net income shall be
20 covered into the Treasury as a miscellaneous receipt.

21 OBTAINING AND FURNISHING INFORMATION

22 SEC. 9. So long as the United States is a member of
23 the Fund or of the Bank, the President may require at
24 any time, in the manner and under the penalties provided

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1 in section 5 (b) of the Trading With the Enemy Act, as
2 amended (U. S. C., title 50 App., sec. 5), the furnishing of—

3 (a) any data that may be requested by the Fund
4 under article VIII, section 5, of the Articles of Agree-
5 ment of the Fund; and

6 (b) any data of the type which may be required
7 under section 5 (b) of the Trading With the Enemy
8 Act, as amended, and which in his judgment is essential
9 for the guidance of the United States in its participation
10 in the Fund or the Bank.

11 FINANCIAL TRANSACTIONS WITH FOREIGN GOVERNMENTS 12 IN DEFAULT

13 SEC. 10. The Act entitled "An Act to prohibit financial
14 transactions with any foreign government in default on its
15 obligations to the United States", approved April 13, 1934
16 (U. S. C., title 31, sec. 804a), is amended by adding at
17 the end thereof a new section to read as follows:

18 "SEC. 3. While any foreign government is a member
19 both of the International Monetary Fund and of the Inter-
20 national Bank for Reconstruction and Development, this
21 Act shall not apply to the sale or purchase of bonds, secu-
22 rities, or other obligations of such government or any politi-
23 cal subdivision thereof or of any organization or association
24 acting for or on behalf of such government or political sub-

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1 division, or to the making of any loan to such government,
2 political subdivision, organization, or association."

3 JURISDICTION AND VENUE OF ACTIONS

4 SEC. 11. For the purpose of any action which may be
5 brought within the United States or its Territories or pos-
6 sessions by or against the Fund or the Bank in accordance
7 with the Articles of Agreement of the Fund or the Articles
8 of Agreement of the Bank, the Fund or the Bank, as the
9 case may be, shall be deemed to be an inhabitant of the
10 Federal judicial district in which its principal office in the
11 United States is located, and any such action at law or in
12 equity to which either the Fund or the Bank shall be a
13 party shall be deemed to arise under the laws of the United
14 States, and the district courts of the United States shall
15 have original jurisdiction of any such action. When either
16 the Fund or the Bank is a defendant in any such action, it
17 may, at any time before the trial thereof, remove such ac-
18 tion from a State court into the district court of the United
19 States for the proper district by following the procedure
20 for removal of causes otherwise provided by law.

21 STATUS, IMMUNITIES AND PRIVILEGES

22 SEC. 12. The provisions of article IX, sections 2 to 9,
23 both inclusive, and the first sentence of article VIII, section
24 2 (b), of the Articles of Agreement of the Fund and the
25 provisions of article VI, section 5 (i), and article VII,

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1 sections 2 to 9, both inclusive, of the Articles of Agree-
2 ment of the Bank shall have full force and effect in the
3 United States and its Territories and possessions upon
4 acceptance of membership by the United States in, and
5 the establishment of, the Fund and the Bank, respectively.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Date

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

April 5, 1945

Attached is a somewhat lengthy report
Mr. Avis prepared at your direction, summarizing
the activities of the Alcohol Tax Unit in the
black market in liquor.

It will make very interesting reading.

Joseph J. O'Connell, Jr.

Attachment

OFFICE OF
COMMISSIONER OF INTERNAL REVENUEADDRESS ONLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TOTREASURY DEPARTMENT
WASHINGTON 25

March 10, 1945

MEMORANDUM FOR THE SECRETARY:

Re: Suppression of the Black Market in
Distilled Spirits -- Prosecutive
Problems

This memorandum is submitted in furtherance
of instructions which you gave Mr. Dwight E. Avis,
Assistant Deputy Commissioner. The investigation
of the black market in distilled spirits was under-
taken on November 15, 1943, at your direction after
you had concluded that the Department should assume
concurrent jurisdiction with the OPA in suppressing
liquor price ceiling violations.

A whiskey shortage developed in 1943, caused by
(1) a 35 per cent reduction in sales by distillers
during the year through a self-imposed industry
rationing program, (2) hoarding of whiskey stocks
by distributors and consumers, and (3) an unusual
demand brought about by increased purchasing power.
Black market operations were the result of the
existing shortage rather than the cause of it.
The shortage originally developed early in 1943
in the Southern states and soon extended to the
states employing the monopoly system of liquor
control and by the latter part of the year it had
spread to all parts of the country, with the result
that only very limited quantities of whiskey were
being offered for sale in package stores.

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On receiving this assignment, the Bureau immediately took steps to set up investigative procedure with a view to criminal prosecution of black market operators, taking full advantage of the applicable provisions of the Emergency Price Control Act, the Federal Alcohol Administration Act, the Internal Revenue laws, and the Criminal Code. Drastic regulatory provisions were devised and promptly put into effect in order to suppress the traffic. Within 90 days after the program was instituted, the black market in distilled spirits was broken at and above the wholesale level, and thereafter very few large-scale transactions were made. After the distiller's holiday in August 1944, which resulted in an adequate supply of blended spirits, the black market at the retail level practically disappeared.

The large-scale black market transactions in distilled spirits were conducted almost wholly on a cash "side-money" basis. In attacking this problem originally, the strategy of the Bureau was to cut off the black market at its source by tracing the cash "side-money" paid in connection with these transactions to the ultimate recipient, namely, distillers, rectifiers, and wholesale liquor dealers. This procedure has been subsequently pursued in the investigation of these cases with a view (1) to the prosecution of the principals for price ceiling violations, and (2) the identification of these funds for income tax purposes.

These investigations reveal that millions of dollars in cash "side-money" was collected over and above ceiling prices, which funds for the most part were not recorded in the books of account of the seller and on which there was no intention to pay income taxes. The fact that practically all black market transactions in liquor were of the unrecorded cash "side-money" character, as distinguished from mere overcharges, leads to the conclusion that the

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primary objective was not merely to derive four or five times the normal profits on such transactions, but to evade income taxes on such profits in toto.

Inasmuch as the successful tracing of the cash "side-money" automatically lays the basis for income tax frauds, these cases, when developed, have been referred to the Intelligence and the Income Tax Units for further inquiry.

Civil suits in the nature of treble damage actions aggregating many millions of dollars have been instituted by the OPA as a result of the evidence secured by the Bureau in these cases. In many cases, due no doubt to the press of other business, the OPA allowed the one-year statute of limitations to run on some of the transactions, with the result that the action instituted was for an amount much less than the liability under the statute. In a substantial number of cases the OPA, for some unexplained reason, did not see fit to institute civil proceedings.

The following statistics as of March 1, 1945, portray in a general way the accomplishments of the Bureau in suppressing the black market in distilled spirits:

Cases Submitted to U.S. Atty.	Persons Recommended for Indictment	Indictments Returned (Cases)	Persons (or Corporations) Indicted
735	1,924	308	724
Persons (or Corporations) Convicted	Taxpaid Liquor Seized (Nine Gallons)	Value of Liquor Seized	Suspension Proceedings Instituted
404	57,381	\$721,883	132
Permits Suspended or Revoked	Permits Surrendered		
42	65		

At the inception of the investigative program, the Bureau secured the full cooperation of the Department of Justice. During the spring of 1944, when the liquor shortage and the black market in distilled

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spirits were subject to daily comment in the press, the United States Attorneys, with the approval of the Department of Justice, conducted grand jury investigations in the larger cities in the East and Midwest where the producers and wholesalers involved in these operations maintained their principal places of business.

Such inquiries resulted in the prompt indictment of many of the major violators and were of inestimable value in securing confessions from recalcitrant witnesses. United States Attorneys in a substantial number of jurisdictions have proceeded with the prosecution of a sufficient number of black market cases to constitute a deterrent to future violations. In a limited number of jurisdictions, the United States Attorneys have vigorously pressed the prosecution of the larger and more important cases with excellent results. Jail and penitentiary sentences ranging up to two years have been imposed by the courts.

After liquor again became plentiful, as a result of the distiller's holiday in August 1944, United States Attorneys in some jurisdictions became less enthusiastic as to the indictment and prosecution of the larger and more important cases. The result has been that in these jurisdictions, United States Attorneys have either pursued delaying tactics or entered into agreements with counsel for the defendants whereby the Government would recommend, on a plea of guilty, minimum jail sentences or fines. It is therefore properly concluded that the handling of some of the larger cases cannot be considered entirely satisfactory.

At about the same time, a change in the position of the Department of Justice relative to the indictment and the prosecution of these cases was indicated. This

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was first noted in September 1944 when, during an informal discussion as to whether the indictment of certain defendants in the Nathan distillery case was warranted, a representative of the Department of Justice stated the Department's position, in substance, that the war with Germany was about over; that as a result thereof, the people's attitude had changed; that the Alcohol Tax Unit had accomplished its purpose by breaking up the black market; and that no purpose would be served by investigating additional cases or by conducting extensive grand jury inquiries. The point was made that persons of considerable financial standing and influence were involved, and that should these individuals be indicted, but fail to be convicted, the Alcohol Tax Unit would be subject to the severest sort of criticism. Needless to say, the Bureau took vigorous issue with this point of view. Since that time, the Department of Justice has become critical of the methods of investigation utilized, and the attitude of the Department toward these cases has not been such as to encourage vigorous prosecution.

Since your request for this memorandum, two incidents have come to the attention of the Bureau which indicate the attitude of the Department of Justice toward these cases. It has been determined that on January 6, 1945, a representative of the Department of Justice conferred with the United States Attorney at Newark, New Jersey, in the presence of a field attorney of the Alcohol Tax Unit, for the purpose of obtaining their views of the basis on which black market liquor cases might be compromised for large sums of money rather than being disposed of through criminal prosecution. The other incident relates to an attempt to block the prosecution of the case

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involving Charles S. Levy, trading as the Sheldon Importing Company, in the Eastern District of Pennsylvania. Further reference to the unsatisfactory handling of this case, as well as other cases, will be made in connection with the factual discussion of the more important cases listed below.

The following cases have been selected for discussion for the purpose of portraying the scope of the major black market operations, the manner in which relatively large sums of money (currency, were transferred without record from one person to another, and the income tax fraud potentialities implicit in these black market transactions:

GASZ: 8571-M (Black Market)
ROBERT GOULD COMPANY,
 (whiskey brokers and distillery controllers)
 Cincinnati, Ohio.
SAMUEL FREEDMAN COMPANY,
 (whiskey brokers and distillery controllers,
 Cincinnati, Ohio.
DOWLING BROS. DISTILLING COMPANY, INC.,
 and its subsidiary,
DOWLING BROS., INC.,
 Burgin, Kentucky.
PRESTON DISTILLING COMPANY, INC.,
 (Formerly Cave Springs Distillery Corp.)
 and its subsidiary,
PRESTON DISTILLERY, INC.,
 Wilder, Newport, Kentucky.
HUGHSON DISTILLING COMPANY, INC.,
 Cincinnati, Ohio.
FLASHMAN-GOULD-BENJAMIN SYNDICATE,
 Boston, Massachusetts.
SIDNEY B. FLASHMAN COMPANY,
 (whiskey brokers),
 Boston, Massachusetts.
 And other individuals, partnerships,
 and corporations.

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This is one of the major black market conspiracy cases under investigation by the Bureau. It involves the criminal operations of a nationwide syndicate which appears to have been mainly directed by Robert H. Gould, the principal owner and directing head of the Robert Gould Company (whiskey brokers and distillery controllers) and Stewart S. Freedman, part owner and directing head of the Samuel Freedman Company (whiskey brokers and distillery controllers), Cincinnati, Ohio, who are also the principal owners and directing forces in at least three Kentucky distilleries.

While the investigation of this case was originally predicated on black market OPA price ceiling violations, it has since developed into a major income tax fraud conspiracy involving the collection by the Gould-Freedman interests of an estimated \$4,000,000 in overage and/or cash "side-money" which was not entered on the books of account of the taxpayers.

It appears that the conspiracy to defeat both the OPA and the income tax laws had its inception at the Kentucky Derby in the Spring of 1942, as the result of a discussion between Robert H. Gould and Sidney B. Flashman, a whiskey broker of Boston, Massachusetts. These men were aware that all distilleries were then or soon would be solely engaged in producing alcohol for war purposes; that this would cause a whiskey shortage; and as a result prices would soar.

Taking advantage of this opportunity, Gould, Flashman, and Irwin Benjamin, who was then president and half-owner of Ben-Burk, Inc., Boston, Massachusetts (one of the largest rectifiers and wholesalers in the country), formed a pool or syndicate for the alleged purpose of expanding their individual and joint holdings and trading in whiskey and other beverage spirit securities and distillery properties. This joint operation was instituted in June 1942 and continued until June 1944.

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During the life of this conspiracy, the conspirators controlled and directed the purchase and resale of thousands of barrels and hundreds of thousands of cases of whiskey and other distilled spirits into the black market.

While the complete picture of the syndicate's activities has not been unfolded to date, the following will briefly illustrate the methods employed and the magnitude of the operations:

Evidence has been developed through disclosures made by four wholesale liquor dealers located in Illinois, Kentucky, and Ohio that during the period March 16, 1943, to December 3, 1943, they were forced to pay Robert H. Gould cash "side-money" of \$317,326 and Stewart S. Freedman \$162,121, or a total of \$979,447, to obtain approximately 36,499 cases of whiskey, brandy, and rum and 1,787 barrels of bulk whiskey.

The cash "side-money" required on case goods averaged \$16 to \$26 per case on whiskey (\$18.50 on "86 proof" and \$26 on "Bottled in Bond") and \$10 to \$12 on brandy and \$2 to \$5 on rum. Where the transaction involved bulk whiskey, the cash "side-money" was about four or five times the ceiling price for whiskey of the type and age. For example, Gould said to one of the wholesalers seeking to buy whiskey:

"You are a good fellow and I will let you have some bulk whiskey, but nobody is selling it at the ceiling price. The ceiling is \$1.31 a gallon. It will cost you \$6.50 per gallon. The difference of \$5.19 per gallon will have to be paid in cash when the merchandise is invoiced."

In most instances the purchaser was required to deliver the cash "side-money" to Gould or Freedman before the merchandise was invoiced. The bulk whiskey

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and/or case goods would then be invoiced to the purchaser at or below the OPA ceiling. Shipment would then be made and the amount of the invoice collected either by check on open account or by sight draft. Where the transaction involved the sale of bulk whiskey, the spirits were subsequently bottled by Gould-Freedman controlled distilleries, and the purchaser would be billed for and would pay all taxes and bottling charges. The books and records of both vendor and vendee would thereby reflect what appeared to be a legitimate liquor transaction.

The above transactions are typical of other sales made by the Gould-Freedman interests to other wholesale liquor dealers, the cash "side-money" aspects of which have not been fully traced. One of these transactions involved 60,000 cases of whiskey and approximately a million dollars in cash "side-money."

All side-money payments were in currency which was usually wrapped in packages with the amounts written on the outside wrappers. On some occasions Gould counted the currency in the presence of the purchaser, but usually he would take the package into another room in his office without counting it.

Once when a salesman of one of the wholesalers was delivering a package of currency to Gould at his office, Gould took seven \$1,000 bills from a small safe and asked the salesman to take them to a certain teller in the Fifth-Third National Bank at Cincinnati and have them changed into currency of smaller denominations. During the investigation, an effort was made to identify the teller who had changed these \$1,000 bills. One of the tellers, when questioned, said he knew that he had seen the witness but could not recall whether he had changed any \$1,000 bills for him. He further remarked that Gould had sent so many men to him to change \$1,000 bills that it was impossible for him to remember all of them.

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Employees of this same bank have stated that Gould habitually came in with packages of currency in \$1, \$5, and \$10 denominations in amounts of approximately \$10,000 to have the small bills changed into \$1,000 bills. Another teller recalled that on one or more occasions Gould brought twenty \$1,000 bills to his window to be changed into bills of smaller denominations.

Apparently it was Gould's intention, if any of these cash "side-money" transactions were detected, to arrange for the purchaser to pay the income tax on such profits. Thus if he (Gould) could not avoid payment in toto, he would take advantage of the differential, inasmuch as these persons or firms were in lower income tax brackets. For example:

In the Spring of 1944, a Kentucky wholesaler who had paid Gould \$350,000 in side-money and two of his employees were indicted for violating the OPA laws. After the indictment, but before conviction of the defendants, Gould contacted the wholesaler and advised him to endeavor to compromise the case, and stated that he would pay all expenses incurred, such as fines, etc. Gould stated,

"What difference does it make whether it costs \$20,000 or more, I'll pay it."

Gould also advised the wholesaler to have one of the salesmen who collected the overage money to take all the blame as charged in the indictment; further, that this salesman should immediately file an amended income tax return and pay the tax on the money involved. Gould explained that by doing this the defendants could not be charged with conspiracy, and that they could all get out on fines only, and could compromise the OPA overages. The salesman prepared an amended income tax return on this portion

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of the side-money, declaring additional taxes of \$2,039.53. Gould examined this return, furnished \$2,100 (four \$500 bills and one \$100 bill) for the salesman's use in paying the tax, and directed that the return be filed immediately and the tax paid, and that the salesman keep the difference for his trouble. This return was filed and the tax paid as directed by Gould. During the actual trial of the wholesaler's case, Gould and one of his attorneys gave the wholesaler \$1,500 in cash for use by the defendants in paying counsel for defending them.

In spite of this apparent conspiracy to obstruct justice, the defendant wholesaler and his employees were convicted, and subsequently made full disclosures. As a result of these and similar disclosures by the other Kentucky wholesaler, three indictments were returned on October 10, 1944, in the Eastern District of Kentucky against Gould and Freedman, charging them with OPA violations.

Subsequent to the return of the indictments and the publicity attending them, Gould again contacted the wholesale liquor dealer who had been convicted and asked him whether he had signed any papers or made any statement. The wholesaler replied:

"You saw what was in the papers, didn't you?"

Gould then said:

"Whatever overage you said that you paid me you will have to pay an income tax on. You collected the overage and you'll have to pay on it. Alex Josselson (another wholesaler) will have to pay on the \$500,000 and whatever you tell them you paid me, you will have to pay on."

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To this the wholesaler replied,

"I don't know how they can make me pay it when I didn't get any of it. All that I collected went to you."

Gould replied,

"Well, you collected it for me and if you tell them that you will have to pay on every bit of it. * * * Regardless of what Josselson says or what you boys say, I'm going to deny that I ever received a penny of overage from any of you. No matter what you say, I'll deny it, and that's what you boys should do. You have no proof that you paid me any money, and if Josselson is the only one who says that he paid me, what the hell will it amount to? I've got more money than all of you fellows have and I'll fight this thing until I go broke, and I'll never compromise. They can't get anything on me. I've taken all my papers and ledgers to the bank and locked them in a vault."

Another method employed by the syndicate to channel whiskey into the black market was the use of so-called brokers, such as Alex Steinberg of Dallas, Texas, who contacted wholesale liquor dealers throughout the southwestern part of the United States in the alleged capacity of a finder for the purchaser when actually he was nothing more than a "go-between" for Gould and his associates. This broker quoted the wholesalers a case goods price on a specified number of cases of whiskey, the offer was accepted accordingly, and the case goods were subsequently received by the purchasers. Some shipments were made direct from the distillery

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where the case goods had been bottled. Other shipments were cleared through the records of other wholesalers or rectifiers, obviously for the purpose of concealing the transactions. Most of the whiskey was bottled at Gould-Freedman controlled distilleries.

Payments for the liquor were made in one of two ways--either by payment of the full amount, including the overage, direct to Steinberg, or by payment of an amount equal to the taxes and bottling charges to the distillery and a separate payment to Steinberg of the balance due, which included not only the ceiling price for the bulk whiskey, but also the overage under the purchase agreement. It is believed that Steinberg turned over to Gould all this "overage" money, except possibly a commission of \$1 or \$2 a case, and that neither Gould nor Steinberg had any intention of paying income tax on this money unless the fraud was detected. This theory is supported by the following facts:

Steinberg was registered at the Plaza Hotel in New York from October 25 to November 2, 1944, and Gould at the Waldorf-Astoria from October 26 to 30, 1944, inclusive. During Gould's stay at the Waldorf, he obtained a safety deposit box at the hotel on October 27, 1944, which was opened by him on October 28 and 29. On October 30, Steinberg walked into the Guaranty Trust Company, New York City, and deposited \$50,000, with the request that the bank transfer that amount to his Dallas bank. These funds were transferred to his Dallas account on October 30, 1944. The records of the New York bank show that this deposit was in currency and that \$50,000 of it consisted of fifty \$1,000 Federal Reserve Notes, Series 1934, issued by the Federal Reserve Bank of Richmond. Twenty of these bills were in consecutive serial numbers. Sixteen of them, according to the records of the Federal Reserve Bank, were shipped to the First National Bank, Newport News, Virginia, on December 14, 1943.

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It is believed that this \$60,200 in currency is a part of the cash "side-money" previously collected by the conspirators from black market operators in the Norfolk, Virginia, area; that this money represents a rebate of a small portion of the overage collected by Steinberg for the Gould syndicate; and that it was intended to be used by Steinberg for paying income tax on part of the previously undeclared "off the record" income of Gould.

On November 14, 1944, a Special Agent of the Intelligence Unit contacted Steinberg at his office in Dallas. Steinberg refused to make any statement or discuss his sales of whiskey during 1943 with the Special Agent until he had consulted his local attorney. He promised to do this and to give the Agent a definite answer within forty-eight hours. Instead of doing this, Steinberg proceeded to New York where he checked into the Waldorf-Astoria Hotel on November 18, 1944, and remained until November 21. During this period, Gould, Freedman, and Steinberg, along with other members of the syndicate, conferred with counsel and accountants in New York on further strategy to be followed in this case. On November 21, Steinberg, Skaggs, and Freedman checked out of the hotel.

On November 24, Steinberg walked into the First National Bank in Dallas with a paper-covered package under his arm and advised one of the officers that he had "some lettuce" to deposit and inquired whether the officer wanted to count "the confetti" in the package. One of the employees of the bank counted the currency and found it to total \$292,410. The currency was in denominations of \$50 and \$100 with the exception of one \$10 bill. This sum was deposited to Steinberg's account, which, together with the \$60,200 deposited on October 30, 1944, made a total of \$352,610.

On November 28, representatives of the Intelligence and the Alcohol Tax Units were able to locate and question Steinberg, who stated, in part, as follows:

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"I have just returned from New York City where I have conferred with my attorneys there, Homer Cummings and John W. Davis. I also spent some time with my accountant, Mr. Tannenbaum, seeking advice which concerns the same matter you are asking me about. I will not give any statements to anyone concerning any of my dealings in the liquor business, but I have nothing to hide and will tell you anything you want to know about them. I know Robert Gould very well and have done business with him for a long time. I know Sam Freedman also, but have never done a cent's business with him at any time. I sold a lot of Gould's liquor during 1943, and I collected a lot of money that you might call black market money. I make no bones about it.--I sold the liquor--I got the money--and I damn well kept it. Right in that safe there (pointing to a small office safe of the type ordinarily used to safeguard valuable books). I never gave Robert Gould or any one else a penny of that money. He or his distillery never got a penny above the regular price. (Too much credence cannot be placed in Steinberg's statement that he is represented by Homer Cummings and John W. Davis, inasmuch as he has recently retained other counsel in New York City.)

"I first became aware in the latter part of 1942 that liquor was going to be scarce, but did not realize what it was going to lead to until customers began offering practically any amount of money for me to get them liquor. * * *

"As none could tell me how I stood as regard finder's fees, I did not know what to do with the money, and just cashed the checks and left the money in my safe until the other day, when I was advised that I could show it on my 1944 income tax. So I deposited the money at the First National Bank last week. (Steinberg here exhibited the deposit slip covering the deposit on November 24, 1944, of the \$292,410.) In all, the money amounted to

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about \$352,000 - deposited some more the other day about \$20,000. I'm going to pay the tax on it just as soon as the accountant can get around to fixing up the return--probably in the next few days."

When asked if he had seen Gould recently, Steinberg said:

"Yes, as a matter of fact, I happened to run into him in New York a week ago Saturday night. I was with Tannenbaum in the lobby of my hotel and we met John Skaggs and Stewart Freedman. They told me that Bob Gould was there at the hotel and we all had dinner together that evening -- Mrs. Gould was there too. Gould told me that he had been indicted on the testimony of a man in Kentucky, who said that he had paid Gould \$300,000 side money during 1943, and that this man had reported income for 1943 at \$517. I told Gould not to tell me any more -- it was too silly to talk about."

When asked if this meeting was by appointment, Steinberg denied that it was. Steinberg mentioned that he had contributed \$5,000 to the Democratic campaign fund, and that some of his friends in the liquor business who had also contributed have been indicted for OPA violations. He further said that if he were indicted in Kentucky on these liquor transactions it would not surprise him a bit. He added that he had plenty of money and would "get a kick out of taking it up to the Supreme Court of the U. S."

On November 30, 1944, Steinberg filed with the Collector of Internal Revenue, Dallas, Texas, amended declarations on Form 1040-23, representing additional tax liability for himself and his wife of \$270,623.49 for the year 1944. The prior declarations and payments of the community property income of Steinberg and his wife were shown as only \$9,255. Two checks totaling \$270,623.49, dated

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November 30, 1944, drawn on Steinberg's Dallas bank were submitted to the Collector to cover the unpaid balance. These funds were all collected in 1943 and were not included on his income tax for that year.

Gould and the syndicate used many other individuals, partnerships, and corporations for the purpose of concealing not only price ceiling violations, but also to cover up both legitimate and illegitimate profits derived from the liquor business in order to evade payment of income tax. For instance, Gould used his sister, brother-in-law, and their families as a means of purchasing and liquidating the assets of rectifiers and wholesalers holding large stocks of bulk whiskey, as well as case goods, all of which were ultimately sold into the black market.

These purchases and liquidations, it appears, were solely for the purpose of securing control of liquor stocks and bottling facilities and to conceal the fact that Gould was actually the owner. Gould used these relatives and other persons as a means of selling bulk spirits to himself, with a rebate of the net profit for himself. In all such dummy transactions, Gould directed them to pay income tax on all taxable income of record.

The methods used in creating and controlling the liquor black market are typical of those used by racketeers. In this respect they did not hesitate to bring a legitimate industry into disrepute in order to fill their own pockets. These individuals no doubt have had the benefit of very excellent legal advice, as well as financial backing in these enterprises.

An attorney named Joe Schneider of Boston recently visited the Department of Justice and the Bureau apparently with the view of effecting a settlement of all criminal and civil liabilities incurred by the Gould-Freedman interests whom he

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stated he represented. Mr. Schneider, in substance, said that his clients were tired of fighting the Government and wanted to make a complete disclosure. He concluded his remarks by saying, "All I want to know is--how to go about it, and how much." Mr. Schneider was informed that the Bureau would insist upon criminal prosecution in this case.

On January 8, 1945, the Federal Grand Jury at Lexington, Eastern District of Kentucky, returned four indictments charging a total of fifty-eight substantive counts of OPA price ceiling violations by Robert H. Gould, Stewart S. Freedman, Samuel Freedman, Dowling Bros. Distilling Company, Inc., and Pebleford Distillery Company, Inc. These indictments were based solely on the overceiling sales to the two Kentucky wholesalers previously referred to and are intended to supersede those returned on October 16, 1944.

Inasmuch as the statute of limitations had expired on all but a small fraction of the transactions involved before the price ceiling violations were detected, the OPA treble damage action in this case was restricted to a suit for \$420,000.

Since this resume was dictated, it has been definitely established that counsel for Gould and Steinberg, in an effort to avoid the fraud penalty, has advised them to file amended declarations of estimated tax (1944) on unreported 1943 income on the theory that, because of the Government's claim for treble damages, the cash "side-money" collected in 1943 could not be regarded as income until the claim was barred by virtue of the running of the one-year statute of limitations. Apparently in pursuance of this advice, it has been ascertained that on January 15, 1945, Robert Gould and his brother Alvin Gould filed amended declarations of estimated tax (1944) in amounts of \$477,500 and \$80,000, respectively. It is anticipated that Gould will make application for an extension of time for filing his 1944 return,

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undoubtedly with the purpose in mind of including therein such additional 1943 income as in the meantime may be established by the investigation.

CASE: 8045-W (Black Market)

AMERICAN DISTILLING COMPANY

Russell R. Brown, President
Samuel R. Rothberg, Vice-President
Stewart M. Seymour, Gen. Counsel

AMERICAN SPIRITS, INCORPORATED

Peter E. Siskind, President
Sidney Kessler, Vice-President

FOSTER AND COMPANY, A Partnership

Sidney Kessler
Samuel Westerman
Stanhope Foster

NEW-BARK, INCORPORATED

Arthur Sullivan, Liquidating Agent
QUINCY DISTILLERS PRODUCTS, INC.
L. J. SULLIVAN AND COMPANY

Thomas Gorman
and approximately
30 intermediaries

(Continued on Page 19)

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This is perhaps the most intricate black market investigation undertaken by the Bureau in that the principal defendants resorted to greater subterfuge in their efforts to conceal their illegal operations. The conspiracy was conceived by the principal officers of the American Distilling Company and its subsidiary, American Spirits, Inc., and had for its object the black marketing, in part, of the whiskey inventories acquired by the purchase of Country Distillers Products, Inc., Beatsville, Kentucky, and the J. J. Sullivan Company, Boston, Massachusetts, in so far as financing operations permitted. The real purpose of the scheme, however, was to enable these officers to ultimately pocket the cash "side-money" derived from these transactions, thereby evading income taxes on these funds in toto.

In order to ostensibly divorce the American Distilling Company from the contemplated black market operations, Foster and Company, a partnership, was formed in April 1943 by the officers of the parent company to consummate the Country Distillers and the J. J. Sullivan deals after all preliminary arrangements for the purchase of these companies had been effected. The creation of Foster and Company permitted both the black market and the legitimate profits from the whiskey acquired in connection with the Country Distillers and the J. J. Sullivan deals to be channeled to these officials, thereby depriving the stockholders of the American Distilling Company of their right to participate at least in the legitimate profits.

The black market transactions with wholesale liquor dealers located in practically every section of the country were carried out through the use of some 30 odd intermediaries or brokers, the principal ones of which were connected with the sales organization of Brown-Vintners, a competitor. The chief intermediary and apparent contact man for the principals in this case was one Thomas Gorman, sales manager for Brown-Vintners Company, Inc., a super salesman and promoter, and widely known as a Broadway "play-boy."

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The principal conspirators, Russell Brown, Peter Siskind, Thomas Gorman, Foster and Company, American Distilling Company, and American Spirits, Inc., were located in New York City, and the center of the activities was there. J. J. Sullivan and Company, Inc., and Ben-Burk, Inc., are located in Boston, and Country Distillers Products, Inc., is in Beatsville, Kentucky. The principal distilling plants of the American Distilling Company were located in Pekin, Illinois, and Sausalito, California. The banking facilities utilized were in Chicago, New York, and Boston.

Country Distillers Products, Inc., with an inventory of 110,000 barrels of whiskey, was purchased for \$11,500,000. J. J. Sullivan and Company, Inc., with an inventory of 10,000 barrels, was purchased for approximately \$2,000,000. These deals were consummated in July 1943, although negotiations had been under way for several months.

In anticipation of the whiskey shortage, Russell Brown and the other officials canvassed the market for bulk whiskey. Large wholesale liquor dealers were contacted as early as February and March 1943, and their wants determined. It was apparent the wholesalers' needs were so great that they were willing to advance funds for the purchase of large quantities of whiskey. Large sums were collected from prospective purchasers and kept in escrow for months. Some were returned and collected again. Contracts were executed by purchasers who had advanced large deposits. Other wholesalers agreed to acquire their whiskey as a liquidating dividend on stock and advanced money for this purpose. The objective of all was to acquire whiskey in bottled form for the purpose of resale, and the method by which Russell Brown and/or the American Distilling Company would accomplish this was entirely secondary.

Negotiations were held with Robert L. Block, president and principal owner of Country Distillers Products, Inc., for the purchase outright of that

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distillery, including its buildings, land, equipment, whiskey, and all its assets. The book value of this company was carried at approximately \$4,500,000. In order to obtain the whiskey, the American Distilling Company offered \$14,500,000. Reduction of this price was caused by the Office of Price Administration in ruling that it constituted an overceiling purchase of the whiskey inventory. Finally, a price of \$11,500,000 was agreed upon. This price was "approved" by the Office of Price Administration subject only to the correctness of certain statements with regard to the value of the assets of Country Distillers Products, Inc., exclusive of its bulk inventory (which statements subsequently proved to be materially incorrect).

At the same time, Robert L. Block had accepted a deposit of \$1,000,000 for the sale of the distillery to one Weiss for \$8,000,000, subject to the exercise of an existing option for its purchase by the American Distilling Company. The American Distilling Company had deposited earnest money of \$100,000 advanced by one of the principals. At the last minute, the deal was switched to the partnership, Foster and Company, which thereupon became the purchaser of Country Distillers Products, Inc., and the sellers of the contract bulk whiskey and the minority stock (23%) above referred to. In the same contract, the American Distilling Company agreed to do the bottling. Eight thousand two hundred eleven (8,211) barrels of the older bulk whiskey (labeled Old Jordan) was excluded from the distribution, retained by Foster and Company, and sold into the black market. The balance of the whiskey was allotted to the contract purchasers and to the minority stockholders as liquidating dividends. The 16,000 barrels of whiskey acquired in the J. J. Sullivan deal was bottled and distributed largely in the black market.

In preparation for the channeling of large stocks of whiskey in the black market, the American Distilling Company and Foster and Company reduced allocations to wholesale distributors and monopoly states, and in some instances entirely discontinued sales to regular customers. After receiving and using deposit money

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from contract purchasers, many of the orders were delayed, contracts were reduced, and refunds made. In some instances, wholesalers who were unable to get delivery on their advance payment contracts received immediate shipments of large quantities as soon as cash "side-money" payments were made to an intermediary.

The black market transactions were handled as follows: The American Distilling Company, or its affiliates, would ship only (1) on written order, (2) to an established wholesaler, (3) at ceiling prices, and (4) with sight draft bill of lading attached. This, to all ostensible purposes, would make the transaction appear to be lawful, and the records of all concerned would so show. However, as a corollary or adjunct to this, cash "side-money" of approximately \$15 a case (in some instances more or less) would have to be paid in advance before such order would be accepted. This "side-money" was always paid to an intermediary and channeled through other intermediaries (sometimes four or five), the principal of whom was Thomas Gorman. Gorman, on receipt of the cash "side-money" would phone Peter S. Biskind, president of American Spirits, Inc. (an affiliate of the American Distilling Company). Biskind, in turn, would approve the order when contacted by the supervisory officials of the distillery. For example, upon receipt of an order by Country Distillers Products, Inc., the person in charge, Charles J. Rittman, before approving shipment, would phone Martin Doane, and Doane would phone Peter Biskind (or sometimes Sidney Kessler). This entailed phone calls from Louisville, Kentucky (where Rittman was), to Joplin, Missouri (where Doane was in charge of Ozark Mountain Distilleries, which was owned by Kessler, a partner of Foster and Company), and thence to New York, the location of Biskind or Kessler, and back again to Rittman in Kentucky. This system of intercommunication made it possible for the officials in New York to accept the orders where cash "side-money" was paid in advance and to reject orders on which there was no "side-money." Approximately \$1,600,000 in cash

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"side-money" has been traced from the various intermediaries to Thomas Gorman, who undoubtedly paid the major portion thereof to Peter Siskind for distribution among the actual, rather than the ostensible, partners of Foster and Company.

While Gorman received approximately \$1,000,000 in cash "side-money" during 1943, an examination of his income tax return for that year shows an income of only \$30,000. In an effort to secure an accounting of these funds, and to force Gorman to surrender, a jeopardy assessment was secured in September 1944 against him in the amount of \$700,000.

Substantial additional amounts of "side-money" are involved in this case, the ultimate disposition of which has not been traced due to the refusal of some of the intermediaries to make disclosures.

The following incidents are typical of the manner in which the cash "side-money" was handled:

In the Kansas City area, one Hoffman, an intermediary and former district sales manager for the American Distilling Company, was arrested as a collector of overcalling money. In the St. Louis area, one Koenig was likewise arrested. Both made disclosures to the effect that they had turned over the cash "side-money" in question to one Henry LaRaus, another intermediary and midwestern sales manager for Browne-Vintners, Inc. Subsequently, LaRaus made a statement establishing that he had turned over to Thomas Gorman the "side-money," less commissions, received from Hoffman and Koenig, as well as other wholesalers and intermediaries. On two occasions, Koenig saw LaRaus carry a 22-inch Gladstone bag packed full of currency (allegedly of large denominations). Koenig stated that he paid LaRaus, in all, some \$70,000, but that he feared to make the first payment of \$18,000 to a total stranger without receipt or identification, and insisted upon accompanying him to New York City "to see where the money was going." When he entered LaRaus' compartment on the train, he says LaRaus chided him, saying: "You are afraid to trust me with your measly

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little \$18,000." "Here, fellow, look at this." Thereupon, LaRaus opened his Gladstone bag and in one side of it the currency was packed from rim to rim. Koenig says he just "waistled in amazement." Then LaRaus, swinging the Gladstone divider, brought into view the other side. It, too, was full of currency. On another occasion, Koenig says he saw LaRaus open the same Gladstone bag and that the latter had considerable difficulty in forcing \$12,000 into it, it was so packed with currency. Koenig saw LaRaus on the first occasion carry the Gladstone bag to Gorman at the Ambassador Hotel, New York City, and set it down in Gorman's hotel room.

Gorman suffered a spine injury and went to St. Mary's Hospital at Rochester, Minnesota, for an operation. While he was in the hospital, business went on as usual. Currency was brought to Gorman while he was in bed. In order to consummate the transactions, he merely phoned Peter Siskind at American Spirits, Inc., New York City, and shipments went forward. On one occasion, a nurse, upon entering Gorman's room, saw the bed covered with currency (\$30,000). LaRaus had brought it and was counting it out for Gorman. The nurse thought there had been a robbery and notified the police. This currency was later placed in a safety deposit box in a local bank in the joint names of Gorman and LaRaus.

On another occasion, E. M. Smith, owner of the Highland Liquor Company, Columbia, South Carolina, forwarded to Gorman a series of packages containing \$280,000 in cash "side-money" collected on whiskey purchased from the American Distilling Company, or its subsidiaries. Smith had been a large contract purchaser, but was unable to get delivery (except for a small portion). He later acted as "clearance agent" for one Colin Luther Britt, thereby ordering the whiskey in his own name. Britt collected overcalling moneys from retailers and handed it to Smith.

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Smith, in accordance with the requirements of the scheme, then filled out his order and addressed it either to Foster and Company, Ben-Bark, Inc., or to the others, in accordance with instructions. On each occasion Smith took the currency so received to his bank, which shipped it by express under the bank's insurance policy addressed to Thomas M. Gorman at the Ambassador Hotel, New York City. The porter's records of the Ambassador Hotel coincide exactly with the bank's records concerning the shipment and receipt of these packages of currency. The hotel porter has identified his records and testified that on each occasion such package was delivered to Gorman in person if he happened to be in his room. Otherwise, packages containing as much as thirty thousand dollars (\$30,000) each were merely placed on his bed or bureau.

So huge were the sums which Gorman had been receiving that \$2,000 began to look like small change. Another intermediary, Lou Cohn, set up an office in a suite in the Emerson Hotel, Baltimore, Maryland. In a few months he collected from other intermediaries over a quarter of a million dollars. After entering a plea of guilty, Cohn made an affidavit that he had passed on overbilling money (minus commissions) to one Goeler, another intermediary. Goeler subsequently testified that the money was passed on (minus commissions) to one Burnside, still another intermediary and vice-president of Browns-Vintners, Inc., and that on at least one occasion he was present when Burnside turned over the cash "side-money" to Thomas Gorman. Goeler tells of an occasion when \$175,000 (in bills of small denominations) was brought to him for this purpose. He says Burnside and he spent considerable time counting this money and finally, wearying, advised the donor that they could not accept the money unless it was understood that the giver would assume the risk of any shortage upon its final count on delivery to Gorman. This was agreed upon and the money was carried to New York to Gorman. The latter hired a bank teller to count it. Burnside told Goeler that he was present when the teller announced that the

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fund was \$2,000 short, and was afraid that Gorman would become resentful and refuse to make shipment. Instead, he says that Gorman thought a while, then shrugged his shoulders and said, "Oh, what the Hell."

Even the legitimate sales in some instances had an illegal phase. The minority stockholders were expected, after receipt of their whiskey dividends, to surrender their stock certificates without further consideration. In some instances, it would seem that this was agreed upon in advance. In other instances, they merely received the stock certificates as a surprise, phoned the distillery president, and were told to endorse them in blank and mail them to the American Distilling Company. When the transactions were discovered by investigators, the minority stockholders (in at least one provable instance) were called to the offices of the American Distilling Company, where a conference was held, and they were advised to lie to Government investigators, in conformance with a concocted story; otherwise, they would not receive fulfillment of their orders.

Every indication points to Thomas Gorman as the "bag man" and "fall guy" for the principals in this case. Shortly after the grand jury investigation was undertaken in May 1943 in the Southern District of New York, Gorman disappeared after having advised close associates that he had to leave "to protect other people." A United States Commissioner's warrant was issued for his arrest and subsequently an information was filed in the District Court containing 43 separate counts charging violations of the Emergency Price Control Act. A wanted Circular was issued and a nationwide search made, including Mexico and Cuba. Gorman was finally arrested on January 15, 1945, at a summer cottage in an isolated area about seven miles from Atlanta, Georgia, where he had been living for approximately six months. Investigation discloses that Gorman during this period of time never left the immediate neighborhood where he was arrested; that he used the alias of Mike Chapman; and

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that he posed as a New York playwright in seclusion. On arrest, he was noncommittal except to remark that "he had served his purpose by hiding out."

Gorman was originally held by the United States Commissioner, Atlanta, Georgia, in \$100,000 bail at the request of the Alcohol Tax Unit. Bail was out to \$50,000, but was not made. On removal to New York City, the Assistant United States Attorney charged with the prosecution stated to the court on arraignment that Gorman had been a fugitive, and recommended that he be held in \$25,000 bail. The matter of bail was not vigorously pressed with the court, and the court apparently accepted the statement of counsel for Gorman that "Gorman had been out of town," and set the bail at \$10,000. Gorman, through counsel, refused to make any statement to the United States Attorney or to the investigators.

Jurisdiction in this case was originally placed in the Southern District of New York after a conference with the United States Attorney and after he had agreed to conduct an exhaustive grand jury inquiry into the facts. A special grand jury was impaneled for this specific purpose. This grand jury heard witnesses during May and part of June 1944, and was then adjourned. All efforts to date to have this special grand jury recalled have been unavailing, although several dates have been set by the United States Attorney's office. Originally the Assistant United States Attorneys were enthusiastic about the possibilities of this case. Since the special grand jury was adjourned, these Assistants, however, have devoted very little time to the investigation, with the result that they are not acquainted with the conspiracy aspects of the case. In fairness, however, it should be stated that the United States Attorney has permitted the investigators to bring witnesses to New York under subpoena for questioning. These witnesses, however, have not been

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placed before the grand jury, and only in rare instances interrogated by representatives of the United States Attorney's office.

Because of precedents established in other black market cases by the United States Attorney in the Southern District of New York, in recommending to the court that such cases be disposed of through the imposition of large fines and minimum jail sentences, the Bureau has assumed the position that if Gorman is to be brought to trial prior to the grand jury considering the indictment of the other principals involved, his case should be regarded as an income tax fraud case rather than an OPA case. At a recent conference, the Assistant United States Attorney promised to consider a conspiracy indictment involving the principals as soon as the final case report is submitted to him, which should not be later than the 25th of this month. (Merch)

Criminal informations have been filed in the Southern District of New York against all intermediaries and brokers who have refused to make complete disclosures of their cash "side-money" transactions. On the basis of the evidence developed in this case, the OPA has filed a treble damage action aggregating \$5,300,000 against the American Distilling Company, its affiliates, and the individuals involved in this case.

This case vividly portrays the investigative problem presented in major black market cases where intermediaries are used for the purpose of concealing the transmission of cash "side-money" to the principals. In fact, the evidence in the larger cases is almost entirely dependent on the development of a series of smaller cases, some of which may involve operations of considerable magnitude. The technique followed in these investigations is to perfect a case against the wholesaler in order to force him to make disclosures against the intermediaries representing the producers or processors. If the wholesaler refuses to make

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disclosures either to the Investigators or to a grand jury, it is necessary to prosecute. Once the intermediary is identified through this process, a case is perfected against him, utilizing the wholesalers as witnesses. The intermediaries usually involve other intermediaries and sometimes the principals direct. It is, therefore, imperative that the closest cooperation be accorded by both the United States Attorneys and the courts if the desired results are to be achieved.

CASE: 814-M (Black Market)

UNITED IMPORTERS & DISTRIBUTORS, INC. (Rectifiers),
New Haven, Connecticut.

Michael F. O'Connor, President
John L. Hearndon, Treasurer
Anthony Gerse, Secretary
Charles DiAntonio, General Manager

United Importers and Distributors, Inc., a large Connecticut rectifier, like many other concerns, entered the black market in the early part of 1943. According to the records of the Secretary of State at Hartford, Connecticut, the corporation's tangible net worth is well over one-half million dollars, with current assets of \$752,000. Michael F. O'Connor and Anthony Gerse, president and secretary, respectively, both have prior criminal records.

This concern, like many others, conducted its black market operations primarily through intermediaries, billed the merchandise at ceiling prices or below, and shipped sight draft bill of lading attached, the cash "side-money" on such transactions not being recorded in the books of account. Some \$500,000 in cash "side-money" has been traced to either O'Connor or to Charles DiAntonio, general manager and reputed principal owner. The black market dealings were with wholesale liquor dealers in Louisiana, Texas, South Carolina, Georgia, New Mexico, Arkansas, Florida, and Illinois.

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One of the principal intermediaries in these transactions was Gus Blancand, a qualified New Orleans liquor importer and broker with a large clientele in the South. Early in 1943, Blancand, in an endeavor to supply his customers with distilled spirits, established an office in a suite in the Waldorf-Astoria Hotel, operating as a free-lance broker and accepting the listings of other brokers who were acting as "go-betweens" in black market transactions.

After investigations were started in a number of cases in which Blancand acted as an intermediary, Blancand made a 60-page confession in which he outlined the details concerning all his cash "side-money" transactions. He kept voluminous records and, contrary to the usual rule, paid income tax on his commissions of all a case. Consequently, his testimony was well documented.

It is believed that the conversations had by Blancand with DiAntonio of the United Importers and Distributors, at the time of his first contact with that concern, well illustrate the utter contempt of these black market operators for the income tax statutes.

It appears that during the first week in April 1943 Blancand, along with Mr. George Meyer, importer and purchasing agent for Rick Hotels Corporation, a large hotel chain, visited United Importers and Distributors, Inc., in New Haven, Connecticut, and talked first with O'Connor and then with DiAntonio relative to the purchase of Scotch for the hotel chain. After the usual preliminaries, and determining that Scotch was then selling from \$10 to \$12 over the ceiling, DiAntonio stated that he would be glad to sell Scotch to them, but asked, "Where is the currency?" Blancand replied, "Mr. DiAntonio, we are

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prepared to give you a deposit by check--but we understand you will bill us the full price of the Scotch." DiAntonio then replied, "Listen, Mr. Blancand, I will bill the Scotch at my ceiling which is much lower than what I am selling it for--but the differential must be paid in cash." Blancand then stated, "If I pay you the differential in cash, I will declare it in my income tax return and I assume that you will do the same." DiAntonio replied, "If you give me the money in currency, I will accept it, and if anything is said later on, and you declare that you gave it to me, I will say that you are a liar." This particular deal was never consummated for the reason that Mr. Meyer stated he represented a legitimate hotel chain which had no way of supplying currency on the side and handling transactions not recorded on the books of account, even though his hotels were urgently in need of Scotch. Subsequently Blancand acted as "go-between" in transactions for United Importers and Distributors in connection with which more than \$400,000 in cash "side-money" was collected.

An extensive grand jury investigation was subsequently conducted in this case. On January 29, 1945, DiAntonio and O'Connor pleaded guilty to an indictment in this case and were sentenced to serve two years and one year and a day in the Federal penitentiary and pay fines of \$25,000 and \$5,000, respectively.

As a result of the investigation conducted by the Bureau in this case, the OPA instituted a treble damage suit in the amount of \$572,641 on that part of the evidence not barred by the statute of limitations. It is understood that property of an approximate value of \$360,000 has been attached by the OPA to satisfy this claim.

Trial disposition of the character had in this case will do much to suppress black market operations of all types.

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CASE: Ellis-W (Black Market)
HERCULES LIQUOR PRODUCTS CO., A Partnership,
 Brooklyn, New York.
 Albert H. Drucker
 Fred H. Drucker
 Isadore Fried, Sales Manager

One of the largest black market operators was the Hercules Liquor Products Company, a rectifier of Brooklyn, New York. This company, a partnership, was owned ostensibly by Alfred H. Drucker, an attorney, and Fred H. Drucker, an accountant, neither of whom was ever active in the management of the business. There is every reason to believe that this company is actually owned by the Capitol Wine and Spirit Corporation, a large New York City wholesale liquor dealer, and that the Druckers merely represent the interests of one Pokress, president of Capitol Wine and Spirit Corporation.

Prior to March 1, 1943, the Hercules Liquor Products Company conducted a small rectifying business, and its distribution was limited largely to the New York metropolitan area. On March 1, 1943, the Druckers entered into a contract with one Isadore Fried, who had a criminal record, whereby Fried was installed as sales manager on a commission basis. Business was immediately expanded. The records of the Hercules Liquor Products Company show that between March 1 and December 31, 1943, Fried was paid commissions of \$140,000. Investigation reveals that during this period of time the Hercules Liquor Products Company shipped liquor to wholesalers in the South and the southwestern part of the United States on which Fried collected, either direct or through intermediaries, more than a million dollars in cash "side-money." The cash "side-money" payments of some of the wholesalers amounted to as much as \$300,000. As usual in this type of case, the "side-money" was not recorded in the books of account. The very character of other transactions about which the wholesalers have refused to make

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disclosures leads to the belief that much larger sums of cash "side-money" are involved in this case. Over-ceiling prices from \$5 to \$20 a case were charged, depending upon what the traffic would bear.

As the liquor shortage became more acute, the price increased and the quality decreased. A concoction composed of 5 per cent whiskey and 95 per cent imported molasses spirits was finally marketed by this concern in the State of Texas at overceiling prices. Because of the distances involved, and in order that the cash "side-money" might be in hand before the liquor was shipped, the intermediaries in some instances traveled between New York and points as distant as Texas and Georgia by airplane. The cash "side-money," as usual, was in both large and small denominations.

It is, of course, obvious from the above that Fried was hired as the "front man" and "fall guy" for the actual financial interests behind this concern. The Bureau's theory of the case, as described above, is borne out by the fact that Fried collected cash "side-money" on large quantities of Scotch whiskey which were shipped to the same wholesale liquor dealers by Capitol Wine and Spirit Corporation.

Several witnesses (wholesale liquor dealers) testified that after the Alcohol Tax Unit had instituted its investigation in this case Fried refused to accept any further cash "side-money," but stated that the Hercules Liquor Products Company would thereafter supply them with limited quantities of liquor.

While the investigation was under way, Fred H. Brucker, one of the partners, was inducted in the military service and stationed at Camp Stewart, Georgia. Thereafter a squib appeared in the camp newspaper to the effect that Private Fred H. Brucker had purchased a million dollars worth of war bonds. When subsequently interviewed, Brucker stated that his wife had actually subscribed for a million dollars

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worth of war bonds with a brokerage house in New York City, but that up to that time had bought bonds worth about \$100,000. He stated that the funds used were derived from the business of the Hercules Liquor Products Company. The income tax aspects of this case are under investigation by the Intelligence Unit.

Following a grand jury investigation into this case, the United States Attorney elected, as a matter of trial strategy, to secure an indictment against Isadore Fried. Fried was indicted and subsequently convicted after a two weeks' trial. He was sentenced by the court to serve 18 months imprisonment and to pay a fine of \$50,000. On conviction, Fried still refused to disclose the disposition made of the "side-money." The case against the other principals is still pending before the grand jury in the Eastern District of New York. As the result of evidence developed by the Bureau and submitted to the OPA (not barred by the statute of limitations), a suit for treble damages in the amount of \$577,000 was instituted against the Hercules Liquor Products Company, and a similar suit in the amount of \$105,000 was brought against Capitol Wine and Spirit Corporation.

CASE: 7953-W (Black Market)
WATFLOWER NOVELTY COMPANY,
St. Paul, Minnesota.
Sam Taran, Partner
Herman Paster, Partner
SHALLING LIQUOR STORE,
St. Paul, Minnesota.
Oscar Moskowitz, Owner
Cecil Eottger
A. F. McFee
Et al.

This was one of the first cases perfected under the Bureau's black market enforcement program. It was largely instrumental in breaking up large-scale transactions between the St. Paul-Minneapolis area and the Pacific Northwest.

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When the liquor shortage developed, the Mayflower Novelty Company, the principal partners of which were Sam Taran and Herman Paster, was engaged in the pinball and music box distribution business. There was no apparent reason why this concern should engage in black market operations, inasmuch as it had, according to Taran, made a net profit of \$180,000 during 1942. It was not in the liquor business and, consequently, held no permit. The incentive, however, to make a lot of money was too great. The company's pinball and music box customers, who were primarily taverns, could not obtain a sufficient supply of distilled spirits.

Before the liquor shortage became acute, Taran acquired large quantities of whiskey. This group, in its attempts to conceal the movement of the liquor in the black market, used many schemes and devices, such as fictitious license tags on vehicles, convoys, and secret caches, reminiscent of the pre-Repeal era. Taran was a former light-weight fighter of considerable renown who had a prior criminal record. Some of this whiskey was shipped through regular distribution channels as coin boxes. Another scheme was to ship the liquor by truck under fictitious billing to State Liquor Commissions in Idaho and Oregon. This was necessary inasmuch as the states through which this liquor moved employed the monopoly system of liquor control. Consequently, a shipment not billed to the State was subject to seizure.

While the investigation established that over-ceiling prices were paid for this liquor, the investigators were unable to trace the cash "side-money" back to either Taran or Paster. Consequently, a conspiracy indictment was secured charging a violation of the internal revenue laws and Section 204 of the Criminal Code. After the indictment was secured, considerable pressure was exerted on behalf of Taran. His attorneys pointed out that Taran was not a citizen, citizenship papers having been denied by the court

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previously because of his criminal record, and that if convicted of the conspiracy charge, he would be subject to deportation. Counsel thereafter proposed that the conspiracy indictment be dismissed and that a criminal information be substituted charging the defendants with price ceiling violations, a misdemeanor which subsequently could not be utilized as the basis for deportation proceedings.

Inasmuch as the Government could not trace the cash "side-money" to Taran, counsel agreed that Taran would furnish the evidence to the Government on which to predicate the criminal informations. This proposal, in its entirety, was submitted by the United States Attorney to the Department of Justice. The Department of Justice advised the United States Attorney to use his own judgment in the matter. The conspiracy indictment was dismissed on motion of the Government, and a criminal information was filed based on evidence furnished by the defendants.

In refusing the defendants' plea for leniency at the time sentences were imposed, the court took cognizance of the fact that the Government had been induced to dismiss the conspiracy indictment and accept pleas of guilty to the OPA violations, and sentenced the principal defendants, Taran and Paster, to serve 18 months and six months and to pay fines of \$7,500 and \$10,000, respectively. The court, in its extended remarks, stated "The hectic days of national Prohibition will descend on this country if liquor is handled by men who flaunt the laws and connive and conspire to defeat the regulations which the states have placed on the handling of liquor. Certainly the court cannot escape its responsibility in meting out sentences which will tend to restrain and discourage such baneful activities."

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CASE: 8112-K (Black Market)
J. J. DOUGHERTY'S SONS, INC., Rectifiers,
 Philadelphia, Pennsylvania.

Joseph Binenstock, President
 Samuel B. Rosenbaum, General Manager

This company operated a rectifying business in Philadelphia, Pennsylvania. The president, Joseph Binenstock, is also one of the principal owners of the wholesale grocery business operated under the name of Swinger & Binenstock. This concern shipped large quantities of liquor into the black market in Ohio, Texas, Mississippi, Minnesota, and other states. Some five intermediaries were utilized in handling the cash "side-money," \$210,000 of which was satisfactorily traced.

Considerable difficulty was encountered in perfecting this case due to the fact that some of the intermediaries, even after indictment and conviction, refused to "talk." Finally one of the "go-betweens," namely, Harry Sorowitz, who operated a whiskey brokerage business in the Chanin Building, New York City, was convicted in the District of New Jersey, and after being sentenced to serve a year and a day in the penitentiary, made a confession which assisted materially in tracing the cash "side-money" in this and other cases. The brokers in this case were so brazen they did not hesitate to assure their customers that the cash "side-money" collected by them was being passed on to the officials of the Dougherty Company. One of the brokers in this case was Frank Fogel, who has since been convicted. Fogel did business as a broker in New York from his "hip pocket." The following is illustrative of his method of operation:

William Kahan of the law firm of Kahan and Siegel, Cleveland, Ohio, representing Ohio tavernkeepers, went to New York in search of sources of supply for them. He checked into an uptown hotel, and then visited a

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local restaurant (a rendezvous frequented by liquor brokers) where he made known his wants and indicated he had cash "side-money" for liquor. Being unable to readily contact the brokers there, he returned to his hotel where he found notes at the desk and under the door of his hotel room from liquor brokers requesting appointments. Before he could decide which one to meet first, Fogel and another broker rapped on his door and entered. As a result, Fogel consummated a deal for Dougherty's whiskey, securing the cash "side-money" in advance.

On December 21, 1944, the corporation, Binenstock, and Rosenbaum were convicted after a ten-day trial in the Eastern District of Pennsylvania on a criminal information charging violations of the Emergency Price Control Act. After the jury had brought in its verdict, Federal Judge Welch dismissed the jury with the following remark:

"Your verdict (in this case) is the rightest thing that could have been done."

The imposition of sentence in this case was delayed pending the trial of other black market cases. The court has indicated that on March 1, 1945, it will sentence the defendants convicted in this and other cases. There is every reason to believe that substantial jail sentences will be imposed.

As a result of the investigation, a treble damage action in the amount of \$650,000 was instituted by the OPA covering such transactions as were not barred by the statute of limitations.

It is quite apparent from the attitude of the court in this case, and by the results secured in the three preceding cases discussed, that the disposition of the courts is to deal severely with cases of this type where they are presented by United States Attorneys exclusively on their merits. The cases which follow are typical of those in which prosecutive difficulties have been or are being encountered.

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CASE: 7920-M (Black Market)
 TIP TOP BREWING COMPANY,
 Cleveland, Ohio.

Alfred Polizzi, President
 Frank Garmone
 Et al.

In the early part of 1943 the State of Ohio, like other liquor monopoly states, was able to obtain from distillers only a fraction of the whiskey necessary to supply permit holders (taverns) and consumers. In order to meet this situation, the State permitted tavern owners to purchase whiskey from out-of-state dealers and import it into Ohio after payment of the State tax under what was designated the "consent system" in conformity with new regulations issued.

At that time the major defendant in this case, Alfred Polizzi, a one-time public enemy, was the principal owner and operator of the Tip Top Brewing Company, Cleveland, Ohio. Associated with him as a "front man" was one Frank Garmone, a disbarred attorney. When the tavern owners to whom the Tip Top Brewing Company was supplying beer were unable to secure distilled spirits, Polizzi saw an opportunity to make a lot of money quickly. Polizzi, operating primarily through his "front man," Garmone, immediately arranged to purchase large quantities of distilled spirits from wholesale liquor dealers located in Chicago, Illinois. This liquor was transported to Cleveland and distributed to the brewer's preferred customers at prices up to \$20 a case over and above the ceiling price. Some of the cash "side-money" collected in connection with these transactions (the exact amount of which is not known) was passed on back to the wholesalers in Chicago.

After the whiskey shortage became more acute and Polizzi and Garmone were unable to secure further shipments of case goods from Chicago, large quantities of bulk whiskey were purchased through the medium of

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warehouse receipts. Arrangements were effected with local rectifiers for the bottling of this whiskey. It was then distributed to the same outlets at black market prices. On one of these deals (involving the bottling of 800 barrels of bulk whiskey) \$150,000 in cash "side-money" was collected.

As soon as the Bureau undertook the investigation of this case, Polizzi immediately discontinued his black market operations. At that time he owned warehouse receipts covering 457 barrels of whiskey (the ceiling price on which was \$29,000) which he disposed of to one Meyers C. Ackerman, the chairman of a retail liquor association in Columbus, Ohio, for \$182,000.

A preliminary indictment in this case was returned on December 22, 1943, although the investigation was not completed until several months later. Shortly after the indictment, Polizzi engaged, in addition to his Cleveland attorneys, the law firm of Keenan and Lawrence in Washington, D. C. Mr. Keenan was a former Assistant to the Attorney General. An effort was made by Mr. Lawrence over a period of months to convince officials of the Bureau and the Department of Justice that only Garmone and not Polizzi was involved in the black market operations. As a result of the strenuous efforts made by Mr. Lawrence to have the indictment against Polizzi dismissed, the Department of Justice had the United States Attorney in Cleveland forward the file in the case to Washington. It is understood that as a result of the examination of the United States Attorney's file and the case report, a memorandum was prepared by a Special Assistant to the Attorney General, holding that the evidence was not sufficient to warrant the conviction of Polizzi. On learning that the file had been reviewed, the Bureau arranged to have a supplemental report prepared embodying additional evidence secured since the original case report was submitted to the United States Attorney. An effort was then made to have the United States Attorney in Cleveland secure a new indictment but without success. The case finally came on for trial in October 1944.

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A few days before the case was set for trial, the Department of Justice (at the instigation of Mr. Lawrence) advised the United States Attorney in Cleveland that a proposal, allegedly agreed on by counsel, whereby the case against Polizzi would be dismissed on a plea of guilty by Carmone, with a recommendation on the part of the United States Attorney to the court that a \$10,000 fine be assessed, was agreeable to the Department of Justice. The United States Attorney advised the Department that he had arrived at no such arrangement with counsel, and stated, in substance, that if the Department of Justice wanted the case disposed of on that basis, he would handle it accordingly, provided the Attorney General would write him a letter to that effect, but added that he would give the Attorney General's letter to the newspapers.

Polizzi and Carmone subsequently pleaded guilty, but not until the United States Attorney had moved that the court dismiss one of the two counts in the indictment. Both defendants were sentenced to serve four months in jail and to pay fines of \$5,000 each.

CASE: 835A-M (Black Market)
Samuel S. Friedman, vice-President,
Kentucky Hotel, Incorporated.
J. Lee Friedman,
Berlin Griffin,
Miles Cohen,
Louis Karp,
Et al.

The Summit County Permit Holders Association, Akron, Ohio, was typical of many tavernkeepers' associations which were forced throughout the country during the liquor shortage in 1943 in an effort to

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secure a source of supply through pooling their assets. This particular Association appointed a committee consisting of Anthony C. DeLuca, Dominic A. Olivo, and others, to make contact with Kentucky distillers and brokers. Subsequent investigation disclosed that this Association purchased warehouse receipts covering 582 barrels (28,000 proof gallons) of bulk whiskey which was bottled later and delivered to its various members. This whiskey was purchased through Samuel S. Friedman, vice-president of Kentucky Hotel, Inc., who was functioning as a whiskey broker representing extensive undisclosed interests. The ceiling price covering the 582 barrels of bulk whiskey was approximately \$32,000. The Association, however, was required to pay \$199,400, or six times the ceiling price.

After confessions were secured from DeLuca and Olivo, immediate arrangements were effected with the United States Attorney, Louisville, Kentucky, to file a criminal information against Samuel S. Friedman in the hope that after conviction he would reveal the undisclosed principals in this transaction, as well as in other transactions in which he was known to have functioned as a broker or "go-between."

Shortly after the criminal information was filed, the District Supervisor in Louisville learned that negotiations were under way between counsel and the United States Attorney whereby the United States Attorney would recommend to the court that on a plea of guilty Friedman would pay a fine of \$135,000, and that the funds to pay the fine would be furnished largely by the undisclosed principals. On securing this information, an immediate protest was made to the Department of Justice that such proposal was not only contrary to all established prosecutive procedure, but in conflict with the policies outlined for handling black market cases in its letter of February 1944 to all United States Attorneys. As a result of this complaint, the Department of Justice instructed the United States Attorney that the case should not be disposed of on the basis proposed.

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A few days later it was ascertained that the United States Attorney proposed to dispose of the case on the same basis, with the exception that counsel would furnish the names of the actual recipients of the cash "side-money" (undisclosed principals) and the names of such individuals would be embodied in the criminal information, to which defendants would plead guilty and pay a total of \$135,000 in fines. On learning that one of the undisclosed principals was Berlin Griffin, one of the largest black market operators in the United States and one of the principals (and co-owner) in the Wathen distillery case, which case was then pending before the same United States Attorney, a further protest was made to the Department of Justice that such a disposition of the case would not only preclude full disclosures of other black market transactions on the part of these defendants but would jeopardize the prosecution of the Wathen distillery case. On failing to reach the United States Attorney by telephone, the Assistant Attorney General wired the United States Attorney to withhold presentation of the case to the court. The telegram was misdirected and the United States Attorney on the same day filed a new criminal information and the defendants, simultaneous with the filing thereof, entered pleas of guilty and were assessed \$135,000 in fines on recommendation of the United States Attorney. The \$135,000 in fines merely relieved the defendants of the "side-money" collected in connection with this particular transaction and, in effect, constituted no punishment.

Inasmuch as the Bureau must depend to a certain extent on the successful prosecution of brokers (intermediaries and "go-betweens") who pass on the cash "side-money" in order to force disclosures as to the ultimate recipients of such funds, actions of this character well illustrate the difficulties encountered where complete cooperation is not had from either the United States Attorney or the Department of Justice.

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After the disposition of this case, a further investigation was made of the black market operations of Samuel S. Friedman. Additional evidence of substantial transactions not previously disclosed has been secured and a report submitted to the United States Attorney requesting that an indictment be secured. In light of the action taken in the original case, it is, of course, problematical what disposition will be made thereof.

CASE: 8047-M (Black Market)
WATHEN BROTHERS DISTILLERY, INC.,
 Louisville, Kentucky.

Southern Liquor Distributors, Inc.,
 Jacksonville, Florida.
 Palm Beach Liquor Distributors,
 Palm Beach, Florida.
 David Harris and Company,
 Jacksonville, Florida.
 Berlin Griffin, Palm Beach, Florida.
 Ben Stein, Jacksonville, Florida.
 Louis A. Kiedel, New York, New York.
 Et al.

This is a typical black market conspiracy case and involves the disposition of approximately 12,000 barrels of bulk whiskey which the conspirators processed and bottled, and of which it is estimated that approximately 90 per cent found its way into the black market, and on which it is estimated that more than \$1,000,000 was collected in overages or cash "side-money."

The directing heads of the syndicate were Berlin Griffin and Ben Stein, representing Palm Beach Liquor Distributors, Palm Beach, Florida, and Southern Liquor Distributors, Jacksonville, Florida, respectively (wholesale liquor dealers).

In the spring of 1943 when the acute liquor shortage first developed, these two groups formed a combine, and on April 7, 1943, purchased Wathen Brothers Distillery, Inc., Green Brier, Nelson County,

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Kentucky, with its inventory of 4,896 barrels of bulk whiskey. On ascertaining that an additional 6,500 barrels of whiskey was owned by E. T. Kiedel and Company, a partnership, arrangements were promptly consummated whereby Ben Stein, one of the principal partners, would act as agent in processing, bottling, and distributing this whiskey. Immediate arrangements were made for the bottling of this whiskey at the Mathen and other plants. The whiskey was bottled without regard to regular industry marketing practices, some of it representing recent production--not more than nine months old.

Originally it was the apparent purpose of the two groups to dispose of this whiskey in the black market through wholesale liquor establishments in the State of Florida where there was a substantial demand. David Harris and Company, Jacksonville, Florida, was formed by the Stein group for this purpose in order to divorce the Southern Liquor Distributors from these operations as far as possible. In the meantime, the shortage had become so acute and the demand so great that this whiskey (bottled primarily under the Old Plainsman Brand) was listed with New York brokers and disposed of through intermediaries on a strictly cash "side-money" basis in much the same manner as in the American Distilling Company case already discussed. This was particularly true of the allotment made to the Berlin Griffin group. More than \$400,000 in cash "side-money" was traced to Berlin Griffin in connection with these operations.

Under date of September 2, 1944, a preliminary report in this case was submitted to the United States Attorney at Louisville, Kentucky, to the end that an exhaustive grand jury investigation might be instituted for the purpose of further developing the conspiracy aspects of the case, as well as tracing the ultimate disposition of all cash "side-money" collected. During September 1944 extensive conferences were had with investigative officers by the United States Attorney and all arrangements effected to present the case to a special grand jury impaneled for this purpose beginning October 4, 1944. At one of these conferences, attended

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by Mr. Berkshire while on a field trip, the United States Attorney expressed satisfaction with the progress of the investigation and stated that the case would be presented to the grand jury.

Shortly before the grand jury was to convene the Bureau was advised that the presentation of the case would be delayed until the 15th of October, and later that it would not be submitted until after the Department of Justice had examined the final report, which was then being prepared. In the meantime a representative of the Department of Justice had discussed the case with the Bureau, the gist of which discussion is set out in the introduction of this memorandum.

After the unsatisfactory handling by the United States Attorney in Louisville of case 8354-M (Samuel S. Friedman--Berlin Griffin, et al.), previously discussed, the Bureau under date of November 1, 1944, requested the Department of Justice to assign a Special Assistant to the Attorney General to prosecute this case. In making this request the Bureau assumed the position that the United States Attorney had disqualified himself from effectively prosecuting this case because of the arrangement previously entered into with counsel for Berlin Griffin in light of the facts known to the United States Attorney at the time.

At a recent conference held in the Department of Justice, attended by the United States Attorney from Louisville, Kentucky, it was finally agreed that an exploratory grand jury inquiry would be instituted in this case the latter part of March.

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A treble damage suit in the amount of \$856,000 has been filed in this case by the UFA, involving such transactions as were not barred by the statute of limitations.

CASES: Pa-E-3949 (Black Market)

Pa-E-3954 " "

Pa-E-3975 " "

Charles S. Levy, President,
Sheldon Importing Company,
Philadelphia, Pennsylvania.
(WLD, liquor broker and black
market intermediary)

This case deals with the activities of Charles S. Levy of the Sheldon Importing Company, a Philadelphia liquor importer and black market operator, who was indicted in the Eastern District of Pennsylvania for price ceiling violations (cash "side-money" transactions) on seven counts. Levy's business was conducted primarily with wholesale liquor dealers in the South. His function was to pass on the cash "side-money," thereby making it unnecessary that there be a direct personal contact between the seller and the buyer.

While the case against Levy was of itself relatively unimportant, its implications were large because he was in a position to involve distillers and rectifiers who were undoubtedly the actual recipients of the cash "side-money." Vigorous prosecution was therefore essential if the actual principals in these cases were to be reached. Levy refused to make disclosures of the disposition of the cash "side-money" involved.

It might be added that this case is typical of many perfected against intermediaries who have refused to cooperate with the Government to the end that these "side-money" transactions could be traced to their ultimate disposition.

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This case was set for trial on January 19, 1945. Some six weeks or more before the trial date the defense attorney visited the Department of Justice. It appears that the defense counsel had determined that commitments had been made to one or more of the witnesses (wholesale liquor dealers), and, inasmuch as these witnesses had not been indicted, counsel threatened to make an issue of the investigative tactics pursued in these cases. An official of the Department of Justice suggested that such an attack might result in unfavorable comment on the part of the trial court and thereby jeopardize other black market prosecutions, and requested that the Bureau join with the Department of Justice in recommending to the United States Attorney that the case be continued indefinitely. The official was advised that the Bureau would not be a party to any such arrangement and that the investigative tactics utilized by the Alcohol Tax Unit and various United States Attorneys throughout the country in these cases could be fully justified. The matter was taken up by the Department of Justice with the United States Attorney in Philadelphia, who apparently was not impressed inasmuch as he advised that the case would go to trial on the date set. Further efforts were made right up to the trial date to have the case continued, both by representations to Bureau officials and at a conference in the Department of Justice in Washington attended by defense counsel and the Assistant United States Attorney from Philadelphia who was assigned to prosecute the case.

During the trial of the case defense counsel in Philadelphia was in telephone contact with the Department of Justice in Washington and information was furnished to him which was to the detriment of the Government's case. At least two efforts were made during the trial to have the case nolle prossed.

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In a telephone conversation with the United States Attorney the day before the case went to the jury, the Department of Justice not only urged that the Government at that late date enter a nolle proes, but suggested that the Government agree to a motion previously made by defense counsel that the Government's witnesses be ordered arrested by the court on perjury charges. Despite the efforts of the Department of Justice to avoid prosecution of this case, the jury returned a verdict of guilty within forty minutes after the case was submitted to them.

CASE: S100-M (Black Market)
GLENBY-FRASER & COMPANY, (Rectifiers),
 Newark, New Jersey.
 Harry Bein, Directing Partner
 Harry J. Greenwald, intermediary
 Et al.

This concern operated a rectifying business in Newark, New Jersey, and had a net worth of approximately \$500,000. Like many other rectifiers, the officials thereof could not resist the temptation of engaging in black market operations. Both bulk and case goods were sold in the black market. Cash "side-money" transactions have not been fully traced, as the business was carried on through intermediaries who have refused to make disclosures. The principal intermediary used was one Harry J. Greenwald, a liquor broker who maintained offices in the Chanin Building in New York City, and who acted as a "go-between" for several concerns in the East engaged in black market operations.

The following transaction is illustrative of those conducted by this concern, and typical of the methods used by black market operators in making sure that they were not being double-crossed by the intermediary. The affidavit of one William B. Lewis,

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representing the Buckeye Liquor Dealers Association in Ohio, describes graphically one of the transactions had with Greenwald and one Klibanoff, sales manager for Glenby-Fraser & Company, as follows:

"* * * I registered at the Vanderbilt Hotel in New York * * * I met Greenwald in his office and told him I had the money. He picked me up the following morning and we drove to Newark * * * we went into the Douglas Hotel and Greenwald took us up to room 908 * * * when Greenwald knocked on the door of the room, it was opened by Klibanoff, sales manager for Glenby-Fraser * * * Greenwald then introduced Klibanoff to me as 'Mac' and Greenwald then asked Klibanoff if he would not step into the adjoining private bathroom, saying, 'Bill (meaning Lewis) and I have some business to discuss.' Thereupon, Klibanoff stepped into the bathroom and while he was there I gave the cash amounting to \$30,111 to Greenwald. Greenwald then called Klibanoff back into the room and said to him, 'Give Bill the certificates.' Klibanoff then handed the warehouse certificates to me representing 150 barrels of Bourbon whiskey. They were endorsed by Sol Bein."

Previous to the payment of the cash "side-money" described above, Lewis had given Greenwald a check for \$9,880, payable to Glenby-Fraser & Company, for 150 barrels of bulk whiskey at the ceiling price.

An effort has been made since May 1944 to have a grand jury investigation conducted in this case. About that time, Mr. Joseph Keenan, Attorney at Law,

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Washington, D. C., and former Assistant Attorney General, was retained by this concern. In the latter part of May 1944, witnesses were subpoenaed to appear before the grand jury at Newark, New Jersey, but before they had actually appeared, the United States Attorney canceled the subpoenas. On several occasions between August and November, the United States Attorney, when asked why the case had not been submitted to the grand jury, stated that he was awaiting instructions from Washington.

A number of witnesses were called before the grand jury in the early part of December 1944, although no extensive grand jury investigation was conducted. Before all the witnesses who were subpoenaed had testified, the United States Attorney advised that the grand jury would not further consider the matter until the indictment drawn in the case had been reviewed in the Attorney General's office. When further inquiry was made as to the reason for the delay, the United States Attorney advised that he was awaiting a "green light" from Washington. Up to the present date, no further action has been taken by the grand jury.

CASE: 819A-1 (Black Market)

PARAMOUNT LIQUOR COMPANY, A Corporation,
St. Louis, Missouri (Wholesale Liquor Dealer).

Sam Eastman, General Manager
(Husband of Fay Eastman, President)
Harry Moll, Secretary-Treasurer
Harry Mendin, Credit Manager
Joe Teper, Sales Manager
Albert J. Gineberg, Salesman
(Missouri state manager for
American Distilling Company)
Et al.

In the early part of 1943, the Paramount Liquor Company, St. Louis, Missouri, was reputedly the largest wholesale liquor dealer in Missouri. One of the principal owners, Sam Eastman, had a long criminal

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record. When the critical liquor shortage developed, this company seized the opportunity of making exorbitant profits by entering the black market. It catered particularly to retail outlets which had contacts with known liquor runners operating in the dry States of Oklahoma and Kansas, where the demand for liquor was so great that it commanded almost any price. At the same time, the company almost entirely ignored the plea for whiskey from its regular customers, and in at least one area which it supplied, it sold as high as 98 per cent of the liquor allocated to that territory to one customer, namely, Austin Seib, a retail liquor dealer in Charleston, Missouri. A number of the regular customers of this company who were desperately trying to secure liquor for resale to their trade, and who were unable to get merchandise elsewhere, were compelled to pay Seib from \$60 to \$70 a case for Rocking Chair and other brands of whiskey having established ceiling prices of from \$25 to \$30 a case.

A typical example of the way in which this concern sought to sidetrack its regular customers in order to supply the black market is shown by negotiations had with Morris Multin, the owner of a large chain of retail liquor stores in St. Louis, who states:

"I have known Eastman and Moll for the past 35 years and since repeal my company has been one of Paramount's largest accounts. Prior to the current whiskey shortage my firm sold a large volume of American Distilling Company products purchased through Paramount Liquor Company; our purchases from Paramount in recent years running to an annual volume of from \$350,000 to \$400,000, but since the black market in liquor our volume of whiskey business with Paramount shrunk to a negligible amount. Early in 1943 I could see what Paramount was doing. On one occasion Eastman and Moll were in my place and I remonstrated with them

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about it. I asked them then why they wanted to enter the black market liquor business when they already had more money than they could ever spend. Thereafter I received a telephone call from Teper, sales manager of Paramount, at which time I was informed that I could purchase \$75,000 worth of merchandise consisting mostly of cordials and wines which included only 100 cases of whiskey. I refused to go through with the deal, reminding Teper that he had pulled two similar deals on me resulting in my buying about \$150,000 worth of merchandise in order to get a couple of hundred cases of whiskey. I then told him I would never set foot in Paramount's premises again."

One of the principal intermediaries used by Paramount in contacting black market outlets was one Albert Ginsberg, former Missouri state manager for the American Distilling Company.

After considerable preliminary work on this case, a complaint was filed before the United States Commissioner in St. Louis, charging Eastman, Moll, Randin, and Ginsberg with conspiracy to violate the internal revenue laws and the Emergency Price Control Act. The defendants were arrested and held in bail. This complaint was based primarily on falsification of S-2-B records, which had been resorted to in order to conceal the black market transactions. As far as price ceiling violations were concerned, the evidence was limited to cash "side-money" paid to salesmen of the Paramount Liquor Company.

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On April 20, 1944, the case report was submitted to the United States Attorney in St. Louis. The United States Attorney indicated that an extensive grand jury investigation would be conducted with a view to establishing all cash "side-money" transactions and tracing them to the principal owners of the business. At least two dates were set for the grand jury investigation but the case was not presented.

While the matter was under advisement, several telephone inquiries were received from the Department of Justice, concerning the strength of the evidence against the principals and whether a grand jury inquiry was justified. The Department of Justice was advised there was every indication that this concern had engaged in widespread black market operations, but that it would be necessary to conduct an extensive grand jury investigation in order to make out a prima facie case against the principals. As late as September 1944 the United States Attorney in St. Louis, in requesting certain exhibits in the case, advised the District Supervisor of the Alcohol Tax Unit that he would present the case during the latter part of that month if he were not instructed to the contrary. On November 2, 1944, he dismissed the complaint before the United States Commissioner against the principals upon instructions received from the Department of Justice.

CASE: 8101-M (Black Market)

EQUITABLE TRADING COMPANY,
New York, New York.

PERM-MULLEN LIQUOR COMPANY,
Philadelphia, Pa.

Byram Karlin, Principal Partner

At the time the whiskey shortage developed in the spring of 1943, Equitable Trading Company had a thriving import and wholesale liquor business in the

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New York metropolitan area. The company employed 36 salesmen and had more than 5,000 customers. Gradually the allotments to their retail liquor accounts in New York City were reduced and larger quantities of liquor channeled through intermediaries to wholesale liquor dealers in the South and Southwest and into private outlets in the monopoly states. Cash "side-money" ranging from \$10 to \$10 a case was collected in connection with these transactions. The allocation to retail outlets in New York City finally became so limited that the salesmen of the Company who were working on a commission basis were unable to make a living. The matter was then taken up with the salesmen's labor union, which in turn exerted pressure on Karlin to allocate more liquor to the metropolitan area.

This concern, like several other large black market operators, resorted to the subterfuge of paying small commissions to intermediaries so their books would reflect a consideration for the sale of liquor and make the transactions appear legitimate. These commissions, however, had to be "kicked-back." For example, one Deutsch, the head of a retail liquor association in Ohio who functioned as an intermediary between Karlin and members of the Association, and who passed on some \$200,000 in cash "side-money", was paid a commission of 25 cents a case by the Equitable Trading Company with the express understanding that he would cash the commission checks and return the money to Karlin. This was done. Deutsch actually received a commission from the purchaser of \$1.50 per case which was over and above the cash "side-money" collected and passed on on each case of liquor.

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More than \$400,000 in cash "side-money" was traced direct to Karlin. This amount probably does not represent more than 50 per cent of the "side-money" actually collected.

On September 20, 1944, Karlin pleaded guilty to a criminal information charging fifty separate violations of the Emergency Price Control Act. On recommendation of the United States Attorney, the court sentenced him to serve 30 days in jail and to pay a fine of \$100,000. Subsequently, another case involving black market operations of considerable magnitude, namely, that of Glenram Wine and Liquor Company was disposed of by the court on the recommendation of the United States Attorney by imposition of a 30-day jail sentence and a \$50,000 fine. Prior to disposition of the case involving the Equitable Trading Company, a rumor was prevalent in the industry to the effect that black market cases in the Southern District of New York would be disposed of on a somewhat nominal basis. One of the liquor publications went so far as to state that they would be disposed of by large fines. Considering the magnitude of the violations in these cases, the disposition cannot be considered satisfactory.

On or about February 14, 1945, one Herman Rose, who operated a wholesale liquor business under the name of Glenroy, Ltd., Newark, New Jersey, and who acted as an intermediary in collecting approximately \$70,000 in cash "side-money" on liquor shipped to wholesalers in Texas by the Equitable Trading Company, was convicted after a jury trial in the District of New Jersey. Rose had refused to disclose the disposition of the cash "side-money" involved. After conviction in New Jersey, Federal Judge Meany in sentencing him stated in substance, "I can find very little to say in your behalf. I know that the people in New York who were mixed up in this case received a 30-day sentence and a fine. You will not." The court thereupon sentenced Rose to serve a year in jail and fined him \$25,000.

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As a result of the evidence developed in this case, the OPA filed a treble damage action in the amount of \$600,000 covering the transactions not barred by the statute of limitations. A similar action in the amount of \$280,000 was filed against Herman Rose, trading as Glenroy, Ltd.

CASE: 828A-M (Black Market)
IMPERIAL IMPORTERS, INC.
 Chicago, Illinois
 William Siegel
 Harry J. Rothman
 Et al.

William Siegel and Harry J. Rothman were employed as liquor salesmen in Chicago, Illinois. On March 15, 1943, they filed income tax returns for the calendar year 1942 on a net taxable income of \$1,700 and \$2,700, respectively. In June 1943 they formed Imperial Importers, Inc., with capital of \$5,000, and installed an accountant, one Vargas, as "front man" and president of the corporation. During the remainder of the calendar year 1943 some 70,000 cases of whiskey were sold in the black market by Imperial Importers, Inc., principally in the State of Ohio (at an average price of more than \$20 per case above the established ceiling), on which the corporation made a net profit of \$27,000, as shown on its books, and on which Siegel, Rothman, the intermediaries, and their sub-agents collected an estimated \$1,000,000 in cash "side-money." The cash "side-money" was not either reflected in the corporate records or included in the income tax returns of Rothman and Siegel.

This most profitable enterprise was started at a time when whiskey, because of the shortage, was virtually unobtainable. The source of supply was the Gould syndicate in Cincinnati, whose black market operations have already been discussed. Inasmuch as this company had virtually no resources, it is obvious that it was formed for no other purpose than to act as a cloak for channeling the Gould whiskey into the black market.

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Shortly after the company was formed and in order to have a suitable place to meet customers and to employ agents and intermediaries, Siegel established himself in a suite in the LaSalle Hotel in Chicago under the alias of "Frank Stewart." Similar quarters were obtained in the Hollenden Hotel, Cleveland, Ohio, by Rothman under the alias of "Hartman." Some 10 or 12 intermediaries were utilized who, in turn, hired sub-agents who actually sold the whiskey to the retailers and collected the cash "side-money."

C. A. Diener, one of the Ohio intermediaries who made full disclosures during the investigation, in discussing his employment, made some significant observations:

"* * * I had numerous conversations with Rothman * * * ; he explained on one occasion that he and Siegel were shipping liquor into Ohio in excess of ceiling prices and that a man named Vargas * * * who was being 'carried' as President of Imperial Importers, Inc., and that * * * and if any trouble arose in regard to the whiskey transactions that Vargas was the man that would have to take the 'rap.' * * * I asked Rothman if I was going to get into any trouble handling this whiskey and he said: 'The only violation is the OPA law--there are no teeth in the OPA law anyway--everybody in the country is violating OPA laws * * * you have nothing to fear.'"

In further discussions with Rothman concerning the handling of the currency involved in these cash "side-money" deals, Diener says:

"* * * Rothman at that time stated to me that I was lucky that I was dealing with a man like him; that some concerns would no doubt 'go South with the money' and leave me holding the bag. * * *

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Rothman then explained they were no longer shipping whiskey into Ohio because things were getting 'too hot to handle' and that the State of Ohio was demanding from the permit holders an affidavit showing that they were paid only the ceiling price

"Rothman was registered at the Netherlands-Plaza Hotel, Cincinnati, under the name of Hartman * * * Rothman, as I recall, returned to me * * * \$5,000, representing payment for merchandise undelivered. This money was taken from a suitcase that Rothman had with him. This suitcase was full of currency. In counting out the money to me, I saw that Rothman had bundles of new \$20 bills. He stated that he did not want to handle big bills because they (I suppose he meant the banks or the Government) were keeping track of the large bills. These \$20 bills were new * * * and still had the bank wrapping around them. They were in consecutive serial numbers and Rothman stated that he did not want to give me consecutive serial numbers because the banks were watching * * *. In counting out the money, he would take bills from each of numerous packages and by so doing mixed up the serial numbers so that they would not be consecutive. He stated that in this manner they would be least apt to be noticed by the bank."

At the time the above-described funds were returned to the witness, Rothman was believed to have been on one of his trips for the purpose of turning over the cash "side-money" to the Gould interests in Cincinnati, Ohio, which accounts for the bag full of currency.

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The law firm of Siegel and Kahan, Cleveland, Ohio, had an experience with Rothman which is interesting. These attorneys represented retail liquor dealers who were interested in importing liquor into the State of Ohio under the "consent system." On determining that liquor was commanding almost any price, these men decided to function as brokers rather than as attorneys in these transactions. Large sums of money were collected from retail liquor dealers and carried to New York City, Philadelphia, and Chicago in the hope of finding sources of supply. No difficulty was encountered in securing merchandise once they made it known that they had the cash to pay "side-money." For their services, these lawyers charged a commission of 1/4 for each case of liquor purchased. Substantial quantities of liquor were purchased from Imperial Importers, Inc., on which large sums in cash "side-money" were paid to Rothman. After the investigation had been instituted by the Alcohol Tax Unit and these attorneys had made full disclosures of their participation in these transactions, Rothman came to Cleveland and remonstrated with them, stating, "If you were going to talk to the Government, why did you enter into these deals?" Whereupon Attorney Kahan, using the proper epithet, responded, "You didn't think that we were going to pay income tax on the 'side-money' you got, did you?"

As a result of the evidence furnished the OPA, a treble damage suit in the amount of \$1,900,000 has been instituted against Imperial Importers, Inc.

As this is being dictated, it has been learned that Rothman and Siegel are in the process of making a statement as to the cash "side-money" paid to the Gould syndicate. They admit collecting \$600,000 in "side-money" exclusive of that retained by intermediaries and sub-agents, \$450,000 of which they allege was passed on to the Gould syndicate. Evidence

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in the possession of the Bureau indicates that the admissions do not constitute a full disclosure. The developments in this case will assist materially in determining the income tax liability of the Gould-Freedman interests.

It is believed that the foregoing cases reflect the magnitude and, in a general way, the extent of black market operations in distilled spirits. Many other cases could be discussed, but as the pattern of operation is substantially the same this would serve no purpose.

The following conclusions can be drawn from the experience of the Bureau in the investigation of price ceiling violations in distilled spirits in so far as cash "side-money" transactions and the attendant income tax fraud problems are concerned:

(1) It is essential that price ceiling investigations be made concurrently with the violations in so far as possible if maximum results and the necessary deterrent effect are to be secured. Primary sources of information bearing on the cash "side-money" aspects are necessary prerequisites to successful investigation.

(2) The fullest cooperation between the Department of Justice and the investigative agency is essential to the end that grand jury investigations may be timely conducted and prompt prosecution had of the major violators as well as their hirelings who deliberately conceal the identity of their principals.

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The investigative and prosecutive approach to the problem, as outlined above, will reduce large-scale violations to a minimum and tend to at least force overages onto the books of account, thereby alleviating the income tax problems that flow from unrecorded cash "side-money" transactions. It would appear that the conclusions and deductions would apply to large-scale black market operations in other commodities.

Stewart Berkshire

Stewart Berkshire,
Deputy Commissioner.

Dwight E. Avis
Dwight E. Avis,
Assistant Deputy Commissioner,
Enforcement.

PLAIN
London
Dated April 5, 1948
Rec'd 10:48 a.m.

Secretary of State,
Washington.
3459, Fifth.

Please deliver the following message to the War
Refugee Board from Intergovernmental Committee on refugees

Message begins: We understand World Jewish Congress
has sought your assistance through American Embassy London
behalf 137 Jews en route Istanbul via SS BROTHINGHOLM
as part of Turkish German exchange whose Turkish nation-
ality uncertain. According our information essential
question is whether disembarkation will be permitted and
we would advise intervention only in case such dis-
embarkation is in doubt. For your information we are
informed that Jewish Agency London has requested Jewish
Agency Jerusalem to authorize its representative Istanbul
to issue Palestinian certificates to above mentioned
group if this measure necessary to achieve disembarkation.
We believe this arrangement is satisfactory and would
suggest it be invoked if there is difficulty concerning
disembarkation. Message ends.

VINANT

VYS

308

PLAIN
Lisbon
Dated April 5, 1948
Rec'd 5:04 p.m.

Secretary of State
Washington.
731, Fifth.
WAB 376; JWC 212.
FOR LAMVITT FROM HAROLD THORN.

Further our SOS. Isaw called 'thirty thousand
Swiss francs needed urgently. Very important question
settled soon otherwise serious consequences.'

CHOCOLATE

VTD

309

310

COMMUNICATION

PLAIN

April 5, 1945

In cable from Lisbon 713 April 3 WEB-379
change serial number to 712.

DIVISION OF CENTRAL SERVICES

CHB

M

311

April 5, 1945

8 p.m.

AMLEGATION

STOCKHOLM

GOT

The following for Olsen is WEB 545.

Treasury has issued license permitting Methodist
Committee for Overseas Relief, New York, to remit \$1,000.
to Reverend Th. Arvidson, Sibyllegaten Eighteen, Stockholm,
for relief of Norwegian Methodists in northern Norway.
License stipulates such funds shall be utilized only as
authorized by you as representative War Refugee Board.
Usual precautions in transmitting funds into enemy occupied
territory should be exercised.

ACKERSON
ACTING
(SHV)

WEB:MMY:ES
4/5/45

HOB

FMA

312

PLAIN
London
Dated April 5, 1945
Rec'd 10:52 a.m.

Secretary of State,

Washington.

3458, Fifth.

Please deliver the following message to Messrs Leavitt, Joint Distribution Committee, 270 Madison Avenue, New York from Hughes, Treasurer, Intergovernmental Committee on refugees, London.

Message begins. Your message 12th. March and auditors certificate 2nd. March received. Please cable information that all francs mentioned are Swiss. Commitments for France temporarily excluded since total J. D. C. expenditure as principal and as agent started to be less than commitment of \$300,000 for France but presume other expenditures made for France not included in data available to us. Please explain in light of paragraph 2 agreement of 24 April, 1944. On disposal of these queries arrangements will be made to pay you \$600,000 on general account and an equivalent sum shortly. Will it be convenient to you to accept latter amount in sterling? Linder consulted and is writing. Message ends.

WINANT

WHS

313

JTB-680
This telegram must be paraphrased before being communicated to anyone other than a Government agency. (INSTRUCTED)

Rome

Dated April 5, 1945

Rec'd 8:35 p.m., 6th.

Secretary of State

Washington.

885, April 5, 7 p.m.

TO MORRIS LEAVITT JDC NEW YORK FROM JACOBSON.

Following received from AFHQ April 4 which has also been sent to Washington. Message begins. Benjamin Brook American Joint Distribution Committee assigned Italy operations is subject. Authority this theater approved. Request advice ETA. Subject should be instructed to report Allied Commission Rome complete. Regards.

KIRK

END

Bern

Dated April 5, 1945

Rec'd 9:51 p.m.

Secretary of State,

Washington.

1982, April 5, 7 p.m.

FOR DEPARTMENT FNA AND WKB

In view urgency case as outlined Department's reference telegram Legation has exceptionally (Department's 998 WKB's 438 March 9, and Legation's 1981 April 5 from McClelland for WKB) authorized Swiss deliver one tank car diesel oil to ICRC for use in trucks transporting supplies for prisoners of war camps in Germany from stock of diesel oil of American origin held in Spain by auto transit but which object of special control measures exacted by ENW and NOW when imported in 1942. British Legation has concurred (repeated London 1089) and as advised Swiss authorities.

HARRISON

JMS

315

Bern

Dated April 5, 1945

Rec'd 10 a.m., 6th

Secretary of State

Washington

1981, April 5, 6 p.m.

FOR WKB FROM MCCLELLAND

Department's 998 WKB's 438 March 9.

ICRC plans use thirty three and tubes recently released to committee by SHAF 6-4 in Paris to send four to five Swiss trucks. Such trucks, however, burn Diesel oil only gasoline driven trucks suitable for this purpose being unobtainable in Switzerland. Urgent question has accordingly now arisen of securing Diesel oil. Swiss petroleum firm of "petrol" is willing immediately advance up to fifteen tons Diesel oil to ICRC. Swiss commercial authorities, however, request prior permission from Allied blockade authorities to import corresponding amount of Diesel fuel from Swiss stocks at present in Spain to replace that released to ICRC. These stocks were originally licensed by our blockade for use in Swiss trucking operations in Spain only so that import into Switzerland would constitute deviation from original use.

In view of extreme urgency of situation and in support of board's desire as outlined in your 438 that all possible steps be taken to deliver WKB food parcels to intended beneficiaries in Germany economic section of this Legation with concurrence of British Legation is exceptionally approving importation of one tank car of this Swiss Diesel oil from Spain to replace oil advanced now by "petrol" to ICRC and is so advising our and British blockade authorities.

In order to conform to blockade provisions concerning relief deliveries by ICRC in Germany this Diesel oil will be formally made available to committee for prisoner of war trucks but will permit ICRC release other trucks for WKB programs.

It would be most appreciated if board will support this decision of our and British Legation's with the competent agencies of our government.

See Legation's 1982, today.
Repeated London 1085.

JMS

HARRISON

12

PLAIN

RHH

Dated April 5, 1945

Rec'd 7:15 p.m. 8th

Secretary of State,
Washington.

1980, Fifth

FOR WHB FROM MCQUELLAND

Please deliver following message from Freudenberg
Geneva to Leland Robinson of American Christian Committee.

"Madame Barot now here discussed your telegram
to Pastor Beagnot of end of March 8th us. She and
Tourelle will give Beagnot information you desire.
Barot submitted figures indicating that Gimades Refugee
Service only covered financially until end June and
Tourelle refugee chaplaincy to June 15th. Each service
needs 400,000 French francs monthly. Would accordingly
be most appreciative if you could provide them with
funds necessary for three months beyond dates indicated.
Many thanks." 14.18.

HARRISON

RHH

316

April 5, 1945

4 p.m.

AGL:GATION

RHH

1350

The following for McQuelland is WHB 484.
The Association of Yugoslav Jews in the United States has
called to the attention of the Board the plight of 1,000 to 1,500
Yugoslav nationals who are held under appalling conditions in
concentration camps near Jasenovac and Stara Gradiska in Croatia.
They represent this group to be the remnants of an original
population of 20,000. Kindly call this matter to the attention
of Intercessors with a view (a) to making WHB feed parcels avail-
able to this group, and (b) ultimate evacuation if such is possible.

Likewise, the Armenian Relief Corps, Inc. here has called our
attention to the suffering of Armenian refugees and prisoners of
war within Germany. Their informant, one Arak Djamalian, an
Armenian and resident of Geneva and Berlin, indicates
that there are more than 40,000 who are in need of aid.
Mr. Djamalian advises that Burckhard has promised to help with
transportation of anything that can be sent to this group. Their
needs are clothing, food and medicine. It is suggested that if
this group can be reached, they too, share in the distribution of
WHB feed parcels.

ACHESON
(ACTING)
(RHH)

WHB:RHH:ED
4/5/45

WE RE RE RE RHP

317

NOT TO BE RE-TRANSMITTED

COPY NO. 4 318

SECRETOPTEL No. 109

Information received up to 10 a.m., 5th April, 1945.

NAVAL

1. ANTI-SUBMARINE OPERATIONS. 4th. Aircraft probably damaged U-boat in Moray Firth.

MILITARY2. WESTERN FRONT.

Central Sector: Armoured troops of 3rd U.S. Army made rapid progress east Weiningen and Eisenach with latest reports placing these thrusts at Suhl and Gotha respectively. 1st U.S. Army compressing Ruhr "Pocket" and mopping up areas previously overrun. Northern Sector: British Armoured and Airborne troops by-passing Hanau made rapid advance of 20 miles to within 12 miles of Weser River, while elsewhere on Northern front opposition stiff and only slight progress reported.

3. EASTERN FRONT.

Northern Sector: Germans report continued strong Russian attacks North Odynia.

Central Sector: In Carpathian zone Russians advanced 20 miles S.W. Nowy Targ while Germans report repulse of Russian breakthrough attempt N.E. Moravska Ostrava.

Southern Sector: Bratislava and Baden (south Vienna) with number of other places 6 to 10 miles S.W. and S.E. Vienna taken while together with Bulgarian troops Russians have cleared S.W. Hungary.

4. ITALY.

Adriatic Sector: Enemy positions on canal half mile south Porto Garibaldi have held up advance of our troops. Final prisoner count for past few days in Lake Camacchio sector now 822.

5. BURMA.

Central Sector: Advance made S.W. down road Meiktila-Kynukpadaung for distance 12 miles where contact made while other troops have occupied two villages some 5 miles S.W. Thazi despite opposition.

AIR6. WESTERN FRONT.

4th. 236 Bomber Command escorted aircraft (1 missing) visually attacked barracks Nordhausen (1217 tons). 950 U.S. escorted heavy bombers (11 bombers and 8 fighters outstanding) attacked targets, including U-boat yards Kiel (1340 tons) and six airfields N.W. Germany (804 tons) with mainly unobserved results, but inflicting enemy casualties in combat 21,4,26 and 9,0,3 on ground.

SHAEP (Air) Bombers 377 (3 missing) dropped 600 tons various targets including gun positions North Zutphen, while 2499 fighters and fighter bombers (15 missing) operated battle areas destroying or damaging 1300 road vehicles and inflicting enemy casualties 13,1,11 in combat and 22,0,21 on ground.

1274 aircraft (2 missing) carried supplies to Continent. Beaufighters caused large explosion amidships in 4000 ton vessel Sogne Fiord.

7. MEDITERRANEAN. 2nd/3rd (night). 72 Liberators attacked railway centre Trento (200 tons) while 115 light bombers attacked communications North Italy.

3rd. 737 tactical aircraft (7 missing) attacked targets North Italy, Austria and Yugoslavia destroying or damaging 800 road and rail vehicles.

8. SOUTH EAST ASIA. 39 Liberators dropped 104 tons on railway installations Keng Koi (70 miles N.E. Bangkok) while 238 tactical aircraft attacked communications, troops and other targets.