

● PSF

Peace - Subject File

Box 175

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Box 175

CONTINUED

P-F:1  
J. J.

FRANK ALTSCHUL  
120 BROADWAY  
NEW YORK CITY

February 17, 1943

Dear Mrs. Roosevelt,

In accordance with your suggestion, I shall try to summarize the views which you were kind enough to give me an opportunity of expressing to you yesterday. For the sake of brevity, I shall state these possibly somewhat too dogmatically, with little attempt to set forth the reasoning which lies behind them.

1. After the war, the possibility will exist of one of the greatest forward movements in human well-being and human liberty the world has ever experienced.
2. Whether this possibility is realized will depend in large measure upon the way we conduct ourselves in the United States of America.
3. The pattern of American post-war conduct is being set now; and it fills me with apprehension.
4. There is evident in this country a distinct drift toward extreme reaction which, unarrested, might leave us in the paradoxical position of succumbing at home to the very forces we set out to conquer abroad.
5. Such a development would be a disaster for the world as a whole no less than for the United States; and it would postpone indefinitely even the partial realization of the four freedoms.
6. The forces of extreme reaction are obtaining an increasing degree of influence in the Republican organization. They now hold a number of key positions, and they find a considerable measure of support among the more shortsighted elements in the business community. In alliance with reactionary Democrats, they have already attained a position of quite undue influence in government.

7. They do not, in my opinion, really represent the desires or aspirations of the rank and file of Republicans, but they are so placed that they may determine to a great extent the character of Party policies. They are growing increasingly confident that riding the "wave of the future", they will sooner or later land in positions of the highest authority.
8. Meanwhile, liberal Republicans with many of whom I have spoken are becoming exceedingly disturbed by this situation, without having found as yet any way of coping with it. They are unorganized, have a diminishing voice in the Party machine, and have no leader around whom to rally.
9. Under these circumstances, there is a growing danger that large numbers of men and women of good will and of liberal views may find themselves following leadership with whose real purposes, if clearly understood, they would be completely out of sympathy.
10. This danger is aggravated both by circumstances beyond and by circumstances within the control of the Administration.

In the first category are the Russian victories. Fear of the extreme Left is being used as a whip to drive people into the arms of the extreme Right.

In the second category, of many items I mention merely two which seem of some importance:

- (a) Those pin prick aggravations which lend color to the cry of "bureaucratic tyranny".

There is little or no complaint about the personal sacrifices and restraints that the war involves. These are recognized as necessary. However, on all sides, there is constant grumbling about the complicated methods through which these sacrifices and restraints are imposed. As a result, the cliché "bureaucratic tyranny" is used effectively to conceal an attack which is primarily being leveled at the purposes of the Administration rather than at its methods.

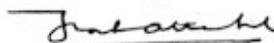
- (b) The failure to implement the dream of the brave new world with the development and disclosure of any practical plans for making the dream come true.

This plays into the hands of the reactionaries who make abundant political capital out of what they term the "visionary" and the "unrealistic". Concrete plans, even in limited areas, which suggest an approach to the step-by-step solution of post-war problems would meet with ready response in many quarters.

11. It appears to me that there is great danger in a policy of continuing appeasement of the extremists. I hope that, sooner rather than later, the President will find a way to isolate them from the vast majority in both Parties with whom they have in fact little in common. Possibly this could be accomplished at the proper moment by an appeal to the country for support of a certain number of concrete projects in connection with the economic organization of the post-war world. On this account, I am supplementing this letter with a tentative suggestion in one specific field, which may at least have the advantage of not requiring the approval of the Senate Foreign Relations Committee in its present temper.

With renewed thanks for your gracious reception, and apologies for a letter that has grown intolerably long, I am,

Yours faithfully,



MEMORANDUM IN REGARD TO POST-WAR EXCHANGE  
STABILIZATION

1. It is highly desirable that, before the end of the war, plans should be developed looking towards an early stabilization of the exchanges over as large an area of the trading world as possible.
2. There have been rumors of discussions about the establishment of a World Bank, and about some highly confidential memorandum prepared by Lord Keynes. I am not informed as to the accuracy of these rumors, and I have no information as to the nature of the plans, if any, which have been advanced. I have some misgiving about schemes which are too grandiose in their nature. What I think must be sought in the first instance, is some essentially practical arrangement which requires a minimum of public debate and of legislative sanction, and which can be put into operation promptly.
3. On this account, it seems to me desirable to limit the discussion of post-war exchange stabilization to the search for an agreement between the United States, representing the dollar area, and Great Britain, representing the sterling area. If the dollar area is considered to include broadly the Americas, and the sterling area is considered to include the British Commonwealth, with the exception of Canada, the British Empire and the Scandinavian countries, approximately 55% of the pre-war international trade would be covered. If such an agreement were subsequently adhered to by The Netherlands, Belgium and France, another 11% of pre-war international trade would be covered.
4. Unless many countries, and notably Great Britain, are to be driven in the direction of bilateral trade agreements, the basis for a prompt return to the ordinary channels of multi-lateral trade should be laid. It would seem as if this could best be done through a stabilization agreement between the dollar and the sterling areas.
5. In approaching the problem of such a stabilization agreement I am assuming that operations in connection with lend-lease, and operations in connection with relief and rehabilitation, which will certainly, in one instance, continue and, in the other instance, grow in importance in the early post-war world, will be dealt with outside of any stabiliza-

tion agreement. The debits arising in connection with either of these operations will ultimately have to be either funded or forgiven in whole or in part.

6. The breakdown in the system of international exchanges, which we witnessed during the period between two wars, was in large measure a result of the disturbed international political relationships which characterized the period. This produced the phenomenon of flight capital and disorganized the mechanism of international lending.
7. We must assume that the war will end in such a manner as to justify the hope of a prolonged period of world peace. Under such circumstances, there should be a tendency for large scale movements of flight capital to come to an end, and ultimately there should be a tendency for international lending to revive.
8. On the other hand, any stabilization agreement must be protected against the impact of the repatriation of flight capital, and must be buttressed by some intergovernmental mechanism for international lending capable of responding to world requirements for a prolonged period.
9. If appropriate measures to these ends have been devised, then the problem of dollar-sterling stabilization resolves itself largely into a question of the determination of an initial rate of exchange. Only experience will show whether this initial rate was too high or too low. The best one can hope for is that experience will reasonably justify the initial determination.
10. As the purpose of exchange stabilization is to allow international trade to develop as rapidly as other factors, such as available shipping space, will permit, the initial rate should be fixed for a reasonable period ahead, possibly two or three years. At the end of this time it can be adjusted in the light of experience. If large balances - whether in sterling or in dollars - have been accumulated, the readjustment would involve of necessity a loss. Where this loss, if any, should fall must be a matter of prior agreement between the participating governments.
11. Collateral agreements between the United States and participating Nations within the dollar area, and between Great Britain and participating Nations within the sterling area, would have to be negotiated as part of a whole. In some

instances, these would involve questions of the utmost delicacy, because it is clear that frivolous domestic policies could be financed at the expense of a stabilization fund. On the assumption, however, that agreements are entered into in good faith, the damage that might be done over the two or three year period would seem relatively inconsequential; and when the renewal of the agreements entered the stage of negotiation toward the end of the trial period, any representations which circumstances seemed to warrant could appropriately be made without the appearance of using a stabilization fund to abbreviate in any degree national sovereignty. In all this, there is obviously an element of risk; but it seems to be incomparably less than the risk of failing to stabilize at all.

12. In regard to the control of the repatriation of flight capital, it would appear that this must be allowed only at such times and in such amounts as is consistent with the operations of the exchange stabilization fund. However, in so far as this repatriation took the form of the purchase of gold in the United States at \$35 an ounce for account of participating Nations, such repatriation might well be encouraged, because in this manner the gold necessary to reconstitute banking and currency systems abroad could be supplied. Thus the groundwork would be laid for a gradual return to some form of gold standard, in the restoration of which the United States of America has a considerably larger stake than any other country.
13. An international lending agency should be created in which the United States and Great Britain would be the leading participants, and which other Nations adhering to the stabilization agreement could join. Such an agency would serve an exceedingly useful purpose in the post-war world. Capital would no longer move in response to the accidental appraisal by bankers of the relationship between interest rates and risks, but in response to the prudent determination by government where this capital could best be used in facilitating world expansion. If Russia and China, for example, required important sums for development, these sums could thus be made available far more readily than through the processes of private lending. Through the operations of such an instrumentality, large markets could be developed and the dream of the expanding world in measure realized. If, in America, we have come to understand that a healthy economic development in Great Britain is essential to a healthy development in the United States, then, although we would have to have the largest participation in the lending

agency itself, we might be satisfied with considerably less than our pro rata share of the orders placed by virtue of credits so granted. The diversion to Great Britain of more than its pro rata share of such orders would help to reestablish an equilibrium so largely disturbed by the impact of war.

14. As a collateral feature to the control of international lending, there would have to be a continuing control of the international movement of funds seeking investment or speculative employment. In any transition period, stable and free exchanges for ordinary commercial transactions are going to impose the necessity of continuing controls in certain non-commercial areas.
15. Those who believe that the United States should retire behind some sort of an economic Maginot Line are guided by considerations of real or fancied self-interest. If, on the basis of some well-considered program of dollar-sterling exchange stabilization, they can be shown that their real interest lies in the hopes it carries of an expanding world, even attitudes in regard to tariffs and reciprocal trade treaties might undergo a change.
16. This memorandum does not purport to be any such well-considered program. It is merely intended as suggestive of an approach to the problem.

  
Frank Aitschul  


February 17, 1943



THE WHITE HOUSE

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

FROM THE PRESIDENT

650

*PSF, Peacem*

OFFICE OF WAR INFORMATION

WASHINGTON

February 19, 1943

*Has been acknowledged  
2:20:43*

Mr. Stephen T. Early,  
White House,  
Washington, D. C.

Dear Steve:

I wonder if the President might not be interested to glance at the attached compilation of statements on War and Peace Aims which is being released to the press on Sunday by the United Nations Information Office, of which, as you know, this Government is a full and active member?

I think the statement is interesting for two reasons:

First, it gives a cross-sectional view of thought to date, arranged in line of interest. The contents, as you will see, cover the significance of the present struggle, the problems which will come immediately afterwards, ways to prevent another war, measures to assure prosperity, specific references to certain social, political and territorial problems, the kind of international organization foreseen, and the texts of documents already in hand.

Secondly, it is a product of a thoroughly grounded United Nations agency which, though very modest, is nevertheless active within its particular field. The Board meets regularly every two weeks; the various technical committees on press, radio, films, exhibits, post war, etc. meet steadily; and a small permanent international staff is on constant service at the headquarters in New York.

It is strange, is it not, that we seem to meet even less frequently than when I was in Geneva? Perhaps I had better go back and get a new start!

Cordially yours,

*Arthur Sweetser*

Arthur Sweetser,  
Deputy Director

AT:JR  
Encl.

*[Encl. placed  
in Library]*



Subject of discussion with State  
Dept. and post-war board, Feb. 22, 1943.

IMMEDIATE

1. Terms of Surrender
2. Handling of Occupation Problems
3. Relief

TERRITORIAL

1. Germany
2. Russia
3. Eastern Europe
4. France
5. Italian Colonies
6. Japan
7. China

DEPENDENT AREAS

1. Mandates
2. Colonies

GENERAL

1. International Organization
  - a. Regional
  - b. Universal
2. Police Power
3. Disarmament
4. Means of Expanding Production, Markets, Employment, and Consumption through
  - a. Monetary Stabilization
  - b. Developmental Investment
  - c. Trade and Commodity Arrangements
  - d. Food and Nutrition Policies



*P.S.F.  
Peace file*

THE SECRETARY OF THE TREASURY  
WASHINGTON

MAR 2 - 1943

MEMORANDUM FOR THE PRESIDENT

In his memorandum, Mr. Altschul proposes that plans be developed for early stabilization of foreign exchange through some practical arrangement which can be put into operation promptly. Specifically, he proposes an agreement for exchange stabilization between the United States, representing the dollar area, and Great Britain, representing the sterling area, with subsequent adherence to this agreement by the countries of Western Europe.

The Treasury has proceeded much farther in this direction than Mr. Altschul's suggestion. You may recall that I sent you a memorandum last May outlining a study of a Stabilization Fund for the United and Associated Nations and an International Bank for Reconstruction and Development together with a proposal for the calling of a conference to be held in Washington of the Finance Ministers of the United and Associated Nations after we had worked the matter out with the interested agencies of this Government.

You indicated you were interested in the suggestion and instructed me to continue the studies in conjunction with the State Department, Board of Economic Warfare and the Export-Import Bank and to speak to you again after this had been done and after I had obtained the opinion of the State Department. Since that time, a great deal of work has been done. In cooperation with other departments and agencies, the Treasury staff has prepared a draft proposal for an International Stabilization Fund of the United and Associated Nations. The representatives of the State Department and the Treasury Department have discussed this draft proposal with the technical experts of Great Britain, and copies have been given on an informal basis to the representatives of Russia and China for consideration by their technical experts.



With the approval of the Secretary of State, I intend to write to the Ministers of Finance of other countries calling their attention to this draft proposal and inviting its critical study by their technical experts. After they have had an opportunity for study, it is our hope that their technical experts will be sent to Washington for unofficial and preliminary discussion with our experts here. This procedure has the approval of Vice President Wallace, Secretary Hull and Secretary Jones.

After there have been some discussions among the technicians, our informal committee consisting of the Vice President, Secretary Hull, Secretary Jones, Governor Eccles and myself will examine the area of agreement among the technicians of the various countries and decide whether there is enough agreement to warrant pursuing the matter further. If we are agreed that there is, I will then take up the matter with you and find out whether you wish to take the next step which would be the calling of a conference of Finance Ministers to discuss the matter formally.

I am attaching a copy of our draft proposal which you may wish to glance at. Incidentally, the British Treasury also has prepared a draft proposal covering somewhat the same ground. They have already submitted their proposal to us and, we understand, to the Governments of Russia and China and are about to distribute it to many other governments.

If you should wish to acknowledge Mr. Altschul's letter and memorandum you may find the attached letter appropriate.

Attachments

*H. M. Rutledge*

March 5, 1943

Dear Mr. Altschul:

This is in reply to your letter of February 17, 1943, addressed to Mrs. Roosevelt, enclosing a memorandum on post-war exchange stabilization.

Your memorandum has been studied carefully by members of the Treasury staff who are working on the problems of international monetary cooperation. You may be sure that they will give careful consideration to the views you express.

As you may know, the conference of the Ministers of Foreign Affairs of the American Republics held in Rio de Janeiro from January 15 to January 26, 1942, adopted a resolution recommending that the American republics participate in a conference to consider the establishment of an international stabilization fund. The Treasury has for some time been working on a plan for international monetary cooperation through an international stabilization fund. A tentative draft of a plan has been prepared which will be submitted as a basis for discussion to the technical experts of other governments.

Sincerely yours,

FRANKLIN D. ROOSEVELT

Mr. Frank Altschul,  
120 Broadway,  
New York, New York.

~~STRICTLY CONFIDENTIAL~~

MEMORANDUM

A Stabilization Fund  
of the  
United and Associated Nations

It is still too soon to know the precise form and magnitude of post-war monetary problems. But it is certain that we shall be confronted with the task of dealing with three inseparable monetary problems: to prevent the disruption of foreign exchanges, to avoid the collapse of some monetary systems, and to facilitate the restoration and balanced growth of international trade. Clearly, such a formidable task can be successfully handled only through international action.

The creation of instrumentalities adequate to deal with the inevitable post-war monetary problems should not be postponed until the end of hostilities. It would be ill-advised if not dangerous to leave ourselves unprepared at the end of the war for the difficult task of international monetary cooperation. We should begin now to devise an international monetary agency, for the task is certain to take many months at least. Specific and practical proposals must be formulated by the experts and must be carefully considered by the policy-shaping officials of the various countries. In each country acceptance of a definitive plan can follow only upon legislative or executive action. And even when a plan is finally adopted, much time will be consumed in gathering personnel and in establishing an organization before an international institution for monetary cooperation can begin effective work.

There is another important reason for initiating now concrete discussions of specific proposals. A plan for international monetary

cooperation can be a factor in winning the war. It has been suggested, and with much cogency, that the task of assuring the defeat of the Axis powers would be made easier if the victims of aggression, actual and potential, could have greater assurance that a victory of the United Nations will not mean in the economic sphere a repetition of the exchange instability and monetary collapse that followed the last war. That assurance should be given now. The people in all of the United Nations must be encouraged to feel themselves on solid ground. They must be given to understand that a victory of the United Nations will not usher in another two decades of widespread economic disruption. The people must know that we at last recognize the fundamental truth that prosperity, like peace, is indivisible.

One of the appropriate agencies to deal with international economic and monetary problems would be an international stabilization fund with resources and powers adequate to the task of helping to achieve monetary stability and to facilitate the restoration and balanced growth of international trade. A proposal drafted by American technical experts is appended. The draft presents only the essential elements of an international stabilization fund. The provisions of the proposal are in every sense tentative, intended as a basis for discussion and exchange of views. Obviously, there are many details that have been omitted and that can be better formulated after there is agreement on the general principles.

It is recognized that an international stabilization fund is only one of the instrumentalities which may be needed in the field of international economic cooperation. Other agencies are also needed to provide capital

for post-war reconstruction and development, to provide funds for rehabilitation and relief, and to promote stability in the prices of primary international commodities. There is a strong temptation to embrace within a single international agency the responsibility for dealing with these and other international economic problems. We believe, however, that international economic institutions can operate more effectively if they are not burdened with important but extraneous duties for which they have not been devised and for which they are unsuited. For example, the highly specialized nature of international monetary stabilization and the provision of long-term capital would seem to call for separate institutions each designed to deal with its distinct problems.

It should be emphasized that the appended draft deals only with an international stabilization fund. It is anticipated that there will also be submitted for consideration a preliminary draft of a proposal for an international agency whose function will be to provide capital for reconstruction and development. It is hoped that the appended draft will call forth from the experts of the United Nations, critical comment and constructive suggestions. It is our belief that a workable and acceptable plan can emerge only from the joint efforts of the United Nations.

Washington, D. C.,  
January, 1943.

Declassified per  
T.O. 160

~~STRICTLY CONFIDENTIAL~~

V\*  
U. S. Treasury Department  
January, 1943

Preliminary Draft of  
Proposal for a United and Associated Nations  
Stabilization Fund

I. Composition of the Fund

1. The Fund shall consist of gold, currencies of member countries, and securities of member governments, which shall be used for the purpose of stabilizing the values of the currencies of member countries with respect to each other.
2. Each of the member countries shall be given a quota which shall represent its participation in the Fund; i.e., the basis for its purchase of foreign exchange in the Fund and its undertaking to provide assets to the Fund. The aggregate quotas of the member countries shall be the equivalent of at least \$5 billion.
3. The quota for each member country shall be determined by an agreed upon formula. The formula should give due weight to the important factors relevant to the determination of quotas, e.g., a country's holdings of gold and foreign exchange, the magnitude of the fluctuations in its balance of international payments, and its national income.

Each member country shall provide the Fund with 50 percent of its quota on or before the date set by the Board of Directors of the Fund on which the Fund's operations are to begin.

4. The initial payment of each country consisting of 50 percent of its quota shall be 12.5 percent in gold, 12.5 percent in local currency, and 25 percent in its own (i.e., government) interest-bearing securities. However, any country having less than \$300 million in gold need provide initially only 7.5 percent of its quota in gold, and any country having less than \$100 million in gold need provide initially only 5 percent of its quota in gold, the contribution of local currency being increased correspondingly. A country may, at its option, substitute gold for its local currency or securities in meeting its quota requirement.
5. The member countries of the Fund may be called upon to make further provision toward meeting their quotas at such times, in such amounts, and in such form as the Board of Directors of the Fund may determine, provided that all countries shall meet their quotas pro rata, and provided that a four-fifths vote of the Board shall be required for subsequent calls to meet quotas.
6. Changes in the aggregate or proportionate quotas of member countries shall be made only with the approval of a four-fifths vote of the Board.

## II. Powers and Operations

The Fund shall have the following powers:

1. To buy, sell, and hold gold, currencies, bills of exchange, and government bonds of member countries; to accept deposits and to earmark gold; to issue its own obligations and discount or offer them for sale in member countries; and to act as a clearing house for the settling of international movements of balances, bills of exchange, and gold.

All member countries agree that all of the local currency holdings shall be free from any restrictions as to their use. This provision does not apply to abnormal war balances acquired in accordance with the provisions of II-9, below.

2. To fix the rates at which it will buy and sell one member's currency for another, and the rates in local currencies at which it will buy and sell gold. The guiding principle in the fixing of such rates shall be stability in exchange relationships. Changes in these rates shall be made only when essential to correction of a fundamental disequilibrium, and only with the approval of four-fifths of member votes.
3. To sell to the Treasury of any member country (or stabilization fund or central bank acting as its agent) at a rate of exchange determined by the Fund currency of any member country which the Fund holds, provided that:
  - a. The foreign exchange demanded from the Fund is required to meet an adverse balance of payments on current account with the country whose currency is being demanded.
  - b. The net acquisition by the Fund of the currency of any member country shall not exceed during the first year of the operation of the Fund, the quota of that country; it shall not exceed during the first two years 150 percent of such quota; and thereafter it shall not exceed 200 percent of such quota; except that upon approval by the Board of Directors, the Fund may purchase any local currency in excess of these limits, provided that:
    1. The country whose currency is being acquired by the Fund agrees to adopt and carry out measures recommended by the Fund designed to correct the disequilibrium in the country's balance of payments, or
    11. It is believed that the anticipated balances of payments of the country whose currency is being acquired by the Fund are such as to warrant the expectation that the excess currency holdings of the Fund can be disposed of within a reasonable time.

- c. When the net acquisition by the Fund of any local currency exceeds the quota for that country, the country shall deposit with the Fund a special reserve in accordance with regulations prescribed by the Board of Directors.
  - d. A charge at the rate of 1 percent per annum payable in gold shall be levied against any member country on the amount of its currency in the Fund in excess of the quota of that country. Abnormal war balances acquired by the Fund shall not be included in the computed balance of local currency used as a basis for the above charge.
  - e. When the Fund's holdings of the local currency of a member country exceed the quota of that country, upon request by the member country the Fund shall resell to the member country the Fund's excess holdings of the currency of that country for gold or acceptable foreign exchange.
4. The right of a member country to purchase foreign exchange from the Fund with its local currency to the amount of its quota for the purpose of meeting an adverse balance of payments on current account is recognized, subject to the limitation in II-7, below.
  5. With the approval of four-fifths of the member votes, the Fund in exceptional circumstances may sell foreign exchange to a member country for its local currency to facilitate a transfer of capital, repayment or adjustment of a foreign debt, including debts already in default, when in the judgment of the Board such a transfer is desirable from the point of view of the general international economic situation.
  6. When the Fund's holdings of any particular currency drop below 15 percent of the quota of that country, and after the Fund will have used for additional purchases of that currency,
    - a. Gold in an amount equal to the country's contribution of gold to the Fund, and
    - b. The country's interest-bearing obligations originally contributed,

the Fund has the authority and the duty to render a report to the country embodying an analysis of the causes of the depletion of its holdings of that currency, a forecast of the prospective balance of payment in the absence of special measures, and finally, recommendations designed to increase the Fund's holdings of that currency. The member of the country in question should be a member of the Fund committee appointed to draft the report. This report should be sent to all member countries and, if deemed desirable, may be made public.

Member countries agree that they will give immediate and careful attention to recommendations made by the Fund.

7. Whenever it becomes evident to the Board of Directors that the demand for any particular currency is proceeding at a rate which gives early promise of exhausting the Fund's holdings of that currency, the Board of Directors of the Fund shall inform the member countries of the probable supply of this currency and of a proposed method for its equitable distribution, together with suggestions for helping to equate the anticipated demand and supply for the currency.

The Fund shall make every effort to increase the supply of the scarce currency by acquiring that currency from the holdings of member countries. The Fund may make special arrangements with any member country for the purpose of providing an emergency supply under conditions appropriate and acceptable to both the Fund and the member country.

The privilege of any country to acquire an amount of other currencies equal to or in excess of its quota shall be limited by the necessity of assuring an appropriate distribution among the various members of any currency the supply of which is being exhausted. The Board of Directors shall determine the apportionment of sales of such scarce currency, and in such apportionment it shall be guided by the principle of satisfying the most urgent needs from the point of view of the general international economic situation, and it shall consider the special needs and resources of the particular countries making the request for the scarce currency.

8. In order to promote the most effective use of the available and accumulating supply of foreign exchange resources of member countries, each member country agrees that it will offer to sell to the Fund, for its local currency or for foreign currencies which it needs, all foreign exchange and gold it acquires in excess of the amount it possessed when joining the Fund. The Fund may accept or reject the offer.

To effectuate this objective each member country agrees to discourage the unnecessary accumulation of foreign balances by its nationals. The Fund shall inform any member country when, in its opinion, any further growth of privately-held foreign balances appears unwarranted.

9. To buy from the governments of member countries, abnormal war balances held in other countries, provided all the following conditions are met:
  - a. The abnormal war balances are in member countries and are reported as such (for the purpose of this provision) by the member government on date of its becoming a member.

- b. The country selling the abnormal war balances to the Fund agrees to transfer these balances to the Fund and to purchase back from the Fund 40 percent of them with gold or such free currencies as the Fund may wish to accept, at the rate of 2 percent a year beginning not later than three years after the date of transfer.
- c. The country in which the abnormal war balances are held agrees to transfer those balances to the Fund, and to purchase back from the Fund 40 percent of them with gold or such currencies as the Fund may wish to accept, at the rate of 2 percent a year beginning not later than 3 years after the date of transfer.
- d. A charge of 1 percent, in each case payable in gold, shall be levied against the country selling its abnormal war balances and against the country in which the balances are held. In addition a charge of 1 percent payable in gold shall be levied annually against each of them on the amount of such balances remaining to be repurchased.
- e. If the country selling abnormal war balances to the Fund asks for foreign exchange rather than local currency, it must need the foreign exchange for the purpose of meeting an adverse balance of payments not arising from the acquisition of gold or the accumulation of foreign balances or other capital transactions.
- f. Either country can, at its option, increase the amount it repurchases annually. But, in the case of the country which sold abnormal war balances to the Fund, not more than 2 percent per annum of the original sum taken over by the Fund shall become free, and only after 3 years shall have elapsed since the sale of the balances to the Fund.
- g. The Fund shall be free to dispose of any of its holdings of abnormal war balances in the form of free funds after the 23 year period is passed, or sooner, provided
  - i. its holdings of the free funds of the country in which the balances are being held fall below 15 percent of its quota; or
  - ii. the approval is obtained of the country in which the balances are held.
- h. The country in which the abnormal war balances are held agrees not to impose any restrictions on the use of the installments of the 40 percent portion gradually to be repurchased by the country owning such balances.

1. The Fund on its part agrees not to sell the abnormal war balances acquired under the above authority, except with the permission, or at the request of the country in which the balances are being held, but the Fund can invest these balances in regular or special government securities of that country. The Fund shall be free to sell such securities in any country provided that the approval of the issuing government is first obtained.
- j. The Fund shall determine from time to time what shall be the maximum proportion of the abnormal war balances it can afford to take over under this provision.

Abnormal war balances acquired under this provision shall not be included in computing the amount of foreign exchange available to member countries under their quotas.

10. To buy and sell currencies of non-member countries, but shall not be authorized to hold such currencies beyond sixty days after date of purchase, except with the approval of four-fifths of the member votes.
11. To borrow, at such rates as the Fund may recommend, the currency of any country, provided four-fifths of the member votes approve the terms of such borrowing.
12. To sell member-country obligations owned by the Fund provided the representative of the country in which the securities are to be sold approves.  
  
To use its holdings to obtain rediscounts or advances from the central bank of any country whose currency the Fund requires.
13. To invest any of its currency holdings in "short-term" securities -- commercial or government -- of the country of that currency provided four-fifths of the member votes approve, and provided further that the approving votes include that of the Board representative of the country in which the investment is to be made.
14. To lend to any member country local currency from the Fund for one year or less up to 75 percent of the currency of that country held by the Fund provided such loan is approved by four-fifths of the member votes. A country borrowing such funds shall pay interest to the Fund at a rate to be determined by the Board.
15. To make a service charge of 1/4 percent or more on all exchange and gold transactions.

To levy upon member countries a pro rata share of the expenses of operating the Fund, payable in local currency, not to exceed .1 percent per annum of the quota of each country. The levy may be made only when the earnings of

the Fund are inadequate to meet its current expenses and only with the approval of four-fifths of the member votes, and only to the extent necessary to meet its current expenses.

16. The Fund shall deal only with or through
  - a. The governments of member countries.
  - b. The central banks or fiscal agencies of those countries (and then only with the consent of the member of the Board representing the country in question); and
  - c. Any international banks owned **predominantly** by member governments.

An exception to the above limitation is that the Fund may, with the approval of the member of the Board representing the government of the country concerned, sell its own securities, or securities it holds, to the public or to institutions of member countries.

### III. Monetary Unit of the Fund

1. The monetary unit of the Fund shall be the Unitas (UN) consisting of  $137 \frac{1}{7}$  grains of fine gold (equivalent to \$10 U.S.). The accounts of the Fund shall be kept and published in terms of Unitas.
2. The value of the currency of each member country shall be fixed by the Fund in terms of gold or the Unitas and may not be altered by any member country without the approval of the Fund.
3. Deposits in terms of Unitas accepted by the Fund from member countries upon the delivery of gold or Unitas credit to the Fund shall be transferable and shall be redeemable in gold or the currency of any member country at the rate established by the Fund.
4. No change in the value of the currencies of member countries shall be permitted to alter the value in gold or Unitas of the assets of the Fund. Thus, if the currency of a participating country should depreciate (in terms of gold or the Unitas), that country must deliver to the Fund an amount of its local currency equal to the decreased value of that currency held by the Fund. Likewise, if the currency of a particular country should appreciate, the Fund must return to that country an amount (in the currency of that country) equal to the resulting increase in the gold or the Unitas value of the Fund's holdings. The same provisions shall also apply to the securities of member countries held by the Fund. However, this provision shall not apply to currencies acquired under II-9 (abnormal war balances).

IV. Management

1. The administration of the Fund shall be vested in a Board of Directors. Each government shall appoint a director and an alternate, in a manner determined by it, who shall serve for a period of three years subject to the pleasure of their government. Directors and alternates may be reappointed.

In all voting by the Board, the director or alternate of each member country shall be entitled to cast a number of votes to be agreed upon. The distribution of voting power shall be closely related to the quotas of member countries, although not in precise proportion to the quotas. An appropriate distribution of voting power would seem to be the following: Each country shall have 100 votes plus 1 vote for the equivalent of each \$1 million of its quota.

Notwithstanding the approved formula for distributing voting power, no representative shall cast more than one-fourth of the aggregate votes regardless of the quota of his country. All decisions, except where specifically provided otherwise, shall be made by a majority of the votes cast.

2. The Board of Directors shall select a Managing Director of the Fund and one or more assistants. The Managing Director shall become ex officio a member of the Board and shall be chief of the operating staff of the Fund. The Managing Director and the assistants shall hold office for two years, shall be eligible for reelection, and may be removed for cause at any time by the Board.

The Managing Director of the Fund shall select the operating staff in accordance with regulations established by the Board of Directors. Members of the staff shall be available upon request of member countries for consultation in connection with international economic problems and policies.

3. The Board of Directors shall appoint from among its members an Executive Committee to consist of not less than eleven members. The Chairman of the Board shall be Chairman of the Executive Committee, and the Managing Director of the Fund shall be ex officio a member of the Executive Committee.

The Executive Committee shall be continuously available at the head office of the Fund and shall exercise the authority delegated to it by the Board. In the absence of any member of the Executive Committee, his alternate shall act in his place. Members of the Executive Committee shall receive appropriate remuneration.

4. The Board of Directors may appoint such other committees as it finds necessary for the work of the Fund. It may also appoint advisory committees chosen wholly or partially from persons not regularly employed by the Fund.

5. The Board may at any meeting, by a four-fifths vote, authorize any officers or committees of the Fund to exercise any specified powers of the Board. Such powers shall be exercised only until the next meeting of the Board and shall be exercised in a manner consistent with the general policies and practices of the Board.

The Board of Directors may not delegate, except to the Executive Committee, any authority which can be exercised only by a four-fifths vote.

6. The Board, by a four-fifths vote, may establish regulations governing the operations of the Fund, and the officers and committees of the Fund shall be bound by such regulations.
7. The Board shall hold one annual meeting and such other meetings as it may be desirable to convene. On request of member countries casting one-fourth of the votes, the chairman shall call a meeting of the Board for the purpose of considering any matters placed before it.
8. A country failing to meet its obligations to the Fund shall be declared in default and may be suspended during the period of its default provided a majority of the member votes so decide. While under suspension, a country in default shall be denied the privileges of membership but shall be subject to the same obligations as any other member of the Fund. When a country has been in default and under suspension for two years it shall automatically be dropped from membership in the Fund.

Any country may withdraw from the Fund by giving notice to that effect and its withdrawal will take effect two years from the date of such notice. During the interval between notice of withdrawal and the taking effect of the notice, such country shall be subject to the same obligations as any other member of the Fund.

A country which is dropped, or which withdraws, from membership shall have returned to it an amount in its own currency equal to its contributed quota, plus other obligations of the Fund to the country, and minus any sum due from that country to the Fund. Any realized losses of the Fund may be deducted pro rata from the contributed quota to be returned to the country dropped or withdrawing from membership. The Fund shall have five years in which to liquidate its obligation to such country. When any country withdraws or is dropped from the Fund, the rights of the Fund shall be fully safeguarded.

9. Net profits earned by the Fund shall be distributed in the following manner:
  - a. 50 percent to reserves until the reserves are equal to 10 percent of the aggregate contributed quotas of the Fund.

- b. 50 percent to be divided each year among the members in proportion to their quotas. Dividends distributed to each country shall be paid in its own currency or in Units at the discretion of the Fund.

V. Policies of Member Countries

Each member country of the Fund undertakes the following:

1. To maintain by appropriate action exchange rates established by the Fund on the currencies of other countries, and not to alter exchange rates except with the consent of the Fund and only to the extent and in the direction approved by the Fund. Exchange rates of member countries may be permitted to fluctuate within a specified range fixed by the Fund.
2. To abandon, as soon as the member country decides that conditions permit, all restrictions and controls over foreign exchange transactions (other than those involving capital transfers) with other member countries, and not to impose additional restrictions without the approval of the Fund.

The Fund may make representations to member countries that conditions are favorable for the abandonment of restrictions and controls over foreign exchange transactions, and each member country shall give consideration to the representations of the Fund.

3. To cooperate effectively with other member countries when such countries, with the approval of the Fund, adopt or continue controls for the purpose of regulating international movements of capital. Cooperation shall include, upon recommendation by the Fund, measures that can appropriately be taken:
  - a. Not to accept or permit acquisition of deposits, securities, or investments by nationals of any member country imposing restrictions on the transfer of capital except with the permission of the Government of that country and the Fund.
  - b. To make available to the Fund or to the Government of any member country full information on all property in the form of deposits, securities and investments of the nationals of that member country; and
  - c. Such other measures as the Fund shall recommend.
4. Not to enter upon any new bilateral foreign exchange clearing arrangements except with the approval of the Fund.

5. To give consideration to the views of the Fund on any existing or proposed monetary or economic policy, the effect of which would be to bring about sooner or later a serious disequilibrium in the balance of payments of other countries.
6. To furnish the Fund with all information it needs for its operations and to furnish such reports as it may require in the form and at the times requested by the Fund.
7. To adopt appropriate legislation or decrees to carry out its undertakings to the Fund and to facilitate the activities of the Fund.

H.L.H.

This is how the appointment  
came about, I assume. Please return.

G.G.T.

*H.L.H. noted*

*File  
Pharmad*

*Stein  
PSF: Peace file*

MEMORANDUM

*Confidential*

From the very start, and, indeed, before the outbreak of this war, public discussion all over the world has focussed on the order of things which may eventually emerge from the struggle between Germany and the Allied powers. The principal issues of the peace programs emanating from this discussion can already be plainly discerned.

Most proposals published hitherto seem to take an Allied victory for granted. The possibility of a stalemate through mutual exhaustion has scarcely been contemplated, while the possibility of a German victory is generally ignored.

The relative merits of these predictions shall not be discussed here. Ever since Wilson proclaimed that there should be "no victors and no vanquished," effort has not been lacking to dissociate the task of making an enduring peace in people's minds from the military outcome.

It is the purpose of the following memorandum to suggest from a new angle that, whichever way hostilities may come to an end, it will prove of inestimable value if the Allies - even at this early stage - have put on public record, in clear and unmistakable terms, the kind of peace for which they are fighting. Timely clarification of definite war aims, in this sense, must be regarded as not only extremely helpful, but, in fact, indispensable in order to bring this war to a desirable conclusion.

In arriving at this conviction we recognize that there are two fundamentally opposite premises:

(a) One school of thought starts from the proposition that Germany has now given final proof of her inability to live on equal terms with other European states. Consequently it considers it imperative to weaken Germany beyond hope of recovery and, with that end in view, to break her up into several parts. Only thus could all future attempts at political and military

concentration be frustrated from the start. Even the Versailles treaty had not been sufficiently drastic to achieve this. A really crushing peace treaty must therefore be drawn up this time.

To this end, they either advocate unmitigated severity towards Germany and uncompromisingly self-interested protection of their territories from further German aggression, or they plead for a "more constructive" solution to these problems. They argue that the creative side of the German national character would be given sufficient chance of development if their interests were confined to industrial and cultural fields. This could be achieved by depriving the Germans of every possible lever and hope of political initiative abroad. A certain emotional compensation for Germany's former political status, according to this view, could be found in exploiting the antagonism latent between her northern and southern parts. There would be no danger for the rest of Europe if the states south of the Main were permitted to form a union including Austria, if not the Rhineland. Such a union might well be economically successful and might in time develop a national consciousness sufficient to offset moves towards a restoration of German unity.

(b) In direct contrast to this, the other school of thought starts from the proposition that the Versailles treaty and especially the spirit of its application was too harsh, and that the present war is its natural outcome. That treaty has brought to power the aggressive forces in Germany, as such a peace settlement might have done in any other self-respecting nation. A future settlement, then, would have to avoid all stimuli to a repetition of the aftermath of Versailles. Germany, in their view, should be granted a fair basis for national existence. Measures which might rekindle her persecution complex and supply new material for demagogues must be avoided. These critics of the Versailles treaty consider the breaking up of Germany, under

whatever circumstances, as disastrous to the future peace of Europe. Never, in the long run, would the German people submit to this forced partition. This group would demand a radical departure from all experiments based on the old conception of "power politics." They consider Europe, and Germany within Europe, as ripe for an attempt at other methods, taking into more adequate account the underlying economic and social factors. They regard as a dangerous dogma the view that this war of 1939, following on previous outbreaks ever since 1864, proves the perpetual bellicosity of the German. The period since the Treaty of Versailles must, in their opinion, be regarded as an abnormal state of affairs which was bound to result in wholly extraordinary reactions, such as the submission of Germany to an extremist government. There are, in this view, sufficient reliable elements in the German make-up to warrant an attempt to form a new order in Europe in cooperation with a liberated Germany, provided that she is not made a victim of new grievances, and thereby again driven into channels of irrational escape.

The Allied Governments, and each Government which will participate directly or indirectly in any eventual settlement, must decide between the merits of these two points of view before they on their part approach the problem of peace terms.

If the theory is accepted that Germany is bound to remain a nefarious element in the European family of nations, any proclamation of war aims on this basis can only do harm. Such an act could only contribute to the prolongation of the war. Even though the German people are increasingly opposed to the National-Socialist Government and embittered by its policies, it is clear that only a negligible minority of Germans will deny their support even to the present regime, if the preservation of the German nation is at stake.

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Most, if not all, considerations, on the other hand, support an

early declaration of the Allied peace aims, if a departure from the treaty of Versailles and its philosophy could be envisaged. The practical purpose in proclaiming the Allied peace program would be:

- (1) to finish the war quickly;
- (2) to reduce actual and potential friction in Europe to a minimum by a negotiated peace;
- (3) to set moving machinery for European cooperation.

The extreme importance of a timely clarification of war aims derives not merely from the fact that it would reassure and consolidate opposition in Germany and thereby contribute to the discrediting and undoing of Nazi domination. It is of vital importance also for the future internal situation within the Allied states themselves. All experiences of the last war substantiate the likelihood that this internal factor will form a cause of acute anxiety for all belligerent governments once hostilities are ended.

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Looking at it from an international point of view there would be a distinctly favorable reaction in Germany to the proclamation of reasonable and definite peace aims, provided that this proclamation will be convincing.

The Nazi Government has so far effectively kept the German people from realizing the reasons that made the Allies go to war. Should it prove possible to dispel the view hitherto prevailing in Germany, that the Allies are fighting to crush a young and rising nation whatever its leadership, this would be a tremendous step ahead.

The attempt to disentangle past history offers little prospect of clarification. However, the vision of a constructive and fair peace, as the pledged aim of Allied war efforts, could substantially disprove the Nazi explanation why war became necessary. The realization of Hitler's incapacity to conclude such a desirable peace would intensify the deep discontent which is growing in Germany, caused by physical distress and the spectacle of Nazi mismanagement.

The working classes in Germany especially are certain to break through their present attitude of reserve, which is partly due to their defeat in 1933, and also to the fact that they see no practical alternative to the present international deadlock. If a way out were to emerge clearly from the present maze of domestic and foreign propoganda which envelops them, their grievances against the Nazi regime will be felt to be no longer tolerable and, in so far as such discontent cannot be vented in the heavily policed factory yards and military ranks, it will find an even more impressive outlet in the homes and, through the women, in the streets. It must be realized that the German proletariat still retain in essence their international inclinations, even though the hopes of Communism have been shattered and discredited by the Hitler-Stalin pact. There are signs that even beyond this profound disillusionment all political creeds have lost their hold on people's minds - a natural outcome of the Machiavellian cynicism of both Communist and Nazi policies. The political thinking of the German working man tends to be eminently "matter of fact" nowadays.

The middle and lower strata of the German middle class are committed to follow any violent mass movement, whatever its origin. They are rapidly losing the new pride with which National Socialism had inflated them: concentration of Nazi power in recent times has proceeded at their expense, and they have lost all political initiative.

The propertied or otherwise privileged classes ("liberal" professions, especially university teachers) are struggling in silent, but desperate opposition to the regime which, however, contrives to retain their ultimate loyalty with the threat of national annihilation by the Allies, if all patriotic Germans do not stand together in this supreme moment of danger. The upper bourgeoisie in particular hope that eventually the army officers will take matters in hand and liberate them from their present yoke and from the threat of an effective Nazi-Bolshevik fraternization.

Up to now the attitude of the German officer corps towards the regime has not been uniform. The present High Command must be regarded as somewhat hypnotized by Hitler. But the likelihood of a change in this respect is the greater as pressure on responsible army opinion increases. The higher ranks are bound to revert to their previous conviction that Germany, in her present state on the military as well as the home front, should not be exposed to the stress of a major European war. Their primary concern, naturally, will now be to bring this war to a satisfactory conclusion, but they will be all the more disposed towards an equitable peace if opinion is crystallized on the fact that Hitler had forced this conflict and is precluding its honorable and reasonable settlement by his headstrong disregard of the rational and responsible elements in the state.

Taking Germany as a whole, the following can be stated with certainty: Hitler came into power by promising the destruction of Communism to all who still had something to lose, and by promising the restoration of Germany's greatness without war. In August 1939 Hitler finally destroyed these two fundamentals of his power. His rule is now supported merely by the dire necessity of the German people to back the regime in its war against the alleged intention of the Allied powers to destroy Germany once more. While Hitler's two promises have been blatantly broken, this last fear still holds the majority of Germans in the thrall of Nazi war measures so long as they appear to be the only means to national survival. The realization that continued National Socialist control is the chief obstacle to peaceful survival will of necessity bring a profound change and an overwhelming sense of having been betrayed by Hitler. If the prospect appears that this government may be removed and simultaneously a tolerable position for Germany in a new Europe could be secured, this realization would provide the German people with a psychological pre-requisite without which the instinct of national preservation must

outrule even the most passionate urge to liberate themselves.

If, on the other hand, the German people - groping for some bearable alternative to Hitler - are met with continued vagueness and intransigence from the Western powers, their desperate hopes are bound to turn eastwards once more. The ensuing resurgence of popular unrest forms as yet a remoter possibility than might be taken as the obvious immediate implication of the Nazi-Soviet threat. But ultimately the nightmare of another crushing peace settlement and its keenly remembered humiliations must drive the Germans into close union with Russia as the only remaining alternative. And it is difficult to see how the revolutionary developments following such a change of attitude within Germany could be confined to the frontiers of that country.

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In their own states, too, the Allied Governments now in power must anticipate profound psychological changes if this war goes on.

They have a vital interest in guiding these changes in order to preclude unexpected and undesirable outbreaks at the end, or even before the end, of this struggle. The British Prime Minister has recognized this necessity in his speech of October 12th. He emphasized the fact that the Europe emerging from the present conflict will be very different from the Europe we know now. This does not merely mean territorial changes and the like. Mr. Chamberlain must have been thinking also of the inevitable and profound alterations in the inner political temper of the belligerent peoples and the incalculable effect of this on the life of the state.

The Governments, both in Paris and in London, have from the very start of this war realized that the mood of their peoples differed profoundly from that hitherto observed in wars which had to be fought by popular armies. The people this time were not carried away into a frenzy of passion. Their

attitudes remained wholly rational. All observers have stated this with amazement. Consciously or unconsciously, the speeches of Daladier as well as of Chamberlain, communicating to the people the Government's decision to fight, have respected this mood. Neither have used the terms, "Glory", "Prestige", or "National Grandeur", as the primary motivation for the necessity of such a grave step. As distinct from any such general appeal, they have concentrated their arguments on the interests of every individual Frenchman or Britisher, his way of life, his personal liberty, and his desire for an undisturbed existence.

These arguments, too, are the cause of the common man's readiness to fight for England and France; it is neither enthusiasm, revengefulness or greed which drive him to do so. It is in the interests of both Allied Governments to support this attitude. There is no reason to intensify the conduct of war by replacing these motives with those propaganda slogans which were customary in previous wars. But it is necessary to sustain this rational and deliberate attitude by supplying it with a clear objective, the emotional as well as rational appeal of which justifies the terrible sacrifices which are demanded. It is imperative to tell the people not only why they were forced to fight, but moreover what they are fighting for.

The permanence of what has here been characterized as a rational attitude is not to be relied upon. The enormous efforts which war imposes on the people even now increase their irritability and the violence of their reactions. If popular passions get beyond control, grave dangers in the nature of those hinted at by the British Premier are inevitable.

There is a definite threat that on both sides popular opinion may lay this war to governmental failure and denounce it as "their" war. Hitler may have wanted it, but the other cabinets did not successfully prevent his having his way. The popular fury - as after 1914-1918 - may well direct

itself against certain political systems, or, indeed, against government as such: a kind of semi-religious revival with chaotic social consequences may surge up, and revolutionary tendencies, already latent, may manifest themselves in a more drastic and destructive form the longer this war lasts. Governments will only lend substance to their former dealings and their present authority if they rally public opinion in good time around a peace program which meets with sufficiently broad approval to serve as a safety valve. They will otherwise become victims of the catastrophic events, which any realist must presage, and will be blamed for having embarked on a course of destruction without the vision of a tolerable future on which their successors will base their claim to power.

If one has to count on an increase in the elements of passion in popular thinking, it becomes imperative to canalize these forces into constructive channels. They are dangerous, but they also have the advantage of permitting a radical remolding of ideas. The present Governments have no better means to crystallize popular emotions than to proclaim the goal of a peace which is just and constructive and worth fighting for.

It may be remarked in passing that nationalism of the kind which finds its most extreme expression in Nazidom has been distinctly on the down-grade in Europe for some time. This assertion may seem paradoxical. But it must not be doubted that the same cool reasonableness which prevails on the Allied side is also present in the German popular attitude towards this war. Even Hitler, in deference to this, had to present the decision to fight as an act of generally shared deliberation. He had to let the war "slide in by the back door". The regime was acutely conscious of the fact that the onslaught on Poland was unpopular, as certainly the extension of hostilities to the West was dreaded by the German masses.

Almost imperceptibly, the whole complex of national prestige, has lost its hold on the peoples of Europe. For this reason a definite move towards European cooperation will be much easier than it was after the last war.

If, therefore, the Allied Governments decided upon the necessity of a peace of reconciliation with Germany, they would not only be able to deal with their own critical internal problems after the war, but they will also find the necessary material for building a stable and cooperative future for Europe.

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The technique of an early proclamation of Allied peace aims certainly presents formidable difficulties. Its communication to the people of Germany is but one of the smallest among them.

The procedure herein advocated has been applied before. Woodrow Wilson published his Fourteen Points on January 22, 1917, less than two weeks before severing diplomatic relations with Germany. His action turned against itself in the latter course of events, and now it forms one of the strongest impediments to a successful repetition of such action in the present war.

And yet, this unparalleled and high-minded initiative on the part of the President of the United States had been perfectly right as a guiding principle and might, if properly followed up, have set the standard for a lasting democratic peace. It had its effect, under even less favorable internal conditions in Germany, for the duration of the war. The Fourteen Points, without any doubt, spurred the unleashing of democratic forces in Germany. Their unfortunate later effect was due to mistakes which must and can be avoided this time.

Germany has felt herself betrayed by what followed after the Fourteen Points. This feeling is sincere. When the first confirmed news about the nater stipulations of Versailles, at the end of February 1918, reached Berlin, the German nation stood aghast.

It is evident that this later perversion of President Wilson's honest intentions, as expressed in the text and commentaries of his Fourteen Points is at present being successfully used by the Nazi Government to convince the German people that another betrayal is at the back of all peace proposals.

The fundamental question therefore arrises: How can the diffidence, which any stipulation advanced by the Allies at present is bound to meet in Germany, be modified or even avoided?

The best means lies in the nature of the proposal itself, in the practical and unequivocal character of its terms. The European future must appear as the result of common sense reasoning, not of lofty ideals. The latter approach is blocked by past disillusionment but the former will strike a powerful chord of consent.

It follows that a maximum of precision is necessary. It will certainly not be possible to be exhaustive on all points, because a full understanding between the Allied Governments cannot be expected. But it should be possible, for instance, to state certain maximum concessions which are going to be asked of the German people or to assure that their territorial status of 1933 shall be disputed under no circumstances.

Certain minimum commitments on the Allied side should be subjected to equally careful consideration, not only regarding economic concessions which the Allies should be prepared to make for a constructive peace, but also regarding the actual conditions and forces which would enable Germany

to participate in a cooperative European future.

Any peace based on the outcome of military victory would mean abandonment of Europe's common traditions in sharp discrimination against one or some of her great peoples. The natural consequence would be continued tension between the powerful and the helpless which, according to the laws of history, would again resolve itself in new catastrophes.

It will not be attempted to even sketch in this limited context the material adjustments which would have to be made in Europe's political and economic structure. The necessity of relinquishing some, especially of the economic attributes of national sovereignty is rightly emerging as one of the chief problems. The contribution from both sides will have to be substantial, but even large sacrifices, if made on the basis of negotiation, must be considered as infinitely preferable to the indefinite toll of life and treasure which a drifting on of the European catastrophe will necessitate.

Granted that the Allies do not intend to partition Germany, her own contribution must consist first and foremost in the abandonment of her present political leadership. But this is clearly not enough, because there must be assurance also that the Germany which may emerge after the downfall of Hitler will be an honest and effective partner to such a peace. The question, how this function of Germany can be made to work in terms of her social, economic and political structure, must be answered separately. Germany must be able to satisfy the desire of the European peoples as a whole that another war amongst them is ruled out as a possibility.

This is not a victor's peace, but conditions worked out on such a basis of negotiation would restore to Europe tranquility and potential well-being, and they would answer the inherent trend of her people's aspirations.

America's tremendous authority in helping to decide the character of a future European and world peace could, in our view, be asserted in various effective ways.

The momentous increase of diplomatic influence now at the disposal of the United States all over the world is one of the most significant results of the first two months of the war. The manner in which this influence could be used, lies outside the range and competence of the authors of this memorandum. But if it were felt all over Europe, in the allied countries as well as in Germany, that the authority of the United States is backing the effort of devising a fair and durable peace settlement, this would be a most substantial aid in setting people's minds to work in constructive directions. And this, in our view, would be achieved most effectively by American diplomatic insistence on a timely and explicit pledge of the allies to a rational war aim.

The early publication of war aims has been frequently urged by various quarters in the allied countries and foreshadowed in a general manner by several governmental speeches.

To be fully convincing, however, such a proclamation would have to be enhanced by some specific pledge which would bring it home to the German people that peace will be negotiated on this and no other basis.

It is obviously out of the question that the American government could attach their guarantee to such an allied pledge, though this would certainly be the most convincing assurance available in present-day world politics. Isolationist forces would oppose this guarantee, though it might afford an excellent opportunity to define the character and content of America's peace policy and its fundamental attitude towards the war in Europe. Yet the United States will probably not wish to be implicated to

the extent of a guarantee which might put them in the position of having to enforce certain peace conditions.

If then, it is impossible to grant such a measure of American participation, it might still be feasible to bring the moral weight of this country to bear upon the European situation by eliciting some solemn promise of the Allied governments, addressed to the American people and its government, that they will fight for and stick by their declared war aims. This would not, in case of default, imply the enforcement of their stipulations by America, but would leave the way open for later constructive influence on the European situation.

Beyond this diplomatic measure which it may be considered feasible to administer to the present state of European bewilderment and indecision, America is already preparing for an even broader and far-reaching contribution to the future peace. The British Ambassador to the United States has pointed out in a recent speech (New York, October 29) that, not being involved in the immediate implications of warfare, America may find herself in a better position than any of the belligerents in the task of defining the fundamentals of a lasting peace.

America, not divided as we are by social and national boundaries, may well raise the standard of all peace discussion above our complex prejudices of the past, provide a foundation for personal contact, mutual information and confidence and extend her sympathy to the constructive elements even of those countries, which in their present frame are considered the chief disturbers of peace. Such understanding, especially, if ever there is to be a permanent settlement in our view constitutes a crying need at a time which is increasingly obscured by propaganda and indiscriminating war passion. Contacts, which link up the domestic potentialities in Germany with sound judgment of the international situation, seem to us prerequisites for a peace built on the firm basis of the actual popular conditions and not on formulas which breed future maladjustment and conflict. It may be possible, before the conflict has become too passionate for America not only to insist on a responsible declaration of war aims but to help substantially in clarifying those profound and comprehensive political adjustments which will really contrive to rule out war amongst the Western Nations.