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April 25, 1945

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April 25, 1945
8:47 A. M.

HMJr: Hello.
Operator: Mr. Crowley.
HMJr: Hello.
Mr. Leo Crowley: Hello, Henry.
HMJr: Good morning.
C: Good morning.
HMJr: Leo, I just wanted to say something which I couldn't say in front of the people, see?
C: Yes, Henry.
HMJr: First, I want to say that I thought you were very helpful yesterday.
C: Well, I appreciate that. I want to be if I can.
HMJr: You were most. But then, I asked a couple of these men to stay behind, you see?
C: Yeah.
HMJr: Your fellow Fowler is sort of suspicious -- and sort of wanted to -- what it was all about, you know. He brought up this question that FEA wasn't present -- st.....
C: Well, I don't -- I wouldn't worry about that. We have that in those stamps, Henry, but as long as we understand one another, we don't have to worry about that.
HMJr: Well, that's what --- I thought he was a little bit -- I don't know what.
C: They get a little touchy sometimes.
HMJr: But it made me a little angry.
C: Well....
HMJr: Now the point that I wanted -- and I couldn't say it in front of everybody was I wanted to persuade McCloy to stay..
C: Yeah.

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HMJr: And I persuaded him and he is going to stay.
C: Fine, fine.
HMJr: That was the whole purpose, but I didn't think in front of everybody I could....
C: That's right, that's right, and then there's no one got any right to question a fellow's motives if he kind of moves around anyhow.
HMJr: Well, I thought he was a little presumptuous. Now, what I'm aiming for is for the three or four of us when we get this cleaned up to walk over and show it to President Truman....
C: Yeah.
HMJr: ..and get his approval.
C: Fine. I think that is a good thing to do and...
HMJr: I haven't got the faintest idea whether he is going to like it or not. I have an appointment for myself Friday morning, and if we are through with this I'm willing to give up my appointment.
C: Fine.
HMJr: See?
C: Fine. I want to be as helpful as I can...
HMJr: Well, you were very helpful.
C: Fine. I'll see you at nine o'clock.
HMJr: Thank you.
C: Thank you.

Carbon copy sent to
Col. McCarthy by Mr. Coe
5/7

April 25, 1945
8:55 a.m.

1067-REVISED

Present: Mr. D. W. Bell
Mr. Coe
Mr. Glasser
Mr. Clayton
Mr. Despres
Mr. Middleberger
Mr. Bard
Mr. Downey
Lt. Bancroft
Gen. Hildring
Major Gross
Colonel Brownell
Mr. McCloy
Mr. Crowley
Mr. Fowler
Mrs. Klotz

H.M.JR: I don't get the background on that. They evidently went out and talked to Joe about the Russian thing, but I don't want to start that now.

Mrs. Morgenthau had an excellent night. Everything is satisfactory this morning.

You won't be too unhappy if I follow this procedure, will you?

MR. GLASSER: We were going to recommend it this morning.

We have to make a solution.

MR. COE: We didn't think it could go to the White House, and therefore we thought since we have no ally on this, that we would have to give in.

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H.M.JR: Well, I didn't want to let you men down in front of them, but you left me quite disturbed and unhappy, but if you people are satisfied, well--

(Mr. Crowley, Mr. Clayton, Lieutenant Bancroft, Mr. Bard, Mr. Downey, and Mrs. Klotz enter the conference.)

(Discussion off the record)

H.M.JR: I have an appointment with President Truman at ten o'clock on Friday and I'll be right generous--if we can lick this thing into shape, I am willing to give way so we can walk over there with a finished document.

MR. CLAYTON: I see no reason why we can't finish before then.

MR. CROWLEY: I'll be glad to do that.

MR. CLAYTON: We ought to finish it this morning.

H.M.JR: Provided President Truman will receive us.

MR. CLAYTON: I mean we ought to finish our work here this morning.

MR. CROWLEY: Henry, before you go into finance, I wonder if it would be agreeable to discuss economics, for this reason: I have all those fellows over in my office on food.

H.M.JR: Economic?

MR. CLAYTON: That's what we were discussing when we adjourned yesterday.

H.M.JR: As soon as McCloy comes I am going to make it easy, because I have a little statement to make on the inflation thing that will satisfy you, but I would like to do it in the presence of McCloy. Is that the only thing, inflation? Is that the only difference?

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MR. COE: There are a few other differences. The FEA have some.

H.M.JR: We ought to be able to clean the economic thing up in a hour.

MR. CROWLEY: I would think so, I hope so.

H.M.JR: If we go to see President Truman, it would be Mr. Clayton, Mr. Bard, Mr. Crowley, Mr. McCloy and myself. Would that be the Committee?

MR. CLAYTON: I imagine so.

H.M.JR: Is that what it would be, Mr. Bard?

MR. BARD: Quite so.

H.M.JR: Forrestal wouldn't want--

MR. BARD: I'll ask him.

H.M.JR: I'll put it this way: From State, War, Navy, Mr. Crowley and myself. Is that all right?

MR. CLAYTON: Yes.

H.M.JR: You said you would go.

MR. CLAYTON: Yes, sir.

H.M.JR: Do you agree with me that we could have this condensed? I think we ought to let him read March 23rd, and say this is an outgrowth, and have it condensed. Huh?

MR. CLAYTON: I would think that if he would read the March 23rd memo and we could say to him that these detailed directives which we have drawn are well within the principles and policies stated in that memo and are merely setting out in detail the principles there stated, that that would be all that would be necessary because

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it would take him a long time to read and digest these detailed directives.

(Mr. Depres enters the conference.)

MR. CROWLEY: Don't you think, though, that you could make a little fuller analysis for him that he could have because someone might ask him about it. He won't be able to digest this, but if you had an analysis that he could use to refresh his memory, it might help.

MR. CLAYTON: Well, it might be, although the March 23rd document states all the principles and policies that are involved. We might make a little short digest of these documents and give the main points.

H.M.JR: I think so.

MR. CROWLEY: He doesn't know it like President Roosevelt did. It's all new to him.

MR. CLAYTON: Yes, that's right.

H.M.JR: Who will do that? Your people?

MR. CLAYTON: We can do that.

H.M.JR: With our people?

MR. CLAYTON: Yes, we can do that.

H.M.JR: Do you want anybody to sit in on that?

MR. CROWLEY: No.

H.M.JR: Does that agree with you, Mr. Bard?

MR. BARD: Yes. That's fine.

H.M.JR: I begged McCloy to stay to clean this up. If we clean this up today, Will, can we go on with reparations?

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MR. CLAYTON: Oh, yes. We won't have any difficulty, in my opinion, in cleaning up these two documents this morning. We ought to do it in a couple of hours, don't you think?

MR. GLASSER: Yes, I think so.

H.M.JR: Then can we go on to reparations?

MR. CLAYTON: Yes, we can do it this morning if you like. We ought to have Lubin come in on that.

H.M.JR: We can do that. What time is your food meeting?

MR. CHOWLEY: It starts at ten, but if I get over there at half past ten or a quarter of eleven, it's all right.

(Mr. Fowler enters the conference.)

(Mr. Clayton leaves conference temporarily.)

MR. COE: Mr. Secretary, we have clean drafts of the political directive that was agreed upon yesterday because there was some uncertainty in various groups as to which one had been agreed upon. I checked on the phone with Mr. Depres--

(Mr. McCloy, General Hilldring, Colonel Brownell, and Major Gross enter the conference.)

H.M.JR: Mr. McCloy, having had a very good dinner at your house last night, I am in a very good humor.

MR. McCLOY: Quite amenable this morning.

H.M.JR: I would like to say, particularly for the benefit of the Army, with regard to Paragraph 38 on inflation, the Treasury is willing to accede, I take it, to the Army's wishes. However, we would like to point out we think you are making a mistake in assuming this

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responsibility. We don't think that you are going to be able to accomplish it, but if that's what you want, we will accede, and once it has been decided we will put everything at our disposal to assist you.

MR. McCLOY: Well, that's the very objective. I want to get the point clear that we don't think we are going to stop inflation in Germany. We don't have any such idea as that but we think it's rather fantastic to suppose that we will not be blamed for the inflation that takes place. We'll be blamed for everything that takes place, so that is a rather academic consideration as against the doubtful advantage of trying to throw off or disclaim responsibility for something that may occur if you give the zone commander the authority to do what he feels he may have to do. Give him that flexibility. In other words, you are dealing with a more realistic advantage than the one of avoiding criticism, but we have no illusions that we can stop inflation.

H.M.JR: Well, of course we are very anxious that there should be no inflation in Germany, but as I say, and I have pointed it out, I think you are taking on an impossible task. If this is the way you want Paragraph 38, the Treasury will go along. If it is decided by this Committee and everybody agrees, we will do everything in the Treasury to assist you to carry it out.

MR. McCLOY: Fine.

H.M.JR: I don't know if anybody else objected to it, but that's the Treasury's position.

MR. CLAYTON: I think the Navy and FEA agreed on Paragraph 38 as originally drawn.

MR. CHOWLEY: That's right. I think I agree with the Secretary of Treasury. I don't think you can stop inflation. This doesn't say that you can. And the worry that I have in kind of looking this thing over is you are going into Germany and you are going to find in there complete chaos. I think this is a vehicle to

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try to stop future wars and is all right. But I think, too, that there should be some report made as rapidly as possible as to the conditions in Germany and what you find there, because I would hate to see this Government held responsible for the chaos that is bound to follow there, inflation, unemployment, and likely revolution and everything else. And all this document is supposed to do is try to give the military people a general agreement as to a policy. You undoubtedly never will be able to control prices or inflation there, and to leave any impression that this Committee thought we could--it's all right to try to do it, but what I worry about is long after we are all gone from here this document is going to be used after they have had a chance to second guess the thing, and I would like to, if the Committee could, in addition to outlining these principles, add something in here to explain what we are attempting to do, that we are not assuming the responsibility for the inflation or for the local situation, that we are only going to try to do the best we can with these directives.

MR. COE: Mr. Crowley, I think that would provide a good transition to Paragraph 1 where the Treasury had tried to write such an addition. You may want to consider that and see if it is--

GEN. HILLDRING: Mr. Secretary, one of the suggestions I had to make after reading this over again last night, bears on Mr. Crowley's point. What we are doing in this directive, and I think we should keep it in mind all the time, is to establish an interim policy in the initial days after the establishment of the Control Council in Berlin, after the end of organized resistance, to furnish us a period during which we can examine the actual conditions in Germany so that they may be reported back to this Government. On the basis of those intelligent and actual facts of the situation as they exist, this Government will with those facts be able to establish a final economic and political directive with respect to Germany.

This interim period, Mr. Crowley, that's covered in this directive, is a period during which we find out the facts and report them back.

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MR. CROWLEY: Yes.

GEN. HILLDRING: And that should be high lighted a little more than it is.

MR. McCLOY: That's awfully important. You don't know what your plan is in Germany today. You don't know what your assets are. You don't know what they are politically, socially, or economically, and we really are skating on very thin ice when we try to evolve any long-range reparations or economic policy until you have had a report as to the receiver from the engineers and the accountants as to what is there.

The point Mr. Crowley makes, I think, is a pretty good one. I wonder why it wouldn't be a good thought--this is a historical document and we have got to treat it in terms of that for the sake of this Government and the future record--I wonder whether we couldn't put a clause in here, a sort of self-serving clause, something to the effect that whereas we are quite aware of the inflation problem being so great, it can't be helped. None the less, you are authorized to take such steps as you feel are advisable under the objectives of your mission to control to the extent you can, inflation, somewhat like the paragraph that was in the March 23rd letter, that the President inserted.

H.M.JR.: It's up to you. I just want to say one more thing which I said yesterday and would like to repeat today. When I talked with President Roosevelt about fixing the price, and I had to go to him three times, he said, "Let the German economy seek its own level, and I don't care what that level is." I just wanted to point it out that he felt very strongly that way.

Now, you are going to attempt to peg that level, and there is nothing in here to say furthermore that the Germans brought this thing on themselves.

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MR. CROWLEY: That's what I am getting at.

H.M.JR: There is nothing stated in here that Germany brought this thing on themselves, but instead the Army is so brass as to say, "We are going to go in and stop inflation."

MR. McCLOY: No, we don't. Don't misrepresent that.

H.M.JR: I am not misrepresenting it. I am just reading Paragraph 38.

MR. McCLOY: You are when you say the Army says it is going to stop inflation. It can't stop inflation.

H.M.JR: What do you say here?

MR. McCLOY: This gives him the right to take such steps along that line as he feels necessary to take in the light of his problem.

H.M.JR: But you are assuming the complete responsibility, and if you are interested in history, history will say you assumed this responsibility.

MR. McCLOY: History will attest this disclaimer.

H.M.JR: May I again repeat; McCloy knows this, particularly when I went to the President each time I reported. I don't know whether you were there or not.

MR. McCLOY: You reported to me.

H.M.JR: Each time he said, "Let the German economy seek its own level, and if they are hungry we'll feed them out of soup kitchens." The boys made their case, and you adjust it as you want, but we'll be good sports and go along.

MR. BARD: Does this document cover just an interim period, specifically?

MR. McCloy: Yes.

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MR. BARD: If that's the case, that protects you from a historical standpoint.

H.M.JR: Is the answer to his question correct?

MR. McCLOY: Yes, this is a successor to the 1067, as I understand it, which is labeled as an interim directive. We are not attempting to work out a long-range policy at this point. This is the first attempt to deal with the administration of Germany.

H.M.JR: But in answer to Mr. Bard's question it takes care of the period before the Council is set up and supposedly after the Council is set up.

MR. McCLOY: Yes, it goes beyond the period of the Council.

H.M.JR: Just so Mr. Bard understands it.

MR. BARD: Yes, I am in agreement.

MR. McCLOY: Yes, by interim we mean interim period after the Council--

MR. CLAYTON: A better way to describe it is initial rather than interim, and I would like to say, Mr. Secretary, that while it may be true as you stated that there is nothing in the economic document which specifically says that the situation as we find it in Germany today is one that is brought on by the Germans themselves, I would like to call your attention to a clause in the military and political document which we passed on yesterday which does point that out very clearly and that's Paragraph--

MR. COE: Which paragraph?

MR. CLAYTON: A under 4.

MR. DESPRES: 2(b) of page four.

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MR. CLAYTON: And there's a short paragraph which says it should be brought home to the Germans that Germany's ruthless warfare and the fanatical Nazi resistance have destroyed the German economy and made chaos and suffering inevitable and that the Germans cannot escape responsibility for what they have brought upon themselves.

H.M.JR: Very good.

MR. CLAYTON: Now, I have read here this morning this Paragraph 38 in the economic section of this document and the one that relates to inflation, and I don't believe that the paragraph as it is now drawn indicates necessarily that we can prevent inflation in Germany. It merely says that the Control Council should adopt such policies as are clearly necessary to prevent or restrain inflation of a character which would definitely endanger accomplishment of the objectives of the occupation, and then says in particular they should direct and empower German authorities to maintain or establish controls over prices and wages. I think that it is highly desirable that that should be done because I believe that regardless of whether the Army should take the responsibility for the maintenance.

H.M.JR: Maybe it's just as well I don't see Paragraph 38.

MR. CLAYTON: I was just saying I think regardless of whether we say in this paper that the Army should take responsibility immediately upon the occupation of Germany for certain things, we know they have got the responsibility and history will hold them responsible for doing what they can after they get in there to restore order and to see that the slender supplies that are available to the German population in the way of food and other necessities of life are rationed in a fair way and at prices which will enable the poor people to keep from starving while others have all they need or more. So that I think that the paragraph as it is is all we need.

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H.M.JR: What do you think, Mr. Clayton, of repeating that 4(a) right ahead of this?

MR. CLAYTON: I see no objection whatever to doing it.

H.M.JR: Just repeating it.

MR. CLAYTON: Repeat 4(a) as the first part of paragraph 38.

H.M.JR: That would make me much happier.

MR. CLAYTON: I see no objection to it.

H.M.JR: And also--

MR. McCLOY: That would be to our advantage to have such a statement.

H.M.JR: And that would take care of this philosophy of President Roosevelt's, which I like to carry out.

MR. McCLOY: Right. It would tend to absolve us from--

GEN. HILLDRING: May I make another suggestion to implement Mr. Crowley's suggestion?

MR. McCLOY: That covers it, doesn't it?

GEN. HILLDRING: No, sir, not exactly. I think at the end of this document we ought to put another section on it which says this is an interim period.

MR. McCLOY: Oh, well--

GEN. HILLDRING: "It is a period of reconnaissance, intelligence, and fact finding, and you will assiduously and vigorously pursue the business of gathering information and the rapid transmittal of that information back to your Government in order that a final, long-range political and economic policy with respect to Germany may be formulated."

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MR. CROWLEY: That's what I would like, something like that in some kind of a report.

MR. GLASSER: We suggested in paragraph 16 some new wording, and it's the last two sentences of that paragraph, and it runs, you should make clear to the German people that the responsibility for the administration of any such controls as may be established by the German authorities and for any consequences resulting from their breakdown rests with themselves and their own authorities. Then you will, however, closely follow--we can cut out the however--closely follow all economic developments in Germany and particularly those which affect the accomplishment of military obligations reporting these developments in detail to your Government making such recommendations as you may deem appropriate and requesting instructions." Now, that--

GEN. HILLDRING: That's pretty good, Harold, but it has two objections, I think. One is that it isn't as forthright as it should be, and in the second case it deals only with the economic section, whereas this interim policy deals across the board, economic, political, administrative, finance, relief--it's the whole works, so when we say it should apply to the entire document--

MR. McCLOY: That's right.

MR. CLAYTON: Mr. Secretary, suppose we settle one point at a time.

H.M.Jh: It's always helpful.

MR. CLAYTON: Get this 38 out of the way and then discuss the point that I think General Hilldring has very properly raised which relates to the whole document rather than to this one thing.

Now, you have made the suggestion that we start off paragraph 38 by repeating 4(a) from the military and political document. Might we not use this language instead as a beginning for paragraph 38?

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"The Germans should be made to understand that Germany's ruthless warfare has destroyed the German economy, and that the resulting chaos and suffering may well include serious inflation. Just start it off with that.

MR. CROWLEY: Well, let me ask you this, do you have anywhere in this document a reference as to the success of this plan being dependent upon the German people themselves? I mean, it's utterly impossible for the Army to be successful in the carrying out of their plan unless the German people themselves are going to recognize their own plight in this thing. I am worried--Germany brought all this destruction, and by their own defense of their own city of Berlin and all the way down the line, they brought wholesale destruction to all their country. Now, we go in there, and immediately it becomes our responsibility for the management of their economy. We are going to put out of business here all of their mayors and different people in public office, and things like that. When you do that you can't escape the responsibility for the operations.

Here you will have all these eighty million people that are going to be maybe sullen, and maybe not very cooperative--I would judge not--and then we go in and there is more trouble developing there as we go along and try to carry out this thing. Now, it seems to me that for my part in this thing, I would like to see tied to, eventually tied to this recommendation a report showing what conditions you found, and what cooperation you got, and so on and so forth.

Now, I come from out in the Middle West where we fought World War I every time you had a political campaign. And I am just as sure that after the heat of this thing dies down, people will take this and what- ever economically happens in Germany--unless we make a complete record as to the conditions we found and everything else--they are going to say it was our management that caused this breakdown.

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I don't disagree with what you are trying to do, Will, but I want to protect ourselves so that they don't pass back to us the responsibility for their own destruction.

MR. CLAYTON: I think that's an excellent suggestion. We might consider it with the one General Hilldring made to work out a general paragraph that would cover this whole document after we get through with this one.

I think you might try your hand to draft something along that line to cover both General Hilldring's suggestion and Mr. Crowley's, if you would.

MR. BARD: I like General Hilldring's suggestion very much because it defines the responsibility of this group and takes out of the minds of people what they might have thought they had to do, and hinges on what the responsibility is.

H.M.JR: I prefer 4(a) to this, but let me have a sentence right at the end, something about inflation, if he wants to take that on.

MR. McCLOY: Why don't you just start 38 out by saying, "With due regard to the statement contained in paragraph 4(a) you are--" and so forth. Just incorporate 4(a) by reference at that point and that talk about the destruction of German economy which means--

H.M.JR: Do you mind repeating all of 4(a) instead of referring to 4(a)?

MR. McCLOY: It seems a little inartistic to do it, why you repeat it with respect to one paragraph.

H.M.JR: If somebody reads a document--it's such a forthright statement, that's all.

MR. McCLOY: It seems a little strange to repeat exactly the same words again.

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MR. CLAYTON: Well, perhaps we might use this language from the March 23rd document. I'll read it. "In the imposition and maintenance of economic controls the German authorities will, to the fullest extent practicable be ordered to proclaim and assume administration of such controls. Thus, it should be brought home to the German people that the responsibility for the administration of such controls and for any breakdowns in those controls will rest with themselves and their own authorities." I don't think that covers the point, though, after reading it. I think that 4(a) is more specific with reference to the responsibility for the destruction and chaos that exists there.

H.M.JR: Well, I don't care whether you repeat it or whether it is just 4(a), just as long as we get it in. Mr. McCloy is going artistic on me this morning. He thinks this is inartistic, and I don't want to be inartistic.

MR. McCLOY: I am not going to bring up rural burgo-master again.

H.M.JR: All I want to be is effective.

MR. CLAYTON: We'll draft something that will make it very clear.

H.M.JR: Artistic.

MR. CLAYTON: The language in 4(a) is incorporated in 38.

MR. McCLOY: You will want to repeat something like that in connection with inflation. The standard of living, and things like that.

MR. CLAYTON: I think you are right.

H.M.JR: Just a moment. Is that agreeable to Mr. Bard and Mr. Crowley?

MR. BARD: Yes.

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MR. CROWLEY: Yes.

H.M.JR: And at some other place we'll put in what General Hilldring said to carry out also what you wanted, but that has to be drafted.

MR. CROWLEY: Fine.

H.M.JR: And we'll put it in some appropriate place, but not here. Is that right?

MR. CLAYTON: It should come either at the beginning or at the end of the entire document, somewhere that shows it applies to the whole document.

H.M.JR: Mr. Despres will draft something.

MR. DESPRES: Yes.

H.M.JR: And is this acceptable to everybody? The only change you are making is starting off with the reference to 4(a) and go on with 38.

MR. GLASSER: May I make one suggestion? The last sentence of 38 says, "Measures to prevent or restrain inflation should not include the importation of supplies." We would like to add to that the last sentence of our draft which says, "...shall not constitute an additional ground for limiting removal, destruction or curtailment of productive facilities in fulfillment of the program for reparation, demilitarization and industrial disarmament." We do not want to interfere with reparations and demilitarization and the military program.

MR. DESPRES: We had that in mind also. It isn't very explicit here.

H.M.JR: It's a very important thing.

MR. CROWLEY: That's right.

GEN. HILLDRING: Did you listen to this, George?

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H.M.JR: This is very important. Do you want to state it again?

GEN. HILLDRING: Would you state it again, Harold, please?

MR. GLASSER: Adding at the end of 38 as it now stands the phrase, "...nor shall it constitute an additional ground for limiting removal, destruction or curtailment of productive facilities in fulfillment of the program for reparation, demilitarization and industrial disarmament."

MR. BROWNELL: Your question goes to the heart of one of the main reparations problems. If you are going to have the same agency administering reparations, which will interfere with the whole program administered by the Control Council, you will have a conflict of interest that will be very difficult to resolve, but if the reparations withdrawals are administered by the same organization that is responsible for the inflation, I think the two of them can be handled in a perfectly consistent way.

MR. GLASSER: This language attempts to stop inflation. You will not prejudice any other programs. Those programs will go ahead irrespective of inflation.

MR. BROWNELL: You would say if the reparations program necessitates inflation we would propose a degree of inflation upon Germany.

MR. GLASSER: The attempt to stop inflation does not interfere with the program of reparations. The program of reparations is based upon the objective of industrial disarmament, demilitarization of Germany, and whatever other considerations, and whatever is done to stop inflation will be something other than stopping reparations.

MR. DESPRES: May I insert a word here on this? I don't think the point you have in mind arises in this connection. The principle we are trying to establish with respect to inflation is this: That although you

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may need to bring in supplies or to effect rehabilitation of certain industries, or to encourage reparations exports for the purposes that we have discussed for several days, the minimum standard of living purpose, the needs of the occupation forces, and so forth, that all we are saying here is that inflation should not constitute an independent ground over and above these others. If, in addition to the restraints that you impose on exports from Germany, say, reparations exports, for the purpose of leaving behind the defined minimum, and so forth, but this isn't an additional restraint that you are imposing. Now, in the case of your extreme inflation, if your extreme inflation had the effect of producing starvation that drove the standard of living below your defined minimum, then, the starvation point, I mean the standard of living reason would be the reason why you would exercise restraint. But all this is saying is that inflation in and of itself isn't an independent ground for imposing restraint. Isn't that right, Harold?

MR. GLASSER: Yes.

MR. BROWNELL: Couldn't you put it this way? Say that the reparations program shall not be restricted in order to avoid inflation unless there is no other way of avoiding inflation, and it is essential to postpone the reparations program to accomplish the other important objectives?

MR. GLASSER: There are other restraints on the reparations program. For instance, the objective of the military government to prevent starvation in Germany. Now, if it's necessary to stop inflation in order to prevent the Germans from starving--we don't think it is--but if the military commander thinks that that is a restraint, that applies to all activities of the military government whether it's disarmament, industrial disarmament, or control of reparations, or control of the German economy, but that's an overall restraint.

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MR. COE: Mr. Secretary, I think this discussion very well illustrates the points which we have in mind in fear of conceding on this proposition. We start, we think, and accede to a proposal that you stop inflation in order that the Army can carry out the objectives of the occupation, and one of the objectives of the occupation is presumably a program of removals, but we are now rapidly getting into a discussion in which you are going to stop the program of removals in order that you may prevent some inflation which is there. Now, I think that thing ought to be settled among conflicting objectives of the occupation, but not make the stoppage of inflation one of the major objectives of the occupation.

H.M.JR: I think I can answer that. No one ever raised the question, and I can only give you a horseback opinion, but I can't visualize two agencies in Germany, one administering the civilian population and the other administering reparations. It seems it all has to come under this control.

MR. BROWNELL: I was reflecting a discussion of the working committee, Mr. Secretary.

H.M.JR: No one has asked me, but talking wholly for myself without consultation, it seems to me there--

MR. McCLOY: You can't have two people running Germany.

MR. BROWNELL: I agree.

MR. CLAYTON: That's fundamental. I should think we all agree.

H.M.JR: He has raised it. I think it's very important. How do you feel about that?

MR. CLAYTON: I feel very definitely there has to be one boss. You can't have two agencies running the show. It will be difficult for one.

H.M.JR: Mr. Bard?

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MR. BARD: This question here seems to me--you admitted a while ago that you can't do much about inflation. These other objectives you are talking about are definite objectives, but the point is you don't want something about inflation directly under objectives. I think it's out.

H.M.JR: I think we ought to get around the room. Mr. Crowley, how do you feel about one agency administering both of these problems?

MR. CROWLEY: I think you will have to have one agency or you are going to have conflict.

H.M.JR: You evidently--Mr. Bard?

MR. BARD: One agency.

H.M.JR: You raised the point and you got an answer.

MR. BROWNELL: That will facilitate the work of the working committee on reparations.

H.M.JR: Are you willing to give a little?

MR. BROWNELL: I think it's a matter of emphasis and if, as Mr. McCloy suggests, you put in, "nor shall they in themselves constitute grounds for limiting removal," you would partly cover it, but I would like to ask Mr. Glasser this narrow question to bring out the main issue. Suppose there were two alternatives, one uncontrolled inflation, and two, restricting or postponing it, taking out of goods from Germany in accordance with the reparations program, which of those would you elect?

MR. GLASSER: It seems very unfair to pose a question in that form, but I'll answer the question that you are driving at. If it is necessary to keep a machine in Germany in order to have the flow of supplies go to the German people to prevent starvation, which is the extreme case, it's up to the military commander to make the decision whether that machine goes or stays in terms of his responsibility for meeting the objective.

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Now, that's the question you really wanted answered, I think. Now, the other question, the question of whether he is choosing between uncontrolled inflation, that's just a phrase. I don't know what controls inflation. At what stage do you have inflation? Take the Chinese situation. It has been stretching out over a period of five or six years. When, in the German case, will the military commander ever be faced with the question, "Do I have uncontrolled inflation or not if this machine goes?" That's a question he never faces.

MR. BROWNELL: But if you answer my question, you will settle this problem. You are dodging the question. Which of the two is to control if you have to make a choice? This language says that the reparations program shall control if you have to make a choice. So, I take it you would answer my question by saying as between great inflation or carrying out the reparations program immediately, you would say inflation.

MR. GLASSER: The answer is, you are putting up uncontrolled inflation which is a minor phrase or a very vague something or other against a real program of real directives, and of course you take the real program.

H.M.JR: May I get in on it? Let's get this thing settled once and for all. The Treasury of the United States wants the minimum of inflation in Germany. So, let's get that settled, and I am speaking now officially. This hypothetical question of yours, if the thing is in there the Control Council or commanding general will have to decide. He has got these tools, and under this directive it is his job to see that there is minimum inflation. It's not up to Glasser, me, or anybody. It's his responsibility. But as to a policy, we want to see just as little inflation in Germany as possible.

MR. BROWNELL: I am sure of that, and my question was hypothetical to illustrate the point. I didn't dream the Treasury would favor the other alternative.

H.M.JR: There's that inference, and I just want to nail that down.

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MR. BROWNELL: I regret the inference and it was not intended. I was merely trying to bring out the point that you have got to make a choice. This language provides that the choice goes in favor of continuing the reparations program. I would only make the choice in favor of the reparations program, or put it this way. I would use every other means possible to stop the inflation before I allowed the commanders to retrench on the reparations program, but if there were no other means available for stopping inflation and accomplishing the objectives of the commanders, then I would postpone reparations.

MR. COE: Mr. Secretary, I wonder if in view of this we could now settle for Mr. McCloy's amendment to our language, "...nor shall it constitute an additional ground for limiting removal, destruction or curtailment of productive facilities in fulfillment of the program for reparation, demilitarization and industrial disarmament."

MR. CLAYTON: I think that does it.

MR. DESPRES: I suggest we say, "...nor shall it constitute additional ground." That's almost the same idea, but I think it's really clearer.

MR. CLAYTON: I think that ought to be so, Mr. Secretary, and I would like to point out, Colonel Brownell, that this hasn't any reference to the removal of goods. It has reference only to the removal of productive facilities, machinery, equipment, tools, and so forth.

MR. BROWNELL: I am not sure that was intended, however:

MR. CLAYTON: I think it is. If it isn't, why, I would be opposed to it.

MR. BROWNELL: It's a very well taken point.

MR. FOWLER: What's the language, Harold, as you have it?

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MR. GLASSER: Destruction or curtailment of productive facilities.

MR. CLAYTON: It has nothing to do with goods.

MR. DESPRES: I think the idea of the sentence as a whole, Mr. Clayton, is to include goods. As I understand the whole notion, it is this, that for the purpose of preventing inflation of the type which would endanger the accomplishment of the objectives we will impose, we will authorize the military authorities to instruct the German agencies to impose any internal controls that are clearly related to that objective. But so far as our supply program on the one hand, the rehabilitation of the German economy that we permit, and withdrawals from Germany of all sorts from the other are concerned, we are going to be guided in that program by the minimum real needs, the physical needs of the German economy, and including the needs of the occupation forces and displaced persons. The argument of this paragraph is to say although you can always combat inflation by increasing the supply of goods available for sale within Germany, we don't want to increase the supply of goods available in Germany just to combat inflation. We may want to do that for the other objectives that have already been stated, but inflation ought not to be an additional argument. If the argument has to be, it should be in terms of real needs rather than have price developments as such. Isn't that the main idea here?

MR. CLAYTON: Yes, but I think my statement is still true, that while you might consider that this refers to potential goods, I agree, certainly, but this specifically refers only to productive facilities. Obviously, productive facilities can make more goods of a kind, but this I think excludes any, so far as the removal from Germany is concerned, consumers goods or any kind of goods. It refers specifically and only to productive facilities. Obviously, productive facilities can make goods. I think that Mr. Despres' suggestion, if it's agreeable to the other members here of the Committee, should cover it, "...nor shall it constitute additional ground for limiting removal--" and so forth.

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MR. McCLOY: My suggestion--I think perhaps we get closer to it by a different phrase something like this, "...nor except in the case of an emergency which in the opinion of the Control Council requires other action shall it constitute--" Now, you've got it up against the emergent condition which is just where you want to put it, and it makes it a little clearer, it seems to me, to the man carrying it out, what he has to do before he checks the reparations program.

MR. BROWNELL: Or even make it stronger and say, "...nor unless absolutely necessary in the event of an emergency shall--" so that all other alternatives will have to be exhausted first.

MR. GLASSER: Well, Mr. Secretary, may I just take a realistic case--Mr. Clayton has in mind--take the case of Aachen where you had a warehouse full of food and the Germans were put on a ration of fifteen hundred calories a day.

GEN. HILLDRING: Eleven hundred and fifty.

MR. GLASSER: Eleven hundred and fifty, and you decided that the Dutch needed that food. Now, are you going to keep as one of the objectives the fact that if you move that food out to Holland, that the prices in the black market in Aachen of food is going to go up fifty percent? Are you going to make that decision on the basis of the prices in the black market? I don't think you are, or the military commander is going to, and to determine inflation means nothing more than price rises at certainly this stage of the occupation of Germany.

MR. BROWNELL: That's why I would suggest using this language. Put in "...nor unless absolutely essential to accomplish the underlying occupation shall it constitute ground, and so forth."

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MR. COE: Would you say, "...nor unless absolutely essential to accomplish the other objectives of the occupation?"

MR. BROWNELL: That would be entirely agreeable to me.

R.M.JR: Does this include facilities or just--

MR. GLASSER: No. Both of them are right. The language does not include terms but we meant it to. It's really taking care of destruction or curtailment of commodities or productive facilities. We should add commodities or productive facilities to make Mr. Clayton's--

MR. CLAYTON: I would be opposed to it if it included commodities.

MR. GLASSER: We could drop commodities and put productive facilities.

MR. FOWLER: I think that's the most crucial point, productive facilities.

MR. CLAYTON: Is this language agreeable, then? "...nor unless absolutely essential to accomplish the other objectives of the occupation shall it constitute ground for limiting removal, and so forth."

MR. GLASSER: I would object to that, Mr. Secretary, on the ground that we have in this directive dozens of points, qualifications on every issue including reparations, demilitarization, and industrial disarmament. You will not do these things except in fulfillment of the fundamental objectives. Now, you want to put it in again that escape clause in terms of inflation. That is going to be interpreted in the field as meaning that if the prices are going to rise in this black market in Aachen that you have another reason for stopping food or machinery from going out of Germany. It doesn't belong in the inflation--in this paragraph here on control of inflation. It belongs in

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every other time you mention an objective or military occupation.

MR. McCLOY: The only reason you are putting it in is because you are excluding the point by this sentence. It wouldn't have gone in otherwise.

MR. GLASSER: That's because the control of inflation is not an additional objective of the military objective. It's a means to accomplish the real objective stated in the political part of this document.

MR. McCLOY: When you say absolutely essential in the opinion of the Control Council don't you put them right up against the gun? It's a little difficult. You limit inflation to a rise in prices in the black market. It may be a stage much more serious than that. It's only at such a stage when you deal with this question if you limit it to the Control Council.

MR. GLASSER: If I were sure that the document would be interpreted as you interpret it, I would have no objection.

MR. McCLOY: When you say absolutely essential in the opinion of the Control Council, isn't that language-- don't you put it up to a point where it is a matter of real substance rather than a whimsical termination?

MR. FOWLER: What worries Mr. Glasser and what worries us is it might be a very reasonable and logical conclusion in fostering and promoting an extensive program of industrial rehabilitation in Germany by an outside power, and would be absolutely necessary and essential to stop a dangerous inflation, and yet we in this group would not want at this point to confide in our representative on the Control Council the authority to proceed in contradiction to the other objective, primarily the objective of the occupation, industrial disarmament, broad-scale industrial rehabilitation. Take China which is perhaps not a very good analogy; one could reasonably say that the very essential part of the

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program to meet a serious inflation in China is a broad program of industrial development and rehabilitation. The same conclusion could be easily applied in Germany and yet I don't think any of us here has any contemplation that that is intended or that that is our policy.

MR. BARD: Why wouldn't one word solve the whole thing, "...shall not necessarily constitute ground for the importation--" I don't know if that's right. You can't decide for these people what the questions are going to be. It depends on what the situation is. You say it need not necessarily constitute; that gives them a chance to use their judgment under circumstances prevailing.

MR. CLAYTON: That would be entirely satisfactory to the State Department if we could put that in. Put it in two places. It would then read, "...prevention and restraint of inflation shall not necessarily constitute ground for the importation of supplies or rehabilitation of German economy, nor shall it necessarily constitute ground for limiting removal, and so forth."

MR. COE: Mr. Clayton, that is a serious weakening, and I just repeat over again that we seem to be giving up major objectives here in order to curb this inflation, whereas we are, I think, seventy percent agreed we can't do it.

MR. DESPRES: I have a feeling that part of the difficulty over this paragraph is that it is being examined outside the context of the directive as a whole. We do establish a floor for the German economy in defining the minimum standard of living, the needs of displaced persons, the care of displaced persons, and the requirements of the occupation forces as the elements entering into that floor. Now, as a consequence, both of the elements have broken down in the German picture on the goods side and the financing and monetary situation, the amount of money available for spending on the other side, and we expect that there is going to be quite a lot of inflation. Now, we are urging that on the internal control side the combating of inflation can go quite a long way, but on the supply program side and the exports-

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imports rehabilitation side, we aren't raising our minimum standard of living indirectly by the back door just because the German people have a lot of money in their pockets. In this document it is emphasized all through that the reparations program and the disarmament program are to be limited by these essential requirements that have to be met. I think that if you say that we can raise this ceiling just because people have a lot of money--that's what it amounts to, raise the floor just because people have a lot of money--that it takes an awful lot of the content out of the document.

MR. FOWLER: Furthermore, I think it tends to confide a discretion in the zone commander and in our member of the Council. He may not really want to. I should hate to be put into a position of being told that there were two cardinal Allied policies to be carried out here, (1) demilitarization and industrial disarmament, and (2) the reparations program; and then be told that it is my responsibility to balance carefully the impact of those two programs which would involve substantial removal with a tendency to a dangerous inflation. It's a very, very unfortunate position to put the zone commander and our representative on the Council in. We are really telling him we expect him to carry out these two programs at least, and then we are getting this very general conception of some kind of responsibility to control inflation.

It seems to me that would fly in the very face of what we have said heretofore this morning, the German people have brought this on themselves, and what they brought on themselves is not only facing the chaos that is there, but also of submitting to the removal of certain armament facilities, submitting to the removal of certain facilities and goods for reparation purposes, and that is part of the consequence they brought on themselves. The zone commander should have no responsibility to make those delicate decisions of judgment as is it going to cause inflation, or isn't it?

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MR. CLAYTON: I think that's right, Mr. Fowler, and I think that Mr. Depres is right, too, in calling attention to the fact that we have a certain protection here against the excessive removal of goods and facilities from Germany for reparations in that a directive is given to the zone commander that a certain basic minimum level of living is to be maintained and that conditions are to be preserved which will serve the needs of the occupation forces, or prevent starvation, disease, unrest, civil commotion, and so forth. Nevertheless, I think I can see that uncontrolled inflation, and I think I, at any rate to my own satisfaction, know what it is, and I can see that uncontrolled inflation might very well lead to a condition which would make it impossible for the zone commander or military commander to carry out the objectives which have been stated in this document. Therefore, I think that all of the suggestions which have been offered here about the change of this language, the best one is that we should say, "...nor shall it constitute an additional ground for limiting--."

MR. McCLOY: We'll take that.

MR. CLAYTON: I think it should come in two places, "restriction and restraint of inflation shall not constitute an additional ground for the importation of supplies, nor shall it constitute an additional ground for limiting removal," and so forth.

MR. COE: Mr. Clayton, if you put it in that first place, you would be saying that prevention or restraint of inflation should not constitute an additional ground for the rehabilitation of the German economy.

MR. CLAYTON: It doesn't say rehabilitation, does it?

MR. COE: Yes, we have that in, too, and you wouldn't want to say that--

MR. CLAYTON: No. Excuse me, "prevention and restraint of inflation shall not constitute an additional ground for importation of supplies or rehabilitation--" comes in there. I don't take it that the question of rehabilitation of

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German economy is involved here. I would leave that out entirely, "...shall not constitute an additional ground for the importation of supplies, nor shall it constitute an additional ground for limiting removal, and so forth." Just leave out "rehabilitation of German economy." That's not involved.

MR. DESPRES: May I read the paragraph as I have it, because I have attempted to rework it and haven't had a chance to hear all of the discussion, and then there is also this other point about the Germans being responsible that I tried to get into.

MR. CLAYTON: I think that's a point we said would refer to the document as a whole and doesn't come into this. We are only talking about 38 now, and the suggestion has been made that paragraph 38 as drawn by the working committee shall stand except that we would add to it this language, "...prevention and restraint of inflation shall not constitute an additional ground for the importation of supplies, nor shall it constitute an additional ground for limiting removal, destruction or curtailment of productive facilities in fulfillment of the program for reparations, demilitarization and industrial disarmament." Is that clause satisfactory to the committee?

H.M.JR: Does anybody object? Accepted.

MR. McCLOY: You said 38 shall stand as is. Didn't we agree that 38 would be modified in the beginning to bring in 4(a)?

MR. ODE: With due regard.

MR. CLAYTON: Yes, it shall. Thirty-eight shall start off with a definite reference to paragraph a of paragraph 4. Now, shall we go on?

When, in taking up yesterday, as you recall, Mr. Secretary, this document on economic control, we went immediately to the question of inflation, I think, and didn't consider any other part of it. Now, I think the Treasury--

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H.M.JR: I think the reason we did that was because I wanted the benefit of Mr. McCloy's presence.

MR. CLAYTON: Yes, sir.

H.M.JR: Now that Mr. McCloy is here, there is no hurry.

MR. CLAYTON: Now shall we start with the beginning of the document and--

MR. McCLOY: Right.

H.M.JR: What was the word standby?

MR. DESPRES: You take revised page one. There was a typographical error on one.

H.M.JR: You proceed as you wish, Mr. Clayton, will you please?

(Mr. Middleberger enters the conference)

MR. CLAYTON: The revised copy of page one is headed April 25th. Do all of you have that?

MR. DESPRES: I'm afraid I don't have it with me.

MR. CLAYTON: It's a small typographical error. I think we will catch it.

This is called "Part II. Economic. General Objectives and Methods of Control."

"16. You will assure that the German economy is administered and controlled in such a way as to accomplish the basic objectives set forth in paragraphs 4 and 5 of Part I of this Directive. Economic controls will be imposed only to the extent necessary to accomplish these objectives, provided that you will impose controls to the full extent necessary to achieve the industrial disarmament of Germany. Except as may be necessary to carry out these objectives, you will take no steps (a) looking toward the economic

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rehabilitation of Germany, or (b) designed to maintain or strengthen the German economy.

Now, the Treasury proposed to add to that paragraph 16, the following two subparagraphs: "In order to prevent hoarding and to insure equitable distribution, you are authorized to initiate, maintain, or revive rationing and distribution controls."

MR. COE: Pardon me, Mr. Clayton. In view of the discussion on inflation we better drop these two paragraphs.

MR. CLAYTON: Just drop them?

MR. COE: So that would leave no objection.

MR. CLAYTON: Is that paragraph 16, as read, satisfactory, then? I believe it was to the working group, and if there are no objections or no suggestions or recommendations, we will pass on to 17.

"17. To the maximum extent possible--"

MR. McCLOY: I want to pose one question. "...you will take no steps (a) looking toward the economic rehabilitation of Germany." In the light of my experience there, I was wondering what you mean by that. Something has to be done to put people under roofs, for example, to house them.

MR. CLAYTON: It says, "...except as may be necessary to carry out these objectives," which in paragraph 4 or 5 you will recall with reference to the minimum standard of living and maintenance of conditions will enable occupying forces to carry out their--

MR. McCLOY: I get it all right. Okay.

MR. CLAYTON: We come to 17.

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"To the maximum possible extent you will hold German authorities and agencies responsible for the execution and implementation of policies and measures required in this directive and subject these authorities and agencies to such supervision and punishment for non-compliance as is necessary to ensure that they carry out their tasks.

"For this purpose you will give appropriate authority to any German agencies and administrative services you consider essential; provided, however, that you will at all times adhere strictly to the provisions of this directive regarding denazification and dissolution or elimination of Nazi organizations, institutions, principles, features, and practices."

Now, FEA proposes an alternative to paragraph 17, which I have. It reads as follows: "To the maximum extent possible without jeopardizing the successful execution of measures required to implement the objectives outlined in paragraphs 4 and 5 of this directive--" for your information, 4 and 5 are referred to very often and they always relate to the objectives of maintenance of a certain basic minimum standard of living and preservation of conditions which will enable occupying forces to carry out their objectives and demilitarization-- "...you will use German authorities and agencies and subject them to such supervision and punishment for non-compliance as is necessary to ensure that they carry out their tasks."

"For this purpose you will give appropriate authority to any German agencies and administrative services you consider essential; provided, however, that you will at all times adhere strictly to the provisions of this directive regarding denazification and dissolution or elimination of Nazi organizations, institutions, principles, features, and practices."

That paragraph remains the same as the second paragraph, the one I read. Now, here is a further suggested addition.

"To the extent necessary you will establish administrative machinery, not dependent upon German authorities and

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agencies, to execute or assure the execution of the provisions of paragraphs 20, 30, 31, 32, 39 and 40 and any other measures necessary to an accomplishment of your industrial disarmament objectives.

MR. FOWLER: Mr. Clayton, if I might comment on that suggestion we have made, it goes to the point of making clear, I think, something that is generally understood here but might be subject to some confusion in the field. We think that it tends to confuse two types of objectives, the one type of objective having to do with the maintenance of the German minimum standard of living and preservation of law and order and--well, of living and preservation of law and order, but the things that not preservation of law and order, but the things that we expressly intend to delegate to the German people themselves. Say you're responsible now for what happens. That's one type of objective. Now, there is this other type of objective, industrial disarmament, in which we think this paragraph as drafted is a little confusing in that it seems to say you are going to depend entirely upon existing German machinery to carry out these objectives, and we believe that one of the most important objectives of this occupation which should begin right at the beginning is to develop ways and means and administrative measures and organizations by which the four occupying powers can, under their own steam and with their own independent authority and power, not dependent upon the good will or cooperation of the German people, maintain the necessary measures of industrial disarmament, looking forward to the day when we will need some kind of policing mechanism on those particular points. The purpose of these two changes is to show that distinction between those two types of objectives, and to say to the Commander-in-Chief, "We are looking to you to build up whatever you find necessary in the way of independent machinery,--maybe it's an inspection system, maybe secret service, maybe a surveillant system, maybe various measures that could be started now in cooperation with the British, and French, and Russians, to maintain these measures of general type. We see nothing in the years ahead--

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MR. CLAYTON: What you are proposing principally, as I understand it, relates to a provision here, say, to the zone commander, that he must not depend too much on the Germans to carry out industrial disarmament. That is what you are saying.

MR. FOWLER: If he wants to say that I need this kind of personnel and this kind of force, I don't want to depend upon the Germans for this, we should tell him that we expect him to proceed right ahead.

MR. COE: We think that is an improvement, and it would help the commander and give him--at least we hope he would do that anyway, but it would certainly make it clearer that such measures were contemplated.

MR. JR: What's your pleasure, gentlemen?

MR. McCLOY: The thought I have on it is, as a matter of fact you are telling the commander what he is going to do, and he is going to set up his own agencies or whatever means that he feels necessary to carry it out. This is telling him pretty much how to do it, which sort of cuts the grain of our directive. On the other hand, the first part of this tells him to bear down on the German agencies, and perhaps it is desirable to put in some sort of a counter-- I don't think we object to it.

(Mr. McCloy leaves the conference temporarily.)

MR. BROWNELL: I don't think we do.

MR. CLAYTON: Is it all right with the Navy?

MR. BARD: Yes.

MR. CLAYTON: Is it all right with the Treasury?

MR. COE: Yes.

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MR. CLAYTON: It's all right with us.

"18. In order to decentralize the structure and administration of the German economy to the maximum possible extent, you will (a) ensure that the action required to maintain or restore essential public utilities and industrial and agricultural activities is taken as far as possible on a local and regional basis; (b) on no account propose or approve in the Control Council the establishment of centralized administration of controls over the German economy except where such centralization of administration is clearly essential to the fulfillment of the objectives listed in paragraphs 4 and 5 of this directive. Decentralization in administration should not be permitted to interfere with attainment of the largest practicable measure of agreement on economic policies in the Control Council."

Now, I don't know, Mr. Secretary, whether it is your desire to read all of this document or not.

MR. CROWLEY: Couldn't we just go on with what Treasury, State, Army, disagree with FEA on?

MR. CLAYTON: I think so. For several pages here there is complete agreement in the working committee, which have drawn this document and submitted it to us. Unless you want to read it all, we can go to any points of disagreement.

H.M.JR: I would go to the next point of disagreement.

MR. FOWLER: Paragraph 24.

MR. DESPRES: Paragraph 24? That's not underlined.

H.M.JR: If it works out wrong, it is the fault of the working committee.

MR. CLAYTON: Yes, that's right. (Laughter)

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Paragraph 24 reads as follows: "You will permit free collective bargaining between employees and employers regarding wages, hours and working conditions and the establishment of machinery for the settlement of industrial disputes. Collective bargaining shall be subject to such wage and hour controls, if any, as may be instituted or revived by your direction."

The Treasury has suggested deletion of this last sentence, "Collective bargaining shall be subject to such wage and hour controls, if any, as may be instituted or revived by your direction."

I think, as we agreed on inflation, you would agree to leave that sentence in, because it is absolutely essential in the control of inflation.

MR. COE: Mr. Secretary, we had an additional reason against it, namely, that it's insertion here seems to be a kind of invitation to establish wage and hour controls, and perhaps for other reasons of the occupation, and in particular we think that the commander should take--that we shouldn't try to get the commander involved in wage and hour disputes. It is going to make the United States' forces a party to almost every demand for wage increase which occurs. He has ample power to put it in, but we don't want him to.

MR. BARD: Why don't you leave the words wage and hours out "subject to such controls as may be instituted?" You have to have some control or they might use that as permission that you will settle all kinds of things, see?

MR. CLAYTON: I think, Mr. Bard, in view of the--

MR. COE: That would be all right.

MR. CLAYTON: ...preceding sentence, you have got to keep wage control in there, at least, because you might just as well vacate entirely your responsibility to try to avoid inflation if you are not going to try to control wages.

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MR. BARD: "Such controls" would cover the wage and hour language is something that may be a red flag around this country or might be objected to, but the fact you leave the wage out and just say "controls", that covers everything, wages and hours, and anything else.

MR. CLAYTON: But the preceding sentence says, "You will permit free collective bargaining between employees and employers regarding wages, hours and working conditions." Free collective bargaining. If you do that--

MR. BARD: Yes, but it goes right on and says, "Free collective bargaining shall be subject to such wage and hour controls, if any, as may be instituted or revived by your direction." Complete control of it. Is that right?

MR. DESPRES: I would say, "wage, hour and other controls."

MR. CLAYTON: I think that's the way it ought to read, "wage, hour and other controls." If you don't put it in there, I am afraid that some people may say, why did you say in one breath that you are going to allow free bargaining with regard to wages and hours if you are going to control it, because it isn't free.

MR. COE: Mr. Clayton, we think that the language we have agreed to on inflation permits them, maybe, to do something or other, in their judgment of the entire situation if it's interfering with the purposes of the occupation. We think that the commander should think many times before he attempts to run a widespread wage system there. He should be pretty sure that inflation is not interfering with the disease and unrest or other provisions of the document. Therefore, our objection to this is not that he can't do it or not that he need not do it, but that it may be taken just as it seems to me, to be an invitation to go in

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there in the beginning and say, "Here are the wages and control of inflation is now permitted. Therefore, we re-establish all the old wage systems," and when the inevitable demands under inflationary conditions come up, not only are the employer and the employees in conflict, but the American forces are drawn into every wage and hour conflict in the region.

MR. BARD: If you take that sentence out, you are giving German labor much more rights even than we have. In this country we have free collective bargaining, but it's subject to the control of the War Labor Board and the top control on inflation.

MR. COE: What about something following your idea, Mr. Bard, if you will permit it. "Subject to such controls as may be necessary for the purposes of occupation," free collective bargaining.

MR. BROWNELL: That's fine. That does it.

MR. BARD: There must be some control, otherwise, they will go haywire in all directions. They will have more rights than we have here.

MR. COE: Would that be agreeable, Mr. Clayton?

MR. CLAYTON: "Subject to such controls as may be necessary."

MR. COE: "For the purposes of the occupation." I think that's a desirable sentence.

MR. DESPRES: Well, it leaves an awful lot of latitude, I think.

(Mr. McCloy re-enters the conference.)

MR. BARD: I don't think that's so good. For instance, they say here in this country they have free collective bargaining, and they do, and you say you have in Germany

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free collective bargaining, but when you get through with your bargaining, it's subject to the controls of higher authorities, just as it is in this country, and if you put the subject before them, you take away from the free collective bargaining, and they can sit down and bargain all they want to. But those bargaining results are subject to higher control, as they are in this country.

MR. CLAYTON: See if this wouldn't be agreeable; "Collective bargaining shall be subject to such wage, hour, and other controls, if any, as may be instituted or revived by your direction, in an effort to prevent inflation."

MR. COE: Well, I like the "if any."

MR. CLAYTON: I would like to leave it out myself, but I thought you may want it.

MR. COE: But I think it is an improvement, "wage, hour, and other controls, if any."

MR. CLAYTON: Is that agreeable?

MR. COE: Yes, sir.

MR. McCLOY: What is it?

MR. CLAYTON: "Collective bargaining shall be subject to such wage, hour and other controls, if any, as may be instituted or revived by your direction."

MR. McCLOY: Yes.

MR. CLAYTON: All right, we go to 26. There is no disagreement on that. We will just go to the next one.

MR. FOWLER: The next one is at the end of 33, and I just want to make one comment about it. We may withdraw it in the light of some comments that have been made this morning, but before canvassing the wish of the committee as to whether or not it should be retained or withdrawn,

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I would like to explain its purpose, that this additional paragraph following 31 would instruct our representative to undertake the task of developing a system of these other types of controls. They are really quite different from the ones that are generally discussed to prevent the redevelopment of German armament industry in the post occupation period. It is important, I think, that these plans be developed as soon as possible, although it is probable that the occupation of Germany at the very minimum will go forward for a number of years. It is certain that as time goes by the resources at the disposal of the occupation forces and the closeness with which they will be able to direct and control the Germany economy are likely to lessen. Therefore, it seems essential that the plans for simplified control on this particular point to prevent a redevelopment of German industry as in the previous case should be worked out fairly early in the game, and that any relaxation occurs in conformity with the plans. Thus, there would be an opportunity during the occupation period to ease out these various measures and see which ones are impracticable and most difficult of enforcement, and to generally test their effectiveness, so that when the time came to withdraw from occupation, you would have a body of experience to go on and working arrangements and organizational machinery between the four occupying powers fairly well developed along a uniform pattern which might make it more feasible to control this rearmament problem without full dress military occupation.

Now, on the other hand, we don't insist on this provision going in now, if it is clearly understood as was indicated at the beginning of the discussion, that this is a document for an initial restricted period. We would like to see it go in but we don't insist on it at this particular time if it is made clear that in a short time after we have had a look-see at the problem, we are going to again address ourselves to the question of a final policy.

MR. CLAYTON: What do you have to say on this clause, Jack?

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MR. McCLOY: This is the clause at the bottom.

MR. BARD: Why wouldn't that all come in on this final paragraph you are talking about.

MR. FOWLER: I think it is one of the things we would certainly want him to report back on as to the feasibility and type of machinery.

MR. McCLOY: I think that the idea is a good one. It might just as well be put in the final paragraph.

MR. CLAYTON: All right.

MR. McCLOY: May I go back? What paragraph are you on?

MR. CLAYTON: Thirty-three.

MR. McCLOY: May I go back to paragraph 28? "You will direct the German authorities to utilize large-landed estates in a manner which will facilitate the accommodation and settlement of Germans and others or increase the acreage under cultivation."

That's giving him a pretty big chore. That is in effect telling him to put in an agrarian reform with all its implications. What do we mean by one paragraph there? We would be telling him to greatly vary the economy of Germany. I think it is all highly desirable on at least these Prussian-Silesian estates, but what do we mean by large-landed estates? How far are you going to go? That is an awfully casual way to hand it out to him.

MR. BARD: I think so too.

MR. GLASSER: We, in drafting this paragraph here, didn't have in mind long-range or permanent agricultural reform. I think your question is really answered by the purpose for which we are going to carry out the expropriation.

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He is going to do it to take care of two immediate problems he is going to have. One is displaced persons, displaced Germans, German refugees, and the need to increase agricultural output, and he is going to act in trying to maximize those two objectives, and that is the limitation. If you ask how he is going to do it, we all agreed in the drafting committee that only agricultural experts could decide whether to break up certain estates in order to increase agricultural output or whether to keep them on their farms.

MR. McCLOY: If that is so, shouldn't you redraft the paragraph a little bit, because it talks about expropriation of large-landed estates. Your point would be taken care of by at least just putting them on the fields and making accommodations available to them so they could harvest the crop. That is something much less significant.

MR. FOWLER: I would suggest to meet Mr. McCloy's point--I don't know whether it would satisfy the group on a policy ground--"You will direct the German authorities to assure the utilization of large-landed estates in a manner which will facilitate the accommodations and settlement of Germans displaced from other areas or increasing agricultural output."

MR. CLAYTON: I am very glad you called attention to this paragraph because I really didn't know it was there. I think it's dangerous from several points of view. If, as it is now drawn, it should be literally carried out, somebody might think it would increase agricultural output. But the history in other countries in which there are large agricultural farms that are really used for production instead of shooting purposes, has been for several years after they have been expropriated and forcibly divided up there has been a very substantial reduction in the output of those farms.

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GEN. HILLDRING: Mexico--

MR. CLAYTON: And I think from that point of view alone that we are dealing with something here that is pretty dangerous. From another point of view I think it is a dangerous--

H.M.JR: Are you going to get into an argument between the small farm owner and landed gentry?

MR. CLAYTON: I am not saying what may happen in five, six, or ten years, but the experience in Mexico and other countries with which I am intimately acquainted where you have forcibly divided up large productive farms and turned them over to people who never had any experience themselves in managing agricultural activities, has been you have had a great reduction in the production of those farms instead of an increase, and it is perfectly natural that that should be true. I think that--

MR. CROWLEY: Will, what we are doing here, we are going to decentralize a lot of industry. We are going to put the reparations debt in here. We are going to take away from them food, except as sub-standard living. We say to the fellow with the great big farm, "You maintain this because you can produce more." And the little fellow that is roaming the streets and is unemployed and everything else, there is no assignment given him. He might use his initiative to try to develop a small farm and things like that.

MR. CLAYTON: That's not what I would say.

H.M.JR: Hear! Hear! As the English say.

MR. CLAYTON: You have misinterpreted me. I haven't used any language yet, but you have misinterpreted my thought, Leo. I was simply saying you direct him here, the commander, to begin with expropriation. I just don't like that word very much in an official document of the United States Government.

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MR. CROWLEY: Do we agree on this starting out, Will, insofar as these large lands are concerned, that they shall be utilized to help the economy of the country and to produce more food and to help the whole unemployment problem of Germany?

MR. CLAYTON: Certainly, but this would have the opposite effect.

MR. McCLOY: May I read a suggestion where this might cut across and meet everybody's point of view?

H.M.JR: I would like to compliment Mr. Crowley on his remarks, and say that I underwrite everything he said.

MR. BARD: I think we all agree on that.

H.M.JR: What the hell is the difference between taking a large farm and taking a large factory, except the language?

MR. BARD: Except you tell this fellow to take it.

MR. McCLOY: Let me suggest this language.

MR. BARD: The way for him to do is use it.

MR. McCLOY: "You will direct the German authorities to utilize large-landed estates in a manner which will facilitate the accommodation and settlement of Germans displaced from other areas or increase agricultural output."

Now, that doesn't go into the business of the fundamental agrarian reform. I am strongly in favor of the language for breaking up of the east Silesian and east Prussian estates. I may be wrong, but it is my philosophy that it's the kernel of the whole damn Prussian business--artificial economy from the outset. They have had artificial tariffs up there so that the

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diplomats and the soldiers have been able to go down to Berlin and get a very good living off a rather relatively non-productive agricultural land, so that has got to go. But I don't think in this paper that we can quit the paragraph. We have got to institute that. This is a step perhaps toward that, incidentally, but in the meantime it gives him the right--

H.M.JR: Let's hear it again.

MR. CLAYTON: May I say for the record that I haven't said anything here which indicates that I am opposed to breaking up of the large-landed estates in Germany? I am wholly in sympathy with the idea, but I don't like to say categorically that the United States Government is in favor of taking away any land from anybody without compensation, which is what this says, and I also don't believe that the forcible expropriation of such estates immediately and settling them with people not familiar with agricultural activities is going to increase the production of agricultural production. I think it will have the contrary effect, and that is what I addressed myself to and not to the question of whether it is wise or unwise to break up these big estates. I think it is very wise and I am all in favor of it, but I think we will have to be careful how we go about it.

MR. McCLOY: Precisely.

MR. CLAYTON: I like Mr. Fowler's language better than any.

MR. FOWLER: It's much the same. "You will assure the utilization of large-landed estates in a manner which will facilitate the accommodations and settlement of Germans displaced from other areas or increase the output." Mr. McCloy includes the German authorities by saying, "You will direct the German authorities to utilize large-landed estates in a manner which will facilitate--"

MR. CLAYTON: I think that's right. We should direct them.

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H.M.JR: May I say something?

MR. CLAYTON: That language is satisfactory to me.

H.M.JR: It isn't clear. I want it so that they can put Germans on this.

MR. McCLOY: It says "settlement of Germans."

H.M.JR: Mr. Fowler had just displaced persons.

MR. CLAYTON: We accepted Mr. McCloy's language.

H.M.JR: May I hear it again?

MR. McCLOY: "You will direct the German authorities to utilize large-landed estates in a manner which will facilitate the accommodation and settlement of Germans displaced from other areas or increase agricultural output."

MR. CLAYTON: The language is satisfactory to me.

H.M.JR: What was that about increase?

MR. McCLOY: "...increase agricultural output."

MR. CLAYTON: Is that agreeable?

MR. BARD: Just one thing. You say "...from other areas." Does that limit people from outside? "...other areas--" you shouldn't limit it.

MR. CLAYTON: Say, "...including those displaced from other areas."

MR. COE: Displaced Germans.

MR. McCLOY: Germans displaced from other areas.

MR. BARD: Displaced Germans.

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MR. CLAYTON: Don't limit it to that. Say, "including those displaced from other areas."

MR. BAIRD: Including just "displaced Germans."

MR. CLAYTON: You want it for the accommodation.

MR. COE: Of displaced Germans.

MR. McCLOY: "In settlement of displaced Germans, including those displaced from other areas."

MR. CLAYTON: That isn't right, Jack, because that limits it to the settlement of displaced persons. It may be that you want some persons go on that land that have not been displaced.

MR. McCLOY: I see.

MR. CLAYTON: If you let it read, "...in a manner which would facilitate the accommodation of Germans, including those displaced from other areas," that's right.

MR. McCLOY: I get you.

H.M.JK: This goes to the heart of what I am interested in.

MR. BAIRD: Yes.

MR. McCLOY: "Settlement of Germans including--"

MR. CLAYTON: Say, "...including displaced Germans--" and then you have got it from any area, that or any other area. I think the Secretary is right. You say, "...including displaced Germans."

MR. McCLOY: We said "settlement of Germans including those displaced from other areas."

MR. CLAYTON: The Secretary's point is it might include displaced Germans from that particular area.

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MR. FOWLER: Say, "including displaced Germans."

H.M.JK: That poor burgomaster has no place to go. He might want a piece of land.

MR. McCLOY: I am glad you want to take care of him. I like your attitude.

MR. GLASSER: That's only after he gets out of jail.

MR. McCLOY: However, we have "...settlement of Germans including displaced Germans from other areas."

MR. CLAYTON: How about saying, "...including displaced persons," and leave out "from other areas?"

MR. FOWLER: I think you might. That thing has been rolling through my mind. There are an awful lot of Poles that are going to be around there. And the Dutch are going to have to have some land over there in view of the fact that all their farm land has been flooded. Of course that isn't in our subject.

H.M.JK: Mr. Fowler is right on that. I wish--just a minute. The President told somebody that one of the agreements at Yalta was he promised the Dutch for five years the right to farm German land to take the place of their flooded land until that could be put back for productive purposes.

MR. McCLOY: I heard at second or third hand that he said he was prepared to give them an indefinite rental period over certain lands in Germany, but they, the Dutch, did not state whether they wanted to do it or not.

H.M.JK: But this could be worded so it could take care of that.

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MR. MIDDLEBERGER: Mr. McCloy, they subsequently brought in a note in which they asked if they could do that later.

H.M.JR: Just so it's worded so they can do that.

MR. CROWLEY: What's the next one?

H.M.JR: Mr. Clayton, may we hear it read once so we will all understand it? It's pretty important.

MR. McCLOY: We say, "...settlement of Germans and displaced persons."

MR. CLAYTON: Mr. Despres just called my attention to the fact that in all these official documents, the words "displaced persons" have a special meaning which means citizens of all the united nations. Now, perhaps this would cover it if we say, "...which will facilitate the accommodation and settlement of refugees and others." The displaced Germans includes refugees. All of that comes--

MR. DESPRES: It includes persecuted Germans, non-Aryans, and so forth, but it doesn't include ordinarily Germans, as I understand it. That's why we say Germans and displaced persons.

MR. CLAYTON: But displaced persons has a peculiar meaning in that it includes only united nations.

MR. McCLOY: It doesn't include the Italians.

MR. DESPRES: You don't want to facilitate displaced Germans in the general policy to facilitate their getting home, not to facilitate their settlement.

MR. BARD: Along the borders are thousands of Dutch, and French that are in there and they should be included.

MR. DESPRES: You mean if they should--

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MR. McCLOY: I think you come as close to the idea as you can by saying, "Germans and displaced persons." Don't you think so?

H.M.JR: It's all right with me.

MR. CLAYTON: Isn't it just as good, perhaps better, to say, "...which will facilitate the accommodation and settlement of refugees and others?"

MR. McCLOY: I don't think "refugees" covers Germans, for instance. There may be a German who may not be a refugee whom you may want to put on the land.

MR. BARD: Why don't you say, "...the inhabitants of Germany?" Anybody in Germany can be included, the Poles, French, Dutch, the only requirement being that they are in Germany and live there.

MR. DESPRES: That's an awfully troublesome question. One of the groups we had in mind are the Germans, the linguistic Germans who are sent to Germany from European or other countries or from areas ceded by Germany, so it isn't quite the settlement of inhabitants of Germany. It's the settlement of newly arrived linguistic Germans from other areas.

MR. BARD: They are inhabitants. They live in Germany.

MR. CLAYTON: They live in other countries. They are going to be pushed out of some of these other countries and sent to Germany.

H.M.JR: There are Germans in Lithuania.

MR. BARD: They will then be inhabitants of Germany.

MR. CLAYTON: They are not inhabitants of Germany until you get them back there.

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MR. McCLOY: Suppose you say, "...settlement of Germans and others?" That covers everybody.

MR. CLAYTON: "Settlement of Germans and others."

MR. McCLOY: Well, I would think "displaced persons" would cover what we are really shooting at, but you might want to put Italians on large-landed estates. Just say, "...and others--settlement of Germans and others or increasing agricultural output."

MR. CLAYTON: "Germans and others" is all right with me.

MR. McCLOY: That covers everybody under the sun.

H.M.Jk: How about a few Japanese?

MR. McCLOY: Yes, we are trying to find some place to put them.

MR. CLAYTON: "You will direct the German authorities to utilize large-landed estates in a manner which will facilitate the accommodation and settlement of Germans and others or increase agricultural output."

MR. BARD: Put in there "landed estates and public lands."

MR. CLAYTON: Landed estates--

MR. FOWLER: That's very good.

MR. CLAYTON: ...and public lands. That's all right.

MR. FOWLER: There's a great deal of forest territory there.

MR. CLAYTON: All right, that's fine.

MR. McCLOY: By the way, on this Economic Directive, if I may just put in a suggestion. The thing that impresses

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you there is the destruction of the area, all the houses are down. It seems the simplest means of accomplishing the immediate objectives of your occupation is to get some lumber out of there. It would be a very good investment to put sawmills in the place. They have magnificent forests kept intact for ages, ever since the Napoleonic Wars, at least, and there is going to be an enormous housing chore to keep enough people busy just driving nails and building up frame cottontents and houses, and that is almost so important I would think you would want to direct their attention to the need for that. Maybe that isn't appropriate in a directive of this character, but it looks as if that type of activity is one toward which you could most profitably direct their attention.

MR. DESPRES: We have something bearing on that in paragraph 34, Mr. McCloy.

MR. CLAYTON: "Subject to the provisions of paragraphs 30 and 32, the Control Council should assure that all feasible measures are taken to facilitate, to the minimum extent necessary for the purposes outlined in paragraphs 4 and 5 of the directive.

"a. repairs to and restoration of essential transportation services and public utilities;

"b. emergency repair and construction of the minimum shelter required for the civilian population;

"c. production of coal and any other goods and services required for reparation, for your forces and, subject to the provisions of paragraph 21 of this directive, for the German people.

"You will assure that such measures are taken in your own zone pending agreement in the Control Council."

That covers it pretty well, doesn't it, Jack?

MR. McCLOY: I think it covers it as well as you can in a directive of this kind.

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MR. DESPRES: It provides leeway for this kind of program.

MR. CLAYTON: Mr. Despres suggests I call your attention to paragraph 30, because it has some language that is of the character that we have discussed previously.

"30. You will initiate appropriate surveys which may assist you in achieving the objectives of the occupation. In particular you will promptly undertake surveys of supplies, equipment and resources in your zone. You will endeavor to obtain prompt agreement in the Control Council to the making of similar surveys in the other zones of occupation, and you will urge appropriate steps to coordinate the methods and results of these and other future surveys conducted in the various zones. You will keep the Control Council, United States Representative on the Reparation Commission and other appropriate authorities, currently apprised of the information obtained by means of intermediate reports or otherwise.

MR. BARD: If you want to get your idea in, Jack, you can appropriately say, "housing resources," and so forth.

MR. McCLOY: Yes. I suppose resources covers it.

MR. FOWLER: It covers forest resources.

MR. CLAYTON: Well, now we have finished paragraph 28. What did we decide about paragraph 33?

GEN. HILLDRING: We have a point on 30.

MR. CLAYTON: What about 33?

MR. COE: We pass for now.

MR. CLAYTON: You have a point on thirty-three?

GEN. HILLDRING: Yes, sir, there is a point in 30.

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MR. McCLOY: Is that point on the synthetic business?

MR. CLAYTON: "30. In order to disarm Germany, the Control Council should, (2) immediately prevent the production, acquisition by importation or otherwise, and development of all arms, ammunition and implements of war, as well as all types of aircraft, and all parts, components and ingredients specially designed or produced for incorporation therein; (b) prohibit immediately and prevent the production of merchant ships, synthetic rubber and oil, aluminum and magnesium and any other products and equipment on which you will subsequently receive instructions.

MR. McCLOY: That's the point you provide that you "prohibit immediately--" and I think emphasis on immediately-- the production of synthetic rubber and oil. They were happy that they had some remnant of a synthetic plant at Lohse. They had it until the other day when werewolves came in and greatly destroyed it. We were utilizing it to very good advantage. Synthetic oil and rubber are uneconomic, but there they are and if we can utilize them, even though they are utterly uneconomic from a German point of view, what is the harm of carrying them on at least for the purpose of our occupation?

MR. FOWLER: Mr. McCloy, I think you might comment on that in this way. Looking at it, if you had a very complete control over a flow of events, there is perhaps a limited object to keeping them continued, but several of us who proposed this provision feel very much this way about it in the case of certain of these industries which we have a very distinct feeling now that we don't want to see the Germans have it, particularly after the occupation period, that if you don't cut the chicken's head off when you have it dangling, the chances are that those installations will become sources of supply, not only in a limited character for the military forces, but sources of supply for the German population and perhaps for the outside world. And then, two, three, or four

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years from now, whenever the end of the occupation comes, it comes as a very sharp jolt for which the appropriate adjustments haven't been made to prohibit production and go about your plant removal program.

Now, take these things into account. One of the important things to do would be to find out where and how you can best handle the importation and distribution into Germany of these particular items from the outside world, what quantities they actually require, what mechanics of inflow are most susceptible, and check and control, and while we recognize that this involves a certain inconvenience to the armed forces who are in there, we believe that taking everything on balance as soon as possible if you can arrange alternative sources of supply as to domestic production in these particular commodities, it would be desirable to go right ahead and get this part of the program over with.

Now, I don't think there is any--I think we do recognize that it is going to require some inconvenience, but it is one of those bits of inconvenience.

GEN. HILLDRING: It's more than that.

MR. McCLOY: It's going to require imports.

MR. FOWLER: We want it to begin to require imports because the German people must become accustomed at the earliest possible time to utilizing these products where they should have all the time from the outside world, where they can get them at more economic price levels.

MR. McCLOY: It is going to require imports for our own purposes.

GEN. HILLDRING: It's more than that.

H.M.JR: I am with Mr. Fowler one hundred percent. If you start compromising now, we'll never get anywhere.

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MR. CLAYTON: Excuse me, gentlemen. May I just suggest that it may be that this sentence will take care of what all of us have in mind? At the end of the paragraph we have this sentence, "You will not postpone enforcement of the prohibitions contained in sub-paragraphs a and b." They are the two that I have just read, "...without specific approval of your government through the Joint Chiefs of Staff."

Now, that means that the zone commander cannot postpone taking action which is provided here in a and b, without reporting the matter to the Joint Chiefs of Staff and getting their approval.

GEN. HILLDRING: I would like to discuss the fundamental question.

H.M.JR: You are going to have an awful job with me.

GEN. HILLDRING: Well, just let me say my piece, Mr. Secretary.

H.M.JR: That's fair.

GEN. HILLDRING: I am the fellow now, I think, that has to be more ahead on this than probably anybody in the room, and it goes back to the needs, not of Germany, but of the liberated areas.

We have not approximated in one particular, in the matter of fuel, and at the moment there is great concern, not only in those countries but in our governmental agencies about doing something to revive the economy of these liberated countries. We have fallen, for a variety of reasons, flat on our face in the matter of giving them raw materials and particularly fuel. I attended last week a dress rehearsal of the combined production board in which they were talking about textiles and fuel and transportation. There is some chance of transportation. There is some chance of giving these liberated areas some textiles.

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There is no solution to the crying need that is going to confront the liberated countries next winter on fuel.

Now, I am not responsible for this much longer, but I do know that stability in France is more dependent upon coal and pol than any other one commodity, and I think it should be seriously considered.

H.M.Jh: What's pol?

GEN. HILLDRING: Petroleum. There should be very serious consideration given to arbitrarily for any reason destroying a source of fuel supply available anywhere on the Continent of Europe. I certainly think we are going to fly right in the face of the primary needs of our friends in Europe.

MR. FOWLER: General Hilldring, there is one factor there on the oil that is particularly important. Now, I don't profess to be an expert on this, but I have been told that the use of coal for manufacture of synthetic petroleum is a very uneconomic use of coal, and I am just wondering--I don't want to make an unqualified statement about it, but I would hazard the opinion that the French would be more desirous of getting the coal in its raw form than the fuel in the processed form of petroleum, and I think that maybe in the long run such a provision here would probably resound total evasion of the coal problem which is the major number one problem in Europe, and it was with something of that thought in mind that we went forward on this petroleum industry proposal; the feeling that it was the coal in its raw form that was mostly needed during this relief period.

MR. CROWLEY: Perhaps, Joe, it may be that you have your list here a little too wide in range, that what we are trying to do is to try to get out of existence now certain industry that make for war.

GEN. HILLDRING: That's right.

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MR. CROWLEY: Now, see if you could be positive on the ones that we have here, your munitions and aircraft and things like that, then you might work out something on coal and petroleum.

MR. FOWLER: Coal is another case. You will find in another section in this that we are not only not holding up coal, we are giving them, I think it's in section--

MR. McCLOY: It's supposed to be at the top of the list.

MR. DESPRES: Paragraph 34.

MR. FOWLER: You will notice in "c", "You will assure that all feasible measures are taken to facilitate to the minimum extent necessary for the purposes outlined in paragraphs 4 and 5 of this directive. (c) production of coal and any other goods and services required for reparation--" The distinction I am trying to draw here on the fuel problem, which we recognize as being the number one problem in Europe, is I believe synthetic oil falls in one category and coal in another, and we are not intending at all to interfere on the other hand to facilitate the production of coal. On this synthetic oil problem--

MR. BAND: Rubber, isn't it?

MR. McCLOY: Oil and rubber.

H.M.Jh: And would you mind adding nitrogen?

MR. FOWLER: We have tried to do that, but in the working committee--

H.M.Jh: When we are talking here, couldn't we settle the thing oil, rubber, and synthetic nitrogen?

MR. McCLOY: I don't know enough--

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GEN. HILLDRING: I didn't think we had any views on that.

H.M.Jr.: You ask your Robert McConnell, who is working on it now. He always includes synthetic nitrogen.

MR. CROWLEY: That is not what you're trying to do here. What you are trying to do is conserve some of this stuff to take care of liberated areas.

GEN. HILLDRING: That's entirely it. We agree one hundred percent, but we think it certainly is a great burden, a greater burden than our Government can now discharge to get into these liberated areas the minimum amount of fuel they need.

MR. CROWLEY: The poor devils are going to freeze to death.

GEN. HILLDRING: There is no solution today on the coal problem next winter.

MR. FOWLER: Is that true of oil?

GEN. HILLDRING: As true of oil as coal.

MR. FOWLER: Isn't the real shortage in oil a question of tanker facilities?

GEN. HILLDRING: It's a question of hauling coal and oil from the places where they are to the places in Europe. We have plenty of coal in this country and I think we could mine it.

(Mr. Bell leaves conference)

MR. FOWLER: I don't think the fuel administration would quarrel with you. There is a shortage of an overall supply and a shortage of transportation facilities. I would like to suggest that there are crude oil resources in Germany and if you want to facilitate production and

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exhaustion of those facilities in this period in order to make up for this removal of synthetic oil--it isn't the fact that we don't want to see the oil produced for Germany and liberated areas, it's--

GEN. HILLDRING: I am throwing this in for the good of the cause, gentlemen, because by next winter the civilian agencies, especially FEA, will be responsible for drumming up in France which is our biggest burden--it is going to be your responsibility after the first of May, and not mine. All I am saying is there is at present no foreseeable manner in which we can meet France's petroleum needs nor coal needs next winter. In the face of that which the production experts tell me is an insoluble problem, should we advocate the destruction or the discontinuance of a plant today in Europe which assists in making up that most critical supply shortage for our friends in Europe?

H.M.Jr.: What are we talking about? How many synthetic oil plants are there left?

MR. McCLOY: All of them are destroyed except, I was told the other day none of the underground except these few production facilities at Lohne.

MR. FOWLER: I want to pursue that a little further. Suppose, taking this logic, and I admit the force of it, are we going to rehabilitate those plants?

GEN. HILLDRING: No, we will not put a brick back. The only thing we are talking about is taking a plant that is dripping petroleum today and wiping it out at a time--

MR. McCLOY: Immediately?

GEN. HILLDRING: Immediately at the time when the Frenchmen are able to drive those trucks, and when they can find charcoal generators to get the fuel to move the trucks.

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MR. CLAYTON: I understand it takes about ten tons of coal to make one ton of gasoline, and as I understand it, whatever synthetic oil plants may still be intact in Germany--do they not produce oil?

GEN. HILLDRING: Most of them, yes, sir.

MR. CLAYTON: If that's true, isn't the point that Mr. Fowler makes a good one, that the coal is more valuable than the oil? What France needs is coal.

GEN. HILLDRING: Yes, sir.

MR. CLAYTON: More than anything else?

MR. HILLDRING: What it needs, Mr. Secretary, is to get the coal, transportation to haul it. The coal is in Germany and there is a better than average chance that there will be sufficient mining facilities available to get the coal to the mine head. The difficulty will be to get the coal from the mine to the plant that is necessary. It's a question of internal transportation.

H.M.JR: Can't they do that by railway--steam engine?

GEN. HILLDRING: They haven't got the railway facilities.

MR. McCLOY: Steam engines or the railroad?

GEN. HILLDRING: They haven't got those.

H.M.JR: How about repairing some synthetic oil plants in France and Belgium and fixing them up?

GEN. HILLDRING: I am no production expert, but I listen to what the production people tell me and they are more familiar with this next winter in Europe fuel question than about anything else.

MR. CLAYTON: Well, General, wouldn't this sentence protect you on that, and isn't it satisfactory to you, Mr. Secretary?

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What I read was A and B. "In order to disarm Germany, the Control Council should prohibit immediately and prevent production of merchant ships, synthetic rubber and oil, and so forth." Now, the last sentence in paragraph 30 is, "You will not postpone enforcement of the prohibitions contained in subparagraphs a and b without specific approval of your government through the Joint Chiefs of Staff."

Now, that means that if the zone commander feels that he should postpone the destruction of synthetic oil plants and should continue its operation temporarily for the needs of his own or for the French needs, that he will refer the matter to the Joint Chiefs of Staff.

GEN. HILLDRING: That might do it, Mr. Clayton. The point I am trying to make is that the zone commander or Control Council will have no responsibility at all. They will have nothing to do with France or Belgium or Holland or any others. Our national responsibility in the rest of Europe--if we can smuggle in the word, he might confer, but, the civilian agencies of the Government very largely are taking over this responsibility that I am worrying about.

MR. COE: They can use the same channel. If the production picture is as you say, they can make the same recommendation.

MR. CROWLEY: What happens, we agree on this document here if the President accepts it, then it goes to the theater commander and to the member of the Allied Commission. Now, either the President or somebody will have the right to review this thing and change it at will. Is that correct?

H.M.JR: Yes.

MR. CLAYTON: I would think the President could at any time.

MR. McCLOY: The President can certainly change it.

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MR. CROWLEY: It isn't anything of a definite character; it's outlining the general principles.

MR. CLAYTON: It's a little more than general.

MR. CROWLEY: It's subject to change.

MR. CLAYTON: By appropriate authority. The President would certainly be that authority, and I would think outside of the President it could only be changed by the group that made it.

MR. CROWLEY: He could change the group.

MR. CLAYTON: Certainly.

MR. CROWLEY: So that we are not writing something here that we feel is going to be a lasting document, that can't be changed if the President feels it should.

MR. McCLOY: We will submit it to him before it becomes an order, but after it becomes an order and when it has crystallized in the form of an order, it will be pretty hard to change.

H.M.JR: The thing we are talking about is a broad-line policy. If there are tons and tons of oil at stake, it would be one thing, but it's the policy whether we are going to go ahead and destroy these things with which they could make war or whether we are going to begin to find excuses not to destroy them. If we are talking about one hundred thousand, or two hundred thousand tons, it would be something worth arguing about, but I think the principle is more important than the little synthetic oil which is left.

MR. McCLOY: There isn't much left.

H.M.JR: So, we are talking about a very little piece of something and a very important policy.

MR. CLAYTON: Mr. Secretary, would you accept it?

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H.M.JR: With one suggestion. I would like to insert nitrogen.

MR. CLAYTON: That was the subject of a good deal of discussion by the working group and one of the most important things in Germany and in Middle Europe as to getting agricultural production back as quickly as possible to normal or above normal, and if it would be possible to do so. Fertilizers have a highly important part in that, as you know. Fertilizers are very scarce, and I can see a very good reason why, if these synthetic nitrogen plants were furnished necessary fertilizer until we can get food production up again, that those plants should be preserved until that can be done. That was the view of the working group which, as I understand it, discussed the matter.

H.M.JR: In the discussion I had with Mr. McConnell a year ago, synthetic nitrogen was one of the three things he stressed.

MR. CLAYTON: It's absolutely essential that in time they be destroyed.

H.M.JR: Wouldn't that same proviso at the end be as effective to synthetic nitrogen as to the others?

MR. CLAYTON: It was felt as to nitrogen that it was essential. They have got to have fertilizer and they have got to have it immediately.

MR. McCLOY: All you are doing here is directing him to destroy immediately. We'll destroy them in the end.

H.M.JR: Pardon me. May I make a suggestion? They will either be destroyed in the first six months or they will never be destroyed. I have said that right along.

MR. McCLOY: There's a good point in that.

H.M.JR: Either do it the first six months, Jack, or they'll never be destroyed. While the heat is on and with these terrific atrocities being brought to our attention, we can do these kind of things.

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MR. BARD: I doubt if a country can live if you destroy all the assets, and nitrogen goes into fertilizer.

MR. McCLOY: This is an uneconomic method of creating these things. They can't exist without nitrogen, but they can exist without the synthetic nitrogen.

MR. CLAYTON: I don't know whether they can in the first few years, Jack.

MR. FOWLER: I think the point is this is being given a great deal of study, and I think the conclusion is fairly clear that Germany's capacity to produce synthetic nitrogen today is greatly in excess of what would normally be required for food programs such as existed before the war--I think something like twenty-five percent. It also appears fairly clear that it is quite feasible to remove these plants. They are the type of plant which doesn't depreciate greatly in value on removal, and the problem there is mainly one of timing. It's a question of getting the advantage, and we originally proposed that the nitrogen plants be included. The argument that has been made against it is the question of timing for this next particular growing season, and I think in the working committee we had in mind adding this language which is in here, "and any other product or equipment on which you will subsequently receive instructions."

There are several other likely candidates being considered including this one for example, tough steels, which have very limited legitimate civilian use, which we feel ought to be eliminated, but it's a difficult question of definition now. The technicians are at work now trying to draw a line between your ordinarily hard steel which has substantially a magnesium alloy, and your tough steels, your ordinary natural steels that are based on the others.

So, I suggest that we try and review as quickly as we can the relevant facts relating to two or three of the items which we were quite anxious to include, but differed with the judgment of the other members of the Committee on

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the ground that this language, "and any other products and equipment on which you will subsequently receive instructions"--that we can work it through here and be a little bit further informed.

MR. DESPRES: On this matter there is of course a provision with respect to the chemical industry in the directive. It's a less sweeping provision than with respect to synthetic oil. It calls in paragraph 32 for the prohibition and prevention of the production of chemicals except for minimum purposes, except for the objectives in paragraphs 4 and 5. On oil it's a more sweeping provision, and the justification for that distinction that I think ought to be kept in mind is this: In the case of oil that we believe that it may turn out to be necessary to qualify this immediate prohibition along the lines that General Hildring suggested. However, we think in the case of oil it's a matter for consideration in Washington, not in the field, essentially for the reason that it requires a consideration of the whole world supply picture for oil and other things. For example, if it emerges that we will have to ship ten tons of coal to Europe this winter for every ton of oil we get out of the synthetic plants, we ought to weigh back here the question of the tanker position as against the dry cargo tonnage position, the coal as against the oil position, the whole supply.

MR. CROWLEY: That's an administrative affair.

MR. DESPRES: That's the reason why in the directive it tells the commander in the field to prohibit immediately and leaves a loophole for him to come back to Washington to the Joint Chiefs. It's only, I would say, that the commander in Germany is ill qualified to make this over-all world supply and requirements judgment for tanker tonnage, other tonnage, coal and oil.

In the case of nitrogen you have a different picture. We know you want to get food products going in Germany and we know nitrogen is needed to do it. Therefore we explicitly allow the production of nitrogen for minimum purposes.

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MR. COE: Does that mean you wouldn't let the nitrogen plants be removed?

MR. DESPRES: Nitrogen plants that are surplus to minimum requirements.

MR. FOWLER: All of the excess would be subject to immediate removal, Frank, and then in accord with the present draft and this margin you left operating for current purposes, you would consider later as to whether or not when these others had been removed and reinstalled and were reoperation so that your supply situation would be removed and you could approach the problem whether Germany was to depend on the outside world for nitrogen in the whole long-term background rather than for immediate relief problems.

MR. DESPRES: In this oil matter it also ought to be kept in mind, unless the Army wishes also to rehabilitate these plants, the amount of oil that we are talking about, that you could get without rehabilitation is awfully, awfully small in the existing state of the plants.

GEN. HILLDRING: What I had to say was almost entirely psychological. Under this directive Eisenhower goes in there and finds the plants and shuts its products off right now, and he will do that with the knowledge of the French and Belgians and Dutch. That's something we are going to have to answer for later, but it's being considered now.

MR. CLAYTON: Mr. Secretary, I think that paragraph 30 with the last sentence which we read a couple of times should be adopted as is except that I think that in the last sentence where we say, "...not postpone enforcement of the prohibitions contained in subparagraphs a and b--" I think we should add something that refers to subparagraph c as well. I don't think a and b are sufficient.

MR. DESPRES: C isn't a prohibition.

MR. CLAYTON: It's not a prohibition, but it's a direction to removal.

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MR. FOWLER: No, I beg your pardon sir, it's a direction to seize and safeguard those facilities in the event you are subsequently directed to remove them.

MR. CLAYTON: And it says, "...and dispose of them, as follows:

MR. DESPRES: Right.

MR. CLAYTON: "Remove all those required for reparation, destroy all those not transferred," and so forth.

MR. DESPRES: And the instructions in subparagraph c, if we added that word, would it do it?

MR. CLAYTON: And the instructions in subparagraph c--

MR. McCLOY: I don't know at least whether what we are doing is striking down a lot of people in Belgium or Holland or not. I am told there are hundreds of thousands of tons of coal right next to one of these plants near one of the oldest plants, and that the coal can't be moved, it can't be brought back and used for other purposes, but can be put into oil. Why can't we agree that at least he has some time to take care of situations like that, so instead of saying "prohibit immediately" or "destroy immediately," we tell him to say "prohibit initially," and give him a chance to put his application in, although I don't think he is a particularly good one to know what the overall needs of Europe are. I do think that it's something of a must question, but I only think that. I believe that most of these plants are destroyed and what is left can only be used on an emergent basis anyway. The principle that Mr. Morgenthau puts forward I think is sound. Unless you destroy now, you are not going to destroy eventually, but we have destroyed now and what we are talking about is a very tiny field that may save some lives.

MR. CLAYTON: And this specifically prohibits any rehabilitation of any of these plants for any purpose.

MR. JR: Mr. Clayton, I am willing to take the thing as it's written.

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MR. CLAYTON: With the addition of--

H.M.JR: C? Yes, sir.

MR. CLAYTON: Is that satisfactory?

MR. McCLOY: I don't know that it is satisfactory. I would want to consult some experts on the thing before I said it was all right. I don't want to take the responsibility of--

MR. DESPRES: Would it be possible to cross out the word "prohibit immediately" and begin with "prevent?" I don't know why that can't be done in subparagraph a and b. I think our point is covered because we have--

MR. CLAYTON: Then it would read--

H.M.JR: I am a little confused. What paragraph?

MR. CLAYTON: Paragraph 30. Paragraph 30 would then read, "In order to disarm Germany, the Control Council should, (a) prevent the production, acquisition," and so forth, and "(b) prevent the production of merchant ships," and so forth. I think that would meet Mr. McCloy's point, perhaps.

GEN. HILLDRING: It's better. It isn't primarily an Army point, Mr. Secretary, except we have been under pressure to deliver these goods and we haven't done it.

MR. McCLOY: Maybe we better withdraw. That's all right with us.

H.M.JR: Is it all right now?

MR. McCLOY: Yes, it's all right.

GEN. HILLDRING: If FEA is willing, it's their lead.

MR. FOWLER: We are willing.

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MR. McCLOY: You have got operation now a coal commission somewhere. They are picking up all these sources of coal and they are determining on the spot where it could be most profitably used, whether it should be sent up to the forest in Luxemburg, whether it should be sent back into France, or whether it should be kept in the area. There are all sorts of considerations. If they could be free temporarily to apply the coal that is next to a plant, that is all I am arguing for.

MR. CLAYTON: I think you would have a protection in that.

MR. McCLOY: I think he has a chance.

MR. CLAYTON: That gives him a chance to confer.

MR. McCLOY: Although it isn't ideal because he is not the fellow to know what the problems outside the area are.

MR. CLAYTON: I should think under this broad language you could inform him of it. If the Joint Chiefs of Staff, Jack, have the authority to approve of a postponement of the execution of this 30 on reference by the zone commander, they certainly have the authority to tell him in view of the need of these products in an adjoining country, he should postpone it. I don't think there could be any question about that.

MR. BROWNELL: If this becomes a Control Council Directive, it would take all four governments to give those instructions and would take some time.

MR. CLAYTON: But it says, "Pending agreement in the Control Council you will take these measures in your own zone." That's understood with all of these directives.

MR. BROWNELL: I see.

MR. CLAYTON: If the Control Council doesn't agree, then the zone commander uses this directive and puts it in effect in his own zone.

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MR. BROWNELL: When the Control Council agrees, it becomes binding.

MR. CLAYTON: It is binding on the general in his own zone commander--

MR. BROWNELL: After it is made a Control Council policy, and he has to get them to agree, it is enforced and then it can't be changed.

MR. CLAYTON: Without approval of the Control Council.

MR. CROWLEY: Next.

MR. GLASSER: Next is nitrates. Is that included?

H.M.JR: I am not going to fight that here.

MR. CLAYTON: I think we ought to leave them out. It's so highly important.

MR. FOWLER: We are going to bring the case up again, but after we have a much clearer picture of what the facts are.

MR. CLAYTON: Yes. Now, where is the next point of difference?

MR. McCLOY: I have one on 31, and I didn't have the advantage of the discussions at the working level. Generally I am sympathetic with this elimination of research which is necessary, but I was thinking of the historical aspect of this document.

It says, "As an additional measure of disarmament, the Control Council should (a) prohibit initially all research activities and close all laboratories, research institutions and similar technical organizations except those considered necessary to the protection of public health."

Isn't that narrow? Isn't there usually a laboratory attached to elementary schools for the education of children in mental institutions, and so forth?

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MR. CROWLEY: They use all this research in chemistry, but in order to get a fresh start on this educational system, it seems to me you have got to start somewhere on this research business of theirs, because there's where they excel, in that research business.

MR. FOWLER: I think Mr. Crowley's point is reinforced, and I don't think there is any real difference. The motion is to prohibit, and in "c" restore those when you have in effect combed out the points that are involved. It just--

MR. CROWLEY: Mr. Secretary, before I go I would like to say this: I think this is a very, very important document as far as our country is concerned, and insofar as the people here that have participated. As I view the thing, we kind of find ourselves cutting across our paths. When we first sat down it was to try to get out a directive that would give some direction to the carrying on of the economy of Germany, but the main thing was to eliminate from the German economy the things that made it possible for them to create war. Now, I think every single one of us is agreed on that principle. I think there is a danger of trying to spell the thing down into detail and getting into too many small items. I am in full sympathy with bringing to the Court of Justice all of the men who participated, the mayors of Berlin or where it may be, to justice for their crimes. And I am in full sympathy with trying, too, to eliminate all these items that go for munitions, that go for the possibility of making war, and I think we have got a better chance of making that stick if we don't spread ourselves out too thin. I think if we get to the place that with the rank and file of the citizen that you are going to deprive them of the right of maintaining reasonable homes and reasonable family life and things like that, that your whole structural background and they will all come back to haunt all the fellows in this room here and, too, on the production that we might be able to use them to help Belgium and Holland in those poor liberated areas that are going to starve to death.

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Now, I think the progress that Germany makes after we strip them down is entirely up to Germany themselves. They have made this mistake and I wouldn't want to be a party to a program, and you fellows wouldn't either, that when they read it five or ten years from now they will say, "These fellows didn't have their heads on their shoulders at all." I am for taking those big items and being just as damn tough as I can. Take those out of their economy and keep them out, but not get into the detailed administrative ways as to how much coal or how much this or that--food they can have and things like that, because I don't think you can do that without having the little fellow starve to death and the big fellow getting everything.

H.M.JR: I don't understand. Does that mean that this document--do you approve it or disapprove it?

MR. CROWLEY: No, I approve of it, but what I mean is I approve of the document, but I am worried about when you get into the administration of the thing, they will get down into the details of the responsibility that I think belong to the German people themselves.

H.M.JR: I am with you on that, but you do approve of the document?

MR. CROWLEY: Oh, yes.

MR. McCLOY: What you say is fundamentally related to your reparations policy.

MR. CROWLEY: That's right.

MR. BARD: The last paragraph that they are going to draft would be very important.

MR. FOWLER: We have got--the last paragraph will make a lot of difference.

MR. CROWLEY: I don't think you can pay this country back for what the Germans have done through money.

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H.M.JR: Is that all?

MR. McCLOY: Have you anything else? Have we covered all the economic points?

H.M.JR: What else is there?

MR. CLAYTON: Leo, I think there's a great deal in what you say, and I think that in that connection it may be very useful for us to review paragraph 21, which relates to the German standard of living. I don't think we read that one.

(Mr. Bard leaves the conference.)

MR. CLAYTON: (Reading) "21. You will estimate requirements of supplies necessary to prevent starvation or widespread disease or such civil unrest as would endanger the occupying forces. Such estimates will be based upon a program whereby the Germans are made responsible for providing for themselves, out of their own work and resources. You will take all practicable economic and police measures to assure that German resources are fully utilized and consumption held to the minimum in order that imports may be strictly limited and that surpluses may be made available for the occupying forces and displaced persons and United Nations prisoners of war, and for reparation. You will take no action that would tend to support basic living standards in Germany on a higher level than that existing in any one of the neighboring United Nations and you will take appropriate measures to ensure that basic living standards of the German people are not higher than those existing in any one of the neighboring United Nations when such measures will contribute to raising the standards of any such nation."

Now, that's tough all right, and--

MR. CROWLEY: What I would like to see, Will, in your recommendation to the President--I think the President should appoint some committee of his government to continually review this in the light of conditions. In other words, the

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man that is going to administer this is going to have to have some direction from some authority to do it. Now, I wouldn't assume that the Joint Chiefs of Staff--they are going to be interested in getting out of Germany after occupation.

MR. McCLOY: They are transmitters anyway.

GEN. HILLER: Just a post office.

MR. McCLOY: There should be some Commission of the Government to review this thing.

MR. CLAYTON: I would like to say as to that, Mr. Secretary, that I wholly agree with that suggestion, for this reason, principally. I don't think it would be possible for any group of men, no matter how intelligent or how experienced, to sit here in Washington at this time and formulate a directive to the Commander who will have the responsibility of the occupying forces in our zone in Germany in anything like the details that we have attempted here without making some serious mistakes. I think it would be almost impossible to do that, and that those mistakes will emerge very soon. The fact that they are mistakes will emerge very soon after the occupying forces get into our zone in Germany and after the Commander sees the conditions on the ground, and attempts to put our directives into effect. So I do think it is entirely important that there should be some standing committee here, as Mr. Crowley has suggested, which could with the Joint Chiefs of Staff review these directives and consider the suggestions that the commander would make for some alterations in them.

(Mr. Bard re-enters the conference.)

H.M.JR: I don't think there is any argument. I think that's right, and I hope that President Truman will appoint such a committee formally.

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MR. CROWLEY: I think, too, Henry, if we could bring out in your report that we don't expect that this is perfect, because it can't be perfect. We are doing the best we can.

H.M.JR: That's right.

MR. CLAYTON: I think that this sentence that we have been discussing to put at the end or beginning which it appears now will be a pretty long one, will have to be divided into several paragraphs. I would say that it is anticipated that some changes may be necessary when these directives are put into practice on the ground and that the Commander-in-Chief, Commander of the zone will obviously have some suggestions. Call attention to that necessity from time to time. I think that there should be some reference to that.

MR. McCLOY: I think there should be that and I think we ought to scan this document in the light of what Mr. Crowley has said to eliminate from it anything that looks in the nature of oppression or vindictiveness. It is going to be a historical document, and there is this point. It is a very practical point, and it was the thing that came up in connection with the so-called pastoral plan, that we presume to put the German people at a particular level, and if that is perpetuated, it will rise up to plague us all the rest of our lives, and our children's children. Actually, what the Germans have done is put them at their own level. The destruction that has taken place over there is enough to satisfy anybody. Then to a less extent, if we should attempt to be in the position of imposing upon Germany any level of living, then we shouldn't say in so many words that that is our objective. I think that historically that will be indefensible. The Germans have put their own level of living upon themselves. They are going to be, in a sense, a pastoral people, not because we put it in a directive that they shall be--

MR. CROWLEY: That's right.

MR. McCLOY: They are going to have to scratch to live. They are going to have to have truck patches all over the place.

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MR. CROWLEY: I think right along that line of thought. I think that in the place of our being accused in our directive of being the fellows that passed this sentence on Germany that we want to bring it out that Germany passed the sentence on themselves, and when you are talking about other areas, that the German people can't expect that their standard of living on account of the things they have done themselves can be better than that of their adjoining neighbors and liberated countries, that they caused their downfall.

H.M.JR: It gets back to the thing I said earlier in the morning about what President Roosevelt said. "Let the German economy seek it's own level."

MR. CROWLEY: Sure, let it seek it's own level, but at the same time let them know that they have created that level themselves, and that they shouldn't hope that they are going to build themselves up at the expense of liberated areas.

H.M.JR: Or anybody else.

MR. BROWNELL: If that principle is adopted, with which I completely agree, it will call for numerous changes in the philosophy under the present draft of the reparations program, although this isn't the proper time to look into that.

MR. CLAYTON: I wonder if it would, because I fully agree with what has been said by Mr. McCloy and Mr. Crowley. I think that you do have to keep in mind the necessity of collecting reparations, and I think that--thinking that, you may say--with reference to the standard of living, it can be closely related to the necessity of collecting reparations. I think it's justifiable that you should say, for example, that if production in Germany should rise to a point where there is a surplus--

(The Secretary leaves the conference temporarily.)

MR. CLAYTON: ...over and above that which is necessary to maintain a standard of living in Germany, no higher than

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in neighboring countries, that that surplus should be used for reparations. I think that you can relate standard of living clauses in here directly to the necessity of collecting reparations, and I think it is justifiable that you should say that so long as this surplus is necessary for the payment of reparations that it should be used for that purpose instead of increasing the standard of living in Germany above that of her surrounding neighbors.

MR. BROWNELL: What you are saying in a way begs the question, because you have got to decide the pressure of your reparations, how much are we going to take out? As the reparations paper is now drafted, it calls for taking out from Germany enough of various kinds of goods to bring their standard of living to a certain point. It does not state how long that point shall be maintained, and that is one of the open questions that should be--

MR. CLAYTON: I think it does. The total German reparations have been agreed upon.

MR. BROWNELL: It has not.

MR. McCLOY: I thought this--

MR. CLAYTON: It had not at Yalta.

MR. COE: As a basis of discussion--

MR. McCLOY: That's being discarded now according to talk I have heard.

MR. BROWNELL: There is nothing in the present reparations document that refers to twenty billion, the figure mentioned at the Yalta convention.

MR. CLAYTON: If that's true, my remarks do not apply until that matter has been settled and fixed, but I thought it had been fixed, but I am just in error.

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(The Secretary and Mr. Crowley re-enter the conference.)

MR. McCLOY: I am told they have shifted away from that thought.

MR. BROWNELL: Even if that figure of twenty billion were fixed, Mr. Secretary, it would be so impossible to collect it that your same principal would come out.

MR. McCLOY: As I read the last draft of the reparations policy, it now provides two things, (1) what is necessary to reduce the war potential of Germany, and (2) reduce her to such a minimum level of subsistence, which will approximately reduce her to the level of anybody around her.

MR. CLAYTON: I have questioned that, Jack, in this way. I think it is a very crude way of putting it, and I think we have changed the language.

MR. BROWNELL: No, because at the last meeting of the working committee I raised the point, and all of the representatives, many of whom are here from FEA and Treasury and State, all admitted that that was the intention of the document.

MR. DESPRES: May I break in on that? I think that is an incorrect statement of the consensus of the last meeting, with regard to twenty billion dollars. The thought hasn't been to drop that in the sense of ignoring the commitment or the proposed basis of discussion that was arrived at at Yalta, but we have had the feeling, frankly, that twenty billion dollars was likely to exceed Germany's capacity to pay, and we would like to de-emphasize it so that the de-emphasis there is not for the purpose of opening up for a total, for increasing the reparations period, but rather in the operation, so the language of it also will have instructions. As it now stands it says--I don't know the exact words--but it says that the reparations shall be limited to an amount. The outer limit will therefore be such as to leave Germany with enough resources to provide a minimum subsistence standard of living with the qualifications that it shall be a standard of living, and that it will be transferred when the German standard of living is higher than that of neighboring countries.

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MR. J.K.: Could I ask a question, because I am completely in the dark? I don't know--if Colonel Brownell would explain to me what he meant. I don't know what the discussion is. Would you mind explaining it to me? I am sorry, Mr. Despres. I am in ignorance. I would like to know.

MR. BROWNELL: The statements were made that we should not take action with respect to Germany calculated to push its standard of living down to a certain specified low level and keep it there; that we should let nature take its course after we had carried out various of these other objectives with respect to the standard of living; and I pointed out that by agreeing with that completely, if adopted as a policy, it would require some changes in the philosophy behind the reparations paper, because the reparations paper is now drafted and contemplates one thing, and that is we will take enough away from Germany to bring its standard of living down to below that of any one of the neighboring countries, and also language which indicates it might be pushed further than that. It says, "The reparations payments referred to above should be held within limits as to leave the German people with enough means to supply the occupying forces and provide a minimum subsistence standard of living without sustained outside relief. But under no condition shall this limitation operate to require the retention in Germany of means to support basic living standards on a higher level than that existing in any one of the neighboring united nations."

MR. CLAYTON: That's not as I understand it, what you said.

MR. BROWNELL: I can agree with that language, I think, and I made some changes in the language two or three days ago which would take the emphasis off of the place where I understood you to place it and where the document places it, namely, that reparations shall be used for the purpose of sending out of the country all surplus products of goods in order to keep the standard of living in Germany down to a level no higher than neighboring countries. This doesn't say that.

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MR. COE: I agree with you. As I understand it, it says mainly that there is an outer limit and in no case shall you go beyond that.

MR. BROWNELL: If that's the agreement, it's easy to express it so clearly there can't be any difference of opinion on it. I think the view I expressed was the one held by the working committee or most of them.

MR. CLAYTON: The change was made in the language. Here is my point, Mr. Secretary. I would like to make it clear.

R.M.J.R.: I am glad I asked the question.

MR. CLAYTON: It would be a very crude way of expressing it to say that whenever the production in Germany made a circle beyond that necessary to maintain a minimum standard of living you would ship that to it in order to keep the standard of living from rising. That's not the intention, and I would never subscribe to any document which so stated it. The intention is to begin with, number 1, that Germany should pay reparations. That has been agreed upon, now somebody at sometime has got to agree, and pretty soon, too, on what the limit of that reparations collection should be. Otherwise, you can't make any plans on it at all.

MR. McCLOY: Before you do that could you find out what is left? You've got to get your facts.

MR. CLAYTON: Now, if they agree on a reasonable limit, a limit that is within the possibilities such as was not done at the end of the first World War at the beginning--if they agree on a possible limit, then the thing has to be expressed, I think, in this way: so long as those reparations are due and are to be paid, that any surplus products in Germany over and above that which is necessary to maintain a standard of living there that we have agreed upon should be maintained; and that to raise the standard of living it should be no higher than neighboring countries; that that surplus is to be paid on reparations. Now, that's an entirely different thing from saying in order to hold down the standard of living in Germany you are going to take all surplus and ship it out of the country. That's entirely different.

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MR. CROWLEY: What you want on your theory is to give them an incentive to pay reparations, to get the debt off their shoulders.

MR. CLAYTON: That's one aspect of it, yes, and another is that I think it would be immoral, and I don't think we would ever be able to support it in future years if we sat down here and said, "Well, now, here these people are. They have committed a great crime against society, which they have, and for the next hundred years or something like that we are going to hold them down to a certain level, and everything they produce over and above that they are going to ship out of the country."

MR. BROWNELL: I agree with that. Perhaps I was lead to the feeling I expressed, because there is nothing else in the document that indicates the amount of reparations that will be taken out of Germany.

MR. CLAYTON: That has to be decided.

MR. McCLOY: Could we say amount to be agreed, or something like that?

MR. GLASSER: You have as the standard of living rises in the neighboring countries, Germany's standard of living will rise. You have that limitation anyway.

MR. DESPRES: The language of the document as it was just read was, "shall be held that the reparations burden shall be held within limits." In other words, this defines our--the basis for judging the principal after you have got the facts on which you determine Germany's capacity to pay. As a matter of fact, this language doesn't even say what Mr. Clayton said, namely, that that would take all up to this limit, and the reparations program could be less.

MR. FOWLER: It would be helpful if you would put that in writing. We have had a lot orally and you misunderstood the position a number of us took in at least your statement of it here, and I think I would be perfectly happy if you think it is going to make it clear, to have the suggestion in writing.

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MR. BROWNELL: That would be very simple. There is one other point and that is whether or not in this reparations document you should indicate to a man to represent us in Moscow what the amount of the reparations should be and how that would be determined. It will be difficult, but he should be given a formula of some kind, not a formula measured by the standard of living left. The last time they took war damage and war costs.

(Mr. Crowley leaves the conference.)

H.M.JR: Colonel Brownell, do you mind if I interrupt? I am not familiar with this, and I was hoping very much to finish this third thing. Would you mind?

(Mr. Crowley re-enters the conference.)

MR. BROWNELL: No.

H.M.JR: Thank you very much.

MR. CLAYTON: On this paragraph 21, the standard of living, Leo, you heard that. Do you think in the light of your remarks just prior to that that--

MR. CROWLEY: I don't think there is any disagreement with any of us, Will, in what we believe in. That expresses it and we are all satisfied. I am satisfied. I think we are all in agreement.

MR. McCLOY: Twenty-one seems to me--I don't know if there is any concrete suggestion on that, but I would like to take a look at that again in the light of what Mr. Crowley said and what I said because that is the place in this document where we do talk about the standard of living in Germany.

MR. CROWLEY: I think the Secretary has got a thought back in his mind, Jack, on that, that perhaps in the letter of transmittal you might try to spell a little bit of your thought out about what your objectives were and so on and so forth. That might be what we had in the backs of our minds.

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MR. FOWLER: I think that's a much better instrument for the record than the directive itself and accompanying document. You can speak out.

H.M.JR: Well, I suggested to Mr. Crowley that there would be no misunderstanding on the behalf of the President or public that in transmitting this report to the President we go back to 4(a) and use that as the kernel of the whole idea, and say going home to the Germans, that's the objective and use that in the transmittal, and Mr. Crowley liked that idea and felt that that--

MR. McCLOY: And perhaps you have to work it out, and it may not be appropriate, but disclaim in that letter any desire to impose upon Germany any particular standard of living.

H.M.JR: Well, the thought was in the letter of transmittal we could work that out, but that 4(a) as far as I am concerned has the kernel of the whole thing, and I don't think it should be more than one page, and this working committee could work it out.

MR. CLAYTON: On this, while we are talking about 21, Mr. Despres has made a suggestion which I think is very worthy for consideration and that is take the first sentence, just two lines, that if it were altered to read, "You will estimate requirements of supplies necessary to prevent starvation or widespread disease--" now, I think that makes it look a little more human than saying you are not interested in any kind of disease unless it would endanger the occupying forces. Don't you think that's a little better, Mr. Secretary?

H.M.JR: If it's more humanitarian, I can't object to that.

MR. CLAYTON: Has anybody any objection?

MR. McCLOY: Didn't we have an unrest formula in there once?

MR. CLAYTON: Yes, we have it in several places. "Starvation, widespread disease or civil unrest."

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MR. BROWNELL: "Essential to prevent starvation or such disease or civil unrest as would endanger occupying forces."

MR. CLAYTON: "widespread disease or civil unrest."

MR. DESPRES: It is better to omit "civil unrest."

MR. BROWNELL: For humanitarian motives. If the Germans want to go out and throw bricks through windows in order to get food rations pumped up--

MR. CLAYTON: "Prevent starvation or widespread disease or such civil unrest as would endanger occupying forces."

MR. McCLOY: That's all right.

MR. DESPRES: You don't want to be permitted to send food in to prevent civil unrest.

MR. CROWLEY: You don't need to worry about that. You won't have it.

MR. CLAYTON: "Or such civil unrest as would endanger occupying forces."

MR. CROWLEY: How about financing, Will? Can we go on to that so we can get out?

H.M.JR: He wants to go out.

MR. CROWLEY: Can we go on with financing now?

MR. CLAYTON: Yes, you bet. It's all right with me.

MR. McCLOY: Uniform ration scales, when you talk about paragraph 22.

H.M.JR: Listen fellow, you can't go one step forward and two back.

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MR. CLAYTON: Uniform throughout Germany doesn't mean we can't vary it with respect to workers and non-workers.

GEN. HILDRING: That's not what it means.

MR. CLAYTON: Now, this financial document, has the working committee--are they united on that?

MR. DESPRES: There are only two points.

MR. COE: I should make one preface. This document after the working committee got through with it was editorialized or otherwise changed by State and there are one or two points where major substantial changes have been made which we want to raise.

MR. CLAYTON: It's only six pages and I can read it pretty quickly. I'll read the whole thing.

MR. McCLOY: It will be the first time I heard it.

H.M.JR: Can we do one paragraph and stop, and then one paragraph at a time?

MR. CLAYTON: Fine.

H.M.JR: I have been going since nine o'clock. Could I have three minutes?

(The Secretary leaves the conference temporarily.)

MR. COE: Mr. Secretary, in your absence a move developed to get the working committee into session on this thing this afternoon, and get a complete agreement and clean up reparations in the morning.

MR. CLAYTON: We all agreed under the circumstances. Mr. McCloy hasn't seen this financial document.

H.M.JR: All right. Then, could I have a minute with Mr. Clayton, Mr. Bard, and Mr. McCloy?

April 25, 1945 01
12:41 P. M.

HMJr: Mr. Connolly, how are you?
Mr. Matthew Connolly: Fine, sir. How are you today?
HMJr: Oh, I'm all right. This is my story. There was a committee set up by the State Department sometime ago to work out a directive for Germany for the Army and the supreme commander. When Mr. McCloy was over there yesterday, he gave the President the so-called March 23rd Directive.
C: Ahuh.
HMJr: We've been meeting here all week in my office. I don't happen to be Chairman, but they meet here. Mr. Will Clayton is Chairman, see?
C: I see.
HMJr: Now, by driving like hell, because we are about two weeks late anyway - monthly - we ought to be ready Friday morning to have a report for the President, because I'm sure he will want to know about this, and expressed interest to Mr. McCloy yesterday.
C: I see.
HMJr: The committee is Mr. Clayton, Mr. Crowley, and somebody from the Navy, Mr. Bard was here this morning, Mr. McCloy and myself. Now I have an appointment with the President for 10 o'clock Friday for a half an hour.
C: Ahuh.
HMJr: Hello?
C: Yes.
HMJr: If I could have about five or ten minutes of that for myself, see?
C: Ahuh. We'll do it that way, Mr. Secretary, I'm sure it will be agreeable.
HMJr: Do you think that would be agreeable?

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C: Yes, sir.
HMJr: Well, then, I tell you - these fellows - do you want to notify them that there will be - let's say the President will see them at 10:10?
C: I would be happy to. I guess Mr. Clayton's office would know who the people I'm to....
HMJr: I can tell you, or you can do it ---- I can tell you. It will be Mr. Clayton, Mr. Bard...
C: What?
HMJr: I think he is Under Secretary of the Navy.
C: Bard?
HMJr: Yeah, Bard.
C: Ahuh.
HMJr: ... and McCloy, and Crowley.
C: Crowley. All right, sir, we'll notify them. Now would you want that to be on-the-record or off?
HMJr: I don't see why it shouldn't be on-the-record.
C: On-the-record.
HMJr: And then, say about 10:10, or would you make it... what would you say?
C: Let's check. Now, we have you for 10, haven't we?
HMJr: Yes.
C: Let's make it 10:10, if that's agreeable?
HMJr: Yeah. When I asked for half an hour I had this in mind. Ten minutes for me will be enough.
C: O. K.
HMJr: But I want to make it plain - a little protocol on this - that Will Clayton is Chairman of this thing.
C: Right. I'll take care of it.

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HMJr: But they all know - and then, you see, the other thing if you have this in mind it's out that Mr. Frank Walker is going on reparations, you see? Hello?

C: Yes.

HMJr: The same committee you might explain to the President has been working on the reparations, and we want to get instructions from him does he wish us to continue on that. You see?

C: All right. Fine. Well, we'll make that definitely for 10:10, and you will be here at 10.

HMJr: If you please.

C: And I'll invite the other gentlemen at 10:10.

HMJr: I thank you.

C: Glad to.

HMJr: Goodbye.

April 25, 1945
3:09 P. M.

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HMJr: Hello.

Mr. Isador Lubin: How are you, Mr. Secretary?

HMJr: Lub?

L: Yeah.

HMJr: I wondered if what you had on your mind would keep until tomorrow?

L: O. K.

HMJr: If it doesn't I'm.....

L: You already know it as a matter of fact. Frank Walker told me that you had talked to him.

HMJr: A ----- no, I simply asked him to come to see me... Frank Walker. Hello?

L: Yeah.

HMJr: I know it, but I didn't hear it from him.

L: No, no. I mean he told me that you knew it.

HMJr: Well, then....

L: But I wanted to talk to you about it anyway. Of course, after all, I think we ought to get that guy straightened out.

HMJr: Well, I've asked him to come over tomorrow morning at nine to see me.

L: I'd be delighted to.

HMJr: No, no, I mean Frank Walker.

L: I see.

HMJr: Frank Walker.

L: I'd like to see you before you see him.

HMJr: You want to see me before you see him. Now wait a minute.. You'll have to get up early in the morning.

L: O. K.

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HMJr: If you will be at my house at 5:15...
 L: O. K. Where do you live?
 HMJr: 2029 Connecticut. I can send for you.
 L: No. I pass there on the way down.
 HMJr: 2029 Connecticut.
 L: O. K.
 HMJr: And then we can ride down together.
 L: All right. That's fine.
 HMJr: How's that?
 L: All right.
 HMJr: Thank you.

April 25, 1945
 3:15 P. M.

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HMJr: Hello.
 Operator: Go ahead.
 HMJr: Hello.
 General Somervell: This is Somervell, Mr. Secretary.
 HMJr: Hello, Somervell. How are you?
 S: Fine. We are somewhat embarrassed over here in connection with this agreement which was made last summer with the British. You remember we had two Military Affairs Committees - one on Ground Items and one on Air Items.....
 HMJr: Yeah.
 S: ..and we've turned in our reports.
 HMJr: Yeah.
 S: Now we've got nothing official as to what happened to those. In other words, we were turning in an agreed report with the British to a higher committee.
 HMJr: Yeah.
 S: Now when we got over there, there was one point discussed, namely that paragraph where we attempted to get the British to accept the responsibility for lend-lease in their dominions and colonies out in the Pacific.
 HMJr: Yeah.
 S: And so far as I know, that was resolved in a different way from the way we had it. But the big thing that we should have is the agreement which the United States signed or made with the British as a bible, so when the British groups which are high-pressuring us about delivery of this stuff come around, we'll know what to tell them.
 HMJr: Well, Frank Coe - C-o-e - I don't know if you know him.
 S: Yes, I do.

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HMJr: Well, he's stepped into White's shoes. I made White Assistant Secretary.

S: Yes.

HMJr: I'll talk to him right away, and I'll have him -- he could call on you tomorrow afternoon or still today if you want him.

S: All right.

HMJr: Do you want him today?

S: Yes, sir, if he could come in at 5:30.

HMJr: He'll be there at 5:30. He'll dig this stuff out. Is that fast enough?

S: Oh, yes, that's fine. If we could possibly have two books, or two pieces of paper -- one for the Air side and one for the Ground side -- I would appreciate it.

HMJr: Well, I'll talk to him and he'll be over there at 5:30. Now, General, I wanted to tell you that General Uhl of the 4th Service Command is being most kind down there to my wife at the Welch Convalescent Hospital.

S: Well, we are only too happy to do everything we can.

HMJr: I think you are familiar with the situation.

S: Yes, entirely.

HMJr: And, they are doing everything possible, and they have been just one jump ahead of any possible request we might make.

S: Well, we want to help in every way we can.

HMJr: Well, I want to let you know how much I appreciate it.

S: Well, we are glad to do it.

HMJr: I'll have Frank over there at 5:30.

S: Thank you, sir.

TRANSCRIPT OF TELEPHONE CONVERSATION BETWEEN LEON HENDERSON
AND D. W. BELL AT 11:45 A.M. APRIL 25, 1945.

MR. BELL: The Secretary is tied up and wondered if I couldn't take the message you have for him.

MR. HENDERSON: Hold the wire a minute. Certainly you can take the message. I called Harry and told him and I wanted the Secretary to know. I went out to China on the inflation matter and I wanted him to know that I am dropping out of any work for China.

MR. BELL: You are?

H: I don't think I can do them any good and I might, because of my personality, do them some harm. I want him to know it, and second, I want you to know that I went out there on my own. I was not on their payroll and I went as a private citizen; any incidental expenses I carried myself.

B: Yes

H: I want him to know that I was in this on my own -- not for a client. Of course Harry told me before I went out that I was perfectly acceptable to Henry and himself and for that reason I just want quietly to say to him I am not representing the Chinese Government in their program.

B: I see.

H: I worked with them on the analysis and worked with T.V. on recommendations and some things he will be taking up with the Secretary but I am not going to have any part in the presentation or represent them officially or anything like that. I don't know whether any announcement will be made -- an announcement was made that I was going out. I am leaving that to T.V. I am going back on my other work.

B: Leon, do you feel the situation is rather hopeless?

H: No. I made a report to Harry and Adler knows and, by the way, there

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is a strong citizen.

B: Yes, he has done a swell job.

H: If that fellow had a little more personality -

B: Yes, that is unfortunate.

H: As far as his knowledge of what he is working on, he is o.k. I heard him and Joe Alsop lay to on the Stilwell business and he just plastered Joe something awful. I got to liking him very well.

B: He has done a good job out there.

H: I don't think it is hopeless, but I think unless we do something we will lose a lot provided we think our eggs are all in the Nationalist Government basket. It is a high political question which I am not qualified to pass on. I think the thing could be held together if given help.

B: I see.

H: That's my personal opinion and I know T.V. will see the Secretary next week sometime and he can cover that. I have no part in that.

B: But you did help draft some of the proposals he will submit to the Secretary?

H: Sure, I did help draft those. I am going to New York today to be gone several days. Naturally I will be available on a personal basis - I want Henry to understand that as a private citizen anything he thinks I know, he can have.

B: In other words you will be available to come back and talk to him later on.

H: I will be back Saturday. The last thing I want Henry to think is that

- 3 -

I am asking to get in this. In fact, my preference is today to drop everything on the technical level of dealing with the Government. I think from there on it is a compound picture and T.V. is adequate to represent the Government. I don't want the Secretary to feel that I was taking compensation from the Chinese as a client. I am a friend of theirs and, as I say, I went out there at considerable expense. You take five or six weeks out of your life - no money and plenty of expenses

Bell: That is expensive.

H: Yes, but it was a great opportunity.

B: It gave you an opportunity to look the situation over.

H: It was a good investment and I was very pleased that he thought I was a good one to go. But I did want to get over to him, because I have been working on this, and I am pretty aggressive and I want to leave it on what I have done - I have practically completed the limited job Nelson gave me to go out there and do for them.

B: I am sure he understands it in a general way but I will be glad to tell him. He will be pleased that he can talk to you later on about it.

H: The Bretton Woods thing is one of the things you hear most of when you get around. If I didn't know about Bretton Woods before I had been to France and China, I would know it then.

B: You know it is necessary?

H: Gosh yes. I have said more than the Treasury has in recent months on the subject.

B: Really.

H: Well, goodbye, Dan.

B: Bye.

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April 25, 1945.

Dear Fred:

Thank you for your letter of April 22, which enclosed the one you had received from Mr. Kendall, and the reprint from Advertising & Selling. Modesty forbids me to comment on the article itself, but of course Mr. Kendall's word about it pleased me very much, and I appreciate your seeing that I had an opportunity to read it.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Fred Smith,
The Blue Network,
30 Rockefeller Place,
New York 20, New York.

DMF/cha

The Blue Network

BLUE NETWORK COMPANY, INC.
30 ROCKEFELLER PLAZA - TELEPHONE CIRCLE 7-8700
NEW YORK 20, N. Y.

April 22, 1946

Mr. Henry Morgenthau, Jr.
Main Treasury Building
Washington, D. C.

Dear Boss:

Attached are reprints of the Advertising & Selling story.

I think you will also be interested in the letter from Fred Kendall.

Sincerely,



Fred Smith

FM/BNF
Enclosures
via: f.c.w.

AMERICAN BROADCASTING SYSTEM, INC.

Advertising & Selling

Robbins Publishing Company, 9 East 38th Street, New York 16, N. Y.



RECEIVED BY

APR 21 1945

FRED SMITH

April 20, 1945

Mr. Fred Smith, Vice President in Charge
of Advertising, Promotion and Public Relations
American Broadcasting Co., Inc.
30 Rockefeller Plaza
New York, N. Y.

Dear Fred:

Under separate cover I have sent you a number of reprints of your article on Secretary Morgenthau which appeared in the March issue of Advertising & Selling and which, from the reactions of a number of our readers, certainly enhanced the issue's editorial value a great deal. In fact, I think the Secretary would have been highly pleased with the quality of the commentators and the comments.

I think you did an excellent job of personalizing the Secretary and of describing the magnificent job he has done. I don't think a very large number of advertising men had quite realized the greatness of the man and I think that fact can be attributed to the Secretary's inherent modesty. We in advertising can be genuinely thankful that we have had at the Treasury's helm a personage who is so truly an advertising man.

Thank you again for writing "Washington's No. 2 Advertising Man" for A & S.

Cordially,

F. C. Kendall
F. C. Kendall
Editor

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Washington's No. 2 Advertising Man

FRED SMITH
Vice-President, Blue Network

*Reprinted from ADVERTISING & SELLING,
MARCH, 1945*

Washington's No. 2 Advertising Man

FRED SMITH
Vice-President, Blue Network

THE walls of Henry Morgenthau, Jr.'s, private dining room, on the second floor of the main Treasury Building, are lined with cartoons reflecting all shades of public attitude toward the venerable Secretary of the Treasury. They range from gentle damage to outright libel, with here and there an odd piece created by a cartoonist who apparently just wasn't mad at anybody.

Over on the starboard wall, a framed clipping recounts the mental gyrations of a palmer who contends that the Morgenthau hand reveals that one day he will settle down as his upstate apple farm and write his books. The Secretary doesn't believe it, but he cherishes the thought. Directly across the room hangs a large drawing, circa 1928, showing a Hudson River boat with a lot of excited people running around its decks. Up in the pilot house sits Governor Franklin D. Roosevelt of the State of New York. Back toward the stern stands a tall gangling gent in western boots and a 10-gallon hat, screaming through a megaphone; that's State conservationist Henry Morgenthau, Jr. All this, the caption says, represents Governor Roosevelt campaigning with Morgenthau as chief hallyho artist.

This drawing hits closer home than any of the cartoons that lay out Morgenthau as a furry Statesman, or a baffled bookkeeper, or a reluctant financier. The last is that this man who has weathered a breathless collection of political storms to serve longer than any other man as Secretary of the Treasury, is the No. 2 advertising man in Washington.

His only peer is his boss.

Natural of man

Morgenthau, of course, is no great shakes as a technician. He couldn't lay out an advertisement if his entire apple crop depended upon it. He couldn't create a radio show if his life hung on the results (but he does pretty well as an actor). He couldn't write a piece of copy. But ask any technician who has ever come within 50 yards of him and you'll discover he has a genuine for knowing good from bad, research from fiction, sweat from bluff. Henry Morgenthau, Jr., has handled more advertising in a shorter time than any man

in history; but even in the hustle and bustle, nobody gets past him with anything. He is a born advertising man, or at least that's the way his mind works.

Perhaps the most important advertising decision he ever made was the decision to use bonds to sell the war, rather than vice-versa. Every two or three weeks since he decided that some advertising man has barged in on him to explain that he is going at things backwards; that he should sell thrifty and self-interest; that he should sell after the war goods that will be available to people who have bonds to pay for them. But he simply points out that people have been trying to sell thrifty since the time of Benjamin Franklin, and not with very great success; while under his plan of selling the war first and bonds second, people are laying away more money in a couple of weeks than they had ever before saved.

It is pretty well known how Morgenthau brought the War Advertising Council to Washington for its first job. It was Sunday afternoon, April 19th, 1947, that Miller McClintock, then Ex-



With Ward Price
Henry Morgenthau, Jr.

ecutive Director of the Council, received a call from the U. S. Treasury. The Secretary wanted to know if the War Advertising Council might serve the Treasury, and to make an appointment for a meeting at ten on the following Tuesday morning.

Immediately after the first meeting with the Secretary, McClintock called Chest Lalloche, then chairman of the board of the War Advertising Council, and told him the results of the conversation. So to a conference called Lalloche, H. B. Thomas, Paul West, Miller McClintock, Fred Gannett, James S. Young, Charles Montmarquet, Albert E. Winger, William Chandler, Paul E. Koster, and Leo Buggelt.

Thus the Council was off—about to establish the most brilliant record in Advertising's history.

The idea of bonds had started long before the war. It was a good, sound business idea: let the people own a piece of America, and they will pay more attention to its Government. That's what Morgenthau thought, and since there was no one to tell him not to do it, he pursued the idea with Baby Bonds, and with an advertising appropriation of more than \$100,000. Along came the war, and the long man from Dardness County decided his peacetime idea was an even better wartime idea. If sharing the financial fate of the nation gave people an interest in their country in peace, they would fence them the rest of war would bring them to think about war, would bring them into recognizing its dangers—and impotence.

"What I kept thinking," Morgenthau says, "was this: if we could really do a job of selling defense bonds, that would mean that men and their wives would sit down at night, and would talk about buying them, and in the process of discussing it, would find themselves talking about the war, and taking an interest in it."

And that's how Morgenthau came to call in the Council.

To all of us [Continued on page 276]

No. 2 Advertising Man

[Continued from page 45]

who have been doing exactly this kind of thing for a long string of years, the Morgenthau decision seemed a perfectly obvious one, and one that should be as easy to make as falling off a log. But don't kid yourself.

Look at it this way: There sat Morgenthau at a big desk in the shadow of the White House, surrounded by a group of people who wouldn't even know what we were talking about. Some don't know even yet. In all of the offices of the Treasury are men who are not exactly advertising-basters, but who are just plain puzzled by the whole business.

When Morgenthau decided to call in folks like us, the pressure must have been fantastic. There must have been a lot of telephoning around that small nucleus of perfidies elsewhere in the Administration, who still thrive here and there in Washington, and who suspect industry with a religious fervor. Certainly—and we know this to be a fact—the folks with the Government Research complex had a few very busy weeks. There was a lot of fatherly advice. But Henry Morgenthau, Jr., stood his ground.

Nor did he forget, when the Council began to deliver, to be grateful. What's more important, he was helpful. He is a great man with a telephone. So, having made the discovery that the Council could deliver, he began to pass the word around in Washington; so Doc Nelson, for example, whom he had brought into the Government to handle Procurement, and to other Cabinet Members scattered around, to the War Executives that the President had appointed. Suddenly, like magic, the doors began to open all over Washington to the Advertising Council.

A great deal has been said about the magnitude of the advertising job that has been done under Morgenthau's direction. I won't dwell on it, but here's a quick recap:

	1941	1942	1943	1944	Total
RADIO	\$28,000,000	\$45,000,000	\$40,000,000	\$45,000,000	\$158,000,000
NEWSPAPERS					
(Dallas)	\$6,000,000	\$12,000,000	\$16,000,000	\$16,728,000	\$50,728,000
(Wash.)	\$1,000,000	\$1,000,000	\$7,000,000	\$6,704,275	\$15,704,275
PERIODICALS					
Survey Magazine	\$2,000,000	\$2,000,000	\$4,100,000	\$7,875,000	\$17,975,000
Business Pubs.	9,720,000	9,000,000	\$2,500,000	\$1,623,750	\$27,843,750
Farm Magazine	9,000,000	9,000,000	9,000,000	\$1,951,750	\$1,951,750
OUTDOOR	\$2,000,000	\$1,000,000	\$4,700,000	\$2,275,000	\$10,000,000
TOTAL	\$46,720,000	\$68,000,000	\$106,800,000	\$102,800,000	\$323,320,000

vertising Council to handle bonds brought about the resignation of people personally close to him; deciding that tax blanks needed simplification, and his unqualified backing of the people who undertook the job caused an upheaval in the Internal Revenue Bureau, that took a year to return to normal. Deciding to let business men run Surplus Property Disposal created a temporary split in his executive staff, and almost resulted in the resignation of one of his key men. Decisions no one will ever know about, having to do with the guarding of American resources, have caused him much trouble.

Some day when you haven't anything better to do, too around in your mind, all the things that the country has seen sold: bonds, heavy taxes, SEC, the war, labor management committees, international responsibility, social security, war restrictions, federal deposit insurance—just to take a few. All these are now a part of American life. But they weren't sold without historic, epic struggles.

Back of many of these deals, somewhere, sat Henry Morgenthau, Jr. He conceived many of the ideas—figured how to sell them. But because his ideas quietly got passed along to a third party, as a rule, Morgenthau is never around to take the bows.

Making up his mind to ask the Ad-

ADVERTISING & SELLING

APR 25 1945

Miss Chauncy

Dear Mr. Phillips:

Before the Seventh War Loan drive begins I want to thank you for the splendid cooperation and untiring energy you have given the Treasury's program for war finance.

The success of the program in Kentucky is due in large measure to your keen interest and able leadership. Through your efforts and those of the other State Chairmen, a total of 165 billion dollars has been invested in Government securities by non-bank investors, of which 54 billions was bought by individuals alone, and today more than 85 million Americans hold War Bonds.

This is a remarkable achievement, and one that has proven a great source of strength to your Government. It demonstrates in a very concrete way that our democratic way of life is stronger and our leadership more intelligent than that possessed by any despotic power.

I know that you are finding a two-fold satisfaction in this work. You are selling your fellow citizens the safest investment in the world--a share in America--and at the same time you are helping them to supply the funds needed to win the war and secure the peace.

The Seventh War Loan will challenge the enthusiasm and determination of all of us, especially since the \$4 billion E bond quota is the largest of all drives to date. I know that you and Mr. Williamson will meet Kentucky's \$44 million share with the same undaunted resolution as before. May I express again heartfelt thanks for your past cooperation and best wishes for success in the tasks that lie ahead.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. S. Albert Phillips
War Finance Chairman
510 Republic Building
Louisville 2, Kentucky

PJC:MGL 4-24-45.

APR 25 1945

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Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Ben Williamson, Jr.
War Finance Chairman
608 Second National Bank Bldg.
Ashland, Kentucky

PJC:MGL 4-24-45.

Treasury Department
Division of Research and Statistics 108

Date April 25, 1945

To: Secretary Morgenthau

From: Mr. Haas

I have checked the attached memorandum with Mr. Bell and Mr. Uamle. They think it is OK, but Mr. Bell says he "questions going too far on currency in a War Loan."

109
Treasury Department
Division of Research and Statistics

Date 4/26/45 1945

To: Mrs. McHugh

From: P. Finn

This memorandum is in response to the Secretary's request made to Mr. Haas while they were in Florida.
(Request made on Saturday, March 31.)

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 25, 1945

TO Secretary Morgenthau
FROM Mr. Hagg
Subject: Converting currency in circulation into war bonds in the Seventh War Loan

In accordance with your request we have been considering what can be done during the Seventh War Loan to move some of the increase in currency in circulation into war bonds. The problem is an extremely delicate one and, as I previously mentioned, I think it should be approached with considerable caution. The whole war financing program might be harmed if sales promotions were undertaken that were discussed by the public in a manner that tended to impair the people's confidence in the nation's currency. There are some specific steps that might be considered by the War Finance Division, however, and suggestions in this respect are made later in this memorandum.

Our analysis of the currency situation has, as you will recall, led to the conclusion that the outstanding supply of currency is not out of line with that of other forms of liquid assets. War levels of business activity have required a much greater volume of all forms of money than was necessary before the war. After five years of war-time business operations, currency represents about 9 percent of the major forms of liquid assets of nonbank investors as compared with 8 percent in December 1939. Nonbank investors as a whole are, in other words, keeping roughly the same percentage of their total liquid assets in the form of currency today as they did before the war boom in business actually started.

As related to war bond sales prospects, an analysis of the currency situation starts with the question, "Who has the currency?" We know that nearly all of the currency is in the hands of individuals, but beyond that no figures are available. However, it seems clear that persons holding increased amounts of currency may be divided into four groups as follows:

- 2 -
- (1) Those who find currency a convenient way to save or to accumulate funds.
 - (2) Those who are salary and wage earners and who find that more cash is needed in their daily lives.
 - (3) Those who are in business as individual proprietors and are using an expanded volume of currency in their day to day operations; or have accumulated currency as their inventories on receivables ran off or as property replacements were not made.
 - (4) Those who have made profits in black market operations or are evading taxes.

These groups are not, of course, mutually exclusive. The sales prospects with respect to each of these groups differ sharply, however, as is discussed in the paragraphs that follow.

(1) Persons holding currency as a convenient form of savings. A great many people hold currency because it is a convenient way to save or to accumulate funds. Theoretically, all of these persons should be good prospects for a stepped-up war bond appeal. Actually many of them are not likely to wish to change their savings habits -- which they have built up over a period of the war -- and they may not, therefore, be actually in the market for war bonds.

(2) Salary and wage earners. Many persons have found that their war jobs brought them a higher level of expenditure in connection with the earning of their increased incomes. As a result more pocket cash is carried about by millions of persons for their convenience in meeting their living expenses. A reduction in the volume of currency involved would be difficult and in total would not amount to much.

- 3 -

(3) Individuals in business. Many of these persons may have found, by this time, that they have expanded their cash balances to a greater degree than absolutely necessary. Some merchants, for example, who now have smaller stocks of goods than heretofore, may be persuaded to put some part of their working cash on hand into war bonds.

A series of special sales promotions directed specifically at persons in business could be conducted through the banking and investment divisions of the State War Finance Committees. Whether these would produce sales greater than would be produced by the Seventh War Loan activities currently being planned by these divisions is a matter that may well be looked into.

(4) Black market operators and tax evaders. Persons in this category do not want their currency holdings identified. No amount of persuasion will, it seems to us, cause them to invest any large proportion of their currency in war bonds. These people are subjects for our police forces and the courts -- if it can be proved that the currency holdings have been illegally obtained -- and they will have to be disregarded for purposes of the war bond promotion program. However, the number of persons likely to be involved is small enough to lead to the conclusion that only a small fraction of the currency in circulation is held by persons in this category.

A study of the last three categories mentioned above leads to the conclusion that only a minor fraction of the currency increase is involved in those categories. Most of the currency seems to be held by persons who were included in the first category above -- those who hold currency as a convenient form of savings. The real question is, therefore, "Why do these people prefer currency to bonds for this purpose?" There are many reasons. Some persons feel that cash is more liquid than bonds; some that it is more convenient and more easily available; some that it is "safer" than bonds and that it can't be frozen or earmarked. Some persons feel that they own all the bonds they need or should have; they have been putting 10 percent of their pay into bonds on the payroll savings plan and have been buying extra bonds for cash during drives. Thus they feel they have purchased all the bonds that the Government has specifically asked them to buy.

- 4 -

Some persons feel that currency holding permits them to maintain privacy as to their financial affairs. They don't want their bond purchases to indicate to their neighbors, relatives, or friends the volume of their accumulated savings. Some people like to have the feeling of having cash on hand. It makes them feel richer or more well-to-do. Then there are other persons who feel that it is unpatriotic, embarrassing, or just a nuisance, to have to cash bonds; as a result, they keep their temporary funds in currency. Included herein may be business people who have accumulated funds from inventory or receivable liquidations, and who are holding these funds preparatory to expending them for business purposes as soon as the situation warrants.

All of these reasons, and probably many others, are important motivating factors among the segments of the population who are holding currency as a convenient form of saving or of accumulating funds. It is likely to be difficult to overcome these factors quickly or effectively.

More than heretofore might be done, it is true, in the attempt to channel currency into bonds. The sales appeal would have to be based on the same fundamental factor as other war loan appeals -- principally patriotism and self-interest -- but the advertising could be turned so as to give it a currency twist. Some examples of what has been done in a number of States on this account are attached. It is only fair to say, however, that it seems doubtful to us as to whether such efforts, if applied on the national scale, would make any dent in the rising trend of currency in circulation.

Attachment

Promotions to channel currency into war bonds
developed in a number of States

(1) At the plants. In the drive for the sale of extra bonds at some of the larger war plants, the workers were specifically asked to bring in cash money on a designated day. The whole campaign at these plants turned the spotlight on the idea of bringing in currency previously kept hidden in cookie jars, under the mattress, down the basement, etc., and using this currency for the purpose of buying bonds.

(2) Among merchants. Teams of business men called on other business men to discuss with them the desirability of cutting down the size of their cash balances and putting the money into bonds. In some cases, the organization was by streets with every merchant on the block assigned to a particular solicitor. All solicitors were business men themselves.

(3) Advertising. Promoting literature laid special emphasis on the points of similarity between currency and war bonds. After that idea was discussed at length in text, diagrams, and pictures, the special characteristics of war bonds that made them superior to currency were set forth.

(4) Special promotions. In order to dramatize the purchase of war bonds from funds held in the homes, trucks were sent around to the various towns carrying war bond sales teams including persons who acted as issuing agents. These persons accepted cash over the counter and issued the bonds immediately. The operation permitted persons who didn't want their local bank or postmaster to know how many bonds they were acquiring to buy bonds from a mobile unit.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Date April 25,
1945

TO Secretary Morgenthau
FROM Randolph Feltus

Fitzgerald asked me to send you this memorandum on details of the radio program on which you are to appear next Monday evening (April 30).

The program will originate in Blue Network's Hollywood studio. Several top-flight stars - Olivia de Havilland, Charles Bickford, Edward G. Robinson, and others - will dramatize the theme of World Security for 20 minutes. (I gave you a copy of the script).

When the dramatic part has finished, you will be cut in from Washington for an 8-minute talk on what Bretton Woods means to world security. (I gave you a proposed draft of this. It is written long and will have to be cut.)

The Blue Network would prefer to have you speak from their studio, but, if you prefer, will set up the microphone in your office or home. Please let me know your preference.

The show opens in Hollywood at 6 p.m. P.W.T. or 9 p.m. E.W.T. Your part will begin about 9:20 p.m. E.W.T.

R.F.
I want take South

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Date April 25,
1945

TO Secretary Morgenthau
FROM Randolph Feltus

The more I think about it, the more I become concerned over the advantage the opposition has gained by the unfortunate publicity on the matter of a compromise on Bretton Woods.

I am told by a friend that certain financial people in New York have been jubilant and have told their Republican friends in Congress, "if you hold out long enough Treasury will meet our demands." In other words, they have new courage whereas they were ready to give in and save their face before this compromise business got out of hand.

I recommend that we take a forthright position at once, with the consent of Spence, Wagner and Tobey, whereby we state that we are willing to accept the CED recommendations, and the other non-serious changes, but will go no farther. We can make it appear that in meeting the CED recommendations, we are making a real concession. Then, I strongly recommend that we fight to the finish on that basis without giving another inch.

Aside from giving aid and comfort to the opposition, the indefinite compromise situation as it now stands is throwing confusion into our own supporters. First, we state unequivocally that amendment will ruin Bretton Woods. We are backed in this position by more than a hundred organizations. Then we let it appear that we will

- 2 -

accept serious amendments. Our supporters can't understand that kind of wavering.

And, I might add, we are in a strong position and don't need to compromise.

R.F.

MR. CHARLES BELL'S OFFICE TO

118

Mrs Keat
wishes the
Secretary
with to make
a designation
per

O.K.
Hngi

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

April 25, 1945

TO Mr. Charles S. Bell
FROM J. V. Fehle

I am advising the Secretary that I am planning to be away from May 1 to May 15. If you concur, I suggest that arrangements be made for Mr. Mack to report to you during my absence.

*pm**J. V. Fehle*

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE
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FROM J. V. Fehle

I am advising the Secretary that I am planning to be away from May 1 to May 15. If you concur, I suggest that arrangements be made for Mr. Mack to report to you during my absence.

[Signature] *[Signature]*

4/25/45
not used
120

Summary report of progress made in intensified investigation of tax evasion, particularly as related to Black Market operations.

The Treasury is receiving active cooperation from other Government agencies, such as the Office of Price Administration, the Department of Justice, from financial circles, and from the public.

Fifteen important income tax cases have been referred to the Department of Justice since March 1.

This list includes the first cases involving black market operations completed since the opening of the present drive.

New procedures are being developed under which it is expected that such cases can be brought before grand juries with dispatch.

The first few weeks of the drive have produced "leads" in some 2,500 cases which have been referred to the field offices as rapidly as possible. This information is being screened, and first attention given to cases apparently involving large-scale, flagrant violations, but insofar as manpower will permit, every clue presented will be followed out vigorously.

Investigations already have been developed to the point of early court action involving additional taxes and penalties of as much as \$2,000,000 in a single case.

Payments in excess of half a million dollars in some cases have been received on supplemental tax returns filed after investigations were underway.

Recent transactions in large denomination bills traced through three banks in a single city total nearly \$11,000,000. The treasury is looking into the sources of income of the persons handling this currency.

The Treasury is tracing transactions totalling some \$3,000,000 in checks cashed outside regular banking channels under circumstances which indicate that this device might have been used so that proceeds would be omitted from regular records and income tax returns.

The Department is investigating evidence that in numerous cases various individuals purchased large annuity insurance policies for cash, in one instance \$50,000 being drawn from a safety deposit box for this purpose, and in another, \$61,000 in currency being transported to the office of an insurance company in a suitcase. Such evidence will be checked against income tax returns.

The Treasury is devoting particular attention to cases which involve over-calling transactions in commodities with the thought that prompt prosecution of such cases will have a salutary effect at a time when this type of black market operation is posing a serious threat to the whole price control program. The OPA has furnished information in some 2,000 cases which are being investigated from the tax liability angle vigorously in Revenue field offices.

War contractors figure in several of the largest cases being developed.

Analysis of a sample of 500 cases from ten of thirty-eight field divisions of the Income Tax Unit and from ten of sixty-eight collection districts shows that the apparent tax evasion activities spread over a wide field. Of these cases, 173 involve liquor transactions (a field in which the Treasury investigators became active more than a year ago), sixty-nine involve large currency transactions, forty-seven produce sales, twenty-six jewelry, twenty-three textiles, clothing, etc., twelve meat; and smaller numbers involving such businesses as machinery, restaurant, automobile, petroleum products, scrap metal, tires, gambling, and others.

The following cases are typical:

During 1943, a midwestern wholesaler in wines, liquors, and groceries appears to have made sales in excess of CPA ceilings totalling \$172,000, most of which appears to have gone to an officer of the corporation; and which amount was not recorded on corporation books or reported in tax returns. The investigation was carried back into previous years, as a result of which additional taxes and penalties are proposed for assessment against the firm and its officers of more than \$500,000 for a six year period, plus prosecution for the alleged 1943 delinquency.

Another midwestern manufacturing concern is alleged to have diverted sales from books of account to the pockets of officers, and to have engaged in other irregularities involving \$2,600,000 for years 1941, 42 and 43, which will result in assessment of additional taxes and penalties of more than \$2,000,000. Two other cases involving similar suppression of proceeds from sales, one an automobile equipment concern, and one a rubber business, involve tax liabilities of \$600,000 and \$200,000.

Surveys of fur and jewelry businesses, and real estate transactions in several districts have turned up leads both from the standpoint of possible evasion of excise and stamp taxes and income tax evasion. One Massachusetts firm of manufacturing jewelers faces additional taxes and penalties of \$270,000.

Additional taxes in excess of \$1,000,000 and prosecution will be recommended against a New Jersey food processing corporation. Another case involves a New York clothing manufacturer.

A partnership in a southern state operating a jewelry business, is reported to have accumulated \$220,000 in \$20 bills which had not been reported for income tax purposes.

We have just obtained indictments in a case of Scranton, Pennsylvania, which, while it dates back to taxable years 1938 and 1939, is quite timely in view of what we are finding in this current drive....a large number of \$1,000 bills were employed in apparent concealment of income. This case involves one, John Kemolo, of Scranton, who was appointed attorney for the receivers of the Williamsport Wire Rope Company. The property of that company was sold at auction to the Bethlehem Steel Company, which was required to pay all costs, including compensation to the receivers' attorneys. Bethlehem paid John Kemolo and his associates \$210,000 of which \$111,000 was deposited in a New York bank to Kemolo's checking account. However, the bank later was required to deliver this amount, charged against the account, to Kemolo's office in Scranton, consisting of 110 thousand dollar bills. The Government charges that John Kemolo, in his original income tax returns, omitted to report \$51,000 of the fees he received from the Bethlehem Steel Company.

Many of the liquor black market cases investigated by Alcohol Tax Unit and CEA in the last year have produced income tax angles which are being pressed rapidly toward early court action. One case, already in the Department of Justice with a recommendation for prosecution on income tax charges involves claims of \$700,000 for taxes and penalties. The company and its president already have been indicted for Price Control Act violations (Winslow-Warren, Limited, Inc., Norwalk, Connecticut.) In breaking up the black market in liquor, the Department submitted for prosecution, through last month, 735 cases involving nearly 2,000 persons, of which 308 cases already had reached the indictment stage, involving 724 persons; and more than 400 persons already had been convicted.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Date
April 25, 1945TO Secretary Morgenthau
FROM Mr. O'Connell

Attached is the April 24th edition of the weekly report from Mr. Nunan to you concerning the current tax drive.

Joseph J. O'Connell

*I want to take up the
Pres on Delano of the
can help us get list
of \$100,000 bottles. Let
us start with 1st lot
Chicago.*

OFFICE OF
COMMISSIONER OF INTERNAL REVENUEADDRESS ONLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

TREASURY DEPARTMENT

WASHINGTON 25

April 24, 1945

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Nunan

Since my last memorandum of April 16, regarding irregular currency operations and black market activities, a record of 1,176 additional O.P.A. violations has been obtained by the Bureau from the Office of Price Administration and the names of the violators are being sent to the appropriate field districts this week. A total of about 3,300 violations of this nature have thus been compiled.

Considering the intricate investigative and tax problems with which we are dealing, I feel that gratifying progress is being achieved by concerted efforts of the Bureau and the Chief Counsel in preparing cases for prosecution. The matter of the income tax liability of Ben Meyers of Cincinnati was the first black market case referred to the Chief Counsel for special attention and this case has been approved for prosecution and will go forward to the Department of Justice in the next day or so. Last week two other cases were referred to the Department of Justice with recommendations for criminal action. One of the cases involves William G. Scheerer of Baltimore. This individual operated a small bakery and beginning in 1941, he purchased large quantities of sugar which was sold in violation of rationing regulations, presumably to moonshiners. He was arrested by investigators of the Alcohol Tax Unit on September 23, 1944, at which time they seized a truck containing a submachine gun and approximately five tons of sugar which he had attempted to sell to a bootlegger for \$1,100. The sugar had cost him about \$530. There is some evidence that he was also engaged in black market traffic in gasoline. Criminal prosecution for evasion of income taxes for the years 1942 and 1943 has been recommended. The other case relates to Bert K. Master of Chicago who was mentioned in our memorandums of April 2 and 10 as a black market operator in electrical appliances. The ramifications of this business extended into the major cities throughout the United States and resort was had to innumerable



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Memorandum
Secretary Morgenthau

schemes on the part of the taxpayer to conceal his sales. In view of the volume of business transacted and devices used to evade income taxes the case has been referred to the Department of Justice with a recommendation that the United States Attorney at Chicago be authorized to conduct a grand jury investigation to determine whether an indictment may be in order for evasion of individual income taxes for the years 1940 to 1943, inclusive. Taxes and penalties which appear to be due from this individual approximate \$356,000.

Responses of Federal Reserve banks to requests for currency information have not been encouraging. It is noted in the report of Special Agent J. Edward Hank that several conferences have been held with Mr. W. R. Milford, Managing Director, Baltimore Branch, Federal Reserve Bank, relative to the subject matter of Under Secretary Bell's telegram. Mr. Milford advised that he had personally contacted about six of the larger Baltimore banks with a view to obtaining the information requested by Mr. Bell but that it appears these banks are hesitant about furnishing such information. The officers of the banks contacted have informed Mr. Milford that because of the confidential relationship between the banks and its depositors it is felt that to furnish such information might result in legal controversies. Mr. Milford further advised that he had conferred with Mr. Leach who found the same situation to exist in Virginia except that in Norfolk the banks appear to be willing to cooperate.

While at Chicago early in April Mr. Milford had occasion to discuss the matter with officials of Federal Reserve banks located in Chicago, Los Angeles, and New York. These officials informed Mr. Milford that the reaction of bankers in their respective districts was about the same as noted in Baltimore with the exception that officers of three of the large banks in New York City had expressed a willingness to secure the information suggested by Mr. Bell. Similar unfavorable reactions have been received from Chicago, Philadelphia, Pittsburgh, San Francisco and Atlanta. Mr. W. S. McFarlin, Jr., president of the Federal Reserve Bank in Atlanta, expressed the opinion that the type of information desired could be more readily secured by national bank examiners and examiners of the Federal Deposit Insurance Corporation by reason of their close contact with bank tellers and minor officials who generally have more knowledge of unusual currency deposits and withdrawals than do officials in higher positions. The coverage

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Memorandum
Secretary Morgenthau

would be much greater by this method, according to Mr. McFarlin, since smaller banks not members of the Federal Reserve system would be included. It was suggested that arrangements be made with the Comptroller of the Currency and the Chief National Bank Examiner to obtain currency information through these sources.

A report of Special Agent Thomas F. Hurney of April 11 refers to an interview with John B. Hyne, president of the Hartford-Connecticut Trust Company, the largest banking system in Connecticut. Mr. Hyne renewed a proposal which has already been considered, that a call be issued for paper currency of all denominations and exchanged for a new type of currency. It is his theory that in this manner the net cash position of all taxpayers could be determined and inflationary processes retarded.

Recently, the Federal Reserve Bank of New York received an inquiry relative to the redeeming of gold certificates in an amount in excess of \$1,000,000. Inquiries by the Secret Service Division disclose that one Theodore H. Racoosin, a public accountant of New York City, had inquired at a bank as to whether gold certificates could be redeemed, representing that he had a client who had about \$8,000,000 in gold certificates which he wished to redeem. When interviewed, Racoosin stated that the question of turning in gold certificates arose during a dinner with some friends, and that he made the inquiry to find out the actual truth about these certificates as one of the members of the party had indicated that people with gold certificates could not cash them as they would be confiscated by the Government. At that time, Racoosin denied that he had a client with gold certificates or knew of the existence of any quantity of gold certificates. The Office of the United States Attorney for the Southern District of New York issued a Grand Jury subpoena to Mr. Racoosin and he was interrogated by Assistant United States Attorney Martin Klein, at which time he stated, "I don't know of anyone in the world that has any gold bills at all and to me it was just pursuing a curious question; no other significance." Another member of the dinner party is to be questioned by the District Attorney after which it will be decided if the matter should be presented to the Grand Jury.

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Memorandum
Secretary Morgenthau

In our memorandum of April 10, reference was made to cash deposits of \$1,658,550 in the personal and corporate bank accounts of Henry Lustig in New York during March 1945. Mr. Lustig's business interests are enmeshed in complex corporate structures and it is not yet known whether the funds represented by the cash deposits were omitted from income in prior years. A further report has been received from New York on the subject and it appears that in 1919 Mr. Lustig organized H. Lustig Company, Inc., which deals in wholesale fruit and produce and for later years in restaurant supplies and equipment. H. Lustig Company, Inc., is thought to own outright the four original Longchamps restaurants and 100 per cent of the capital stock of Restaurants and Patisseries Longchamps, Inc., which owns 100 per cent of the stock of five other restaurants each separately incorporated under the following names:

Lexington Longchamps, Inc.
624 Madison Avenue Corp.
Broadway and 41st Street Corp.
253 Broadway Corp.
Fifth Empire Inc.

In 1937 Lustig married the sister of Arnold Rothstein, a notorious gambler who was murdered about the year 1929. Lustig is widely known as a gambler and as a race track man, and owns and operates a racing stable under the name of Longchamps Farms.

A survey of his personal returns for the last six years indicates that he has reported salaries of approximately \$42,000 for all the years from his restaurant corporations. He reports very small dividends from some other investments, no capital gains or losses, and claims deductions each year between \$5,000 and \$10,000 for losses from the operation of his racing stable. He reports no gambling income or any other miscellaneous income. Special Agent Scanlon expresses the belief that Lustig has substantial gambling income which he has failed to report. The matter of Lustig's income tax liability will be made the subject of thorough investigation.

The present critical shortage in meat attributed to black market activities is receiving appropriate attention, 388 leads of this nature having been compiled with a substantial number under active investigation. A survey of

Lustig

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Memorandum
Secretary Morgenthau

work already done in the Delmarva Peninsula leads to the conclusion that cash in excess of \$3,000,000 representing over-ceiling or "black market" on poultry was spread among the growers, buyers, and processors of poultry in that section. Inquiries to date have disclosed only one instance in which over-ceiling prices were returned for income tax purposes.

During the past year a number of tax fraud cases were investigated at Honolulu and a general tax drive is now in progress there under the immediate direction of Special Agent Hugh C. Irey. I am in receipt of a radiogram from Special Agent Irey advising that tax indictments were returned on April 21 in three Honolulu cases against (1) Wah Yuke Chock; (2) Tadami Kamitaki; and (3) Wah Kam Chock. These cases were in the group investigated prior to the present drive.

I am enclosing current weekly reports from all districts. These reports indicate that the tax drive reached a high point of momentum during the week, with 595 examining officers assigned including 136 special agents, 240 revenue agents and 219 deputy collectors. These examining officers were engaged in the investigation of a wide variety of currency and black market activities, with particular emphasis on meat, produce, jewelry, furs, textiles, and liquor. While an exact compilation has not been completed there are indications that in the neighborhood of 9,000 leads, possibly justifying investigation, are now in the hands of the field services.

In addition to the weekly narrative reports, field officials were requested to submit pertinent statistical data on forms provided for that purpose. An analysis of the forms so far received indicates that some clarification of this requirement is needed. The forms accordingly are being revised and will be sent forward to the field this week with further appropriate instructions.



INTELLIGENCE UNIT

BOSTON

(Office of District)

DAX:air

TREASURY DEPARTMENT

INTERNAL REVENUE SERVICE

Boston 1, Mass., April 21, 1945.

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

In re: Special Tax Drive

The high point of this week's work on the special tax drive was the request for and receipt of a jeopardy assessment against Harold C. Currier who operates the Currier Lumber Company. The taxes, penalties and interest represented by the jeopardy assessment amounted to approximately \$80,000.00. This taxpayer had no bank accounts of any size. We served a lien against a bank and put a sticker on a safe deposit box which we believe contains a large part of his cash funds. In this case the taxpayer purchased approximately \$75,000.00 in cashiers' checks, of which about \$40,000.00 have been identified as coming from a large shipbuilding concern to which he furnished lumber, and investigation has developed that approximately \$40,000.00 worth of checks were not on his books. This case is being worked under the supervision of Special Agent Ierardi and it is expected that the final determination of tax will be in excess of the amount requested by jeopardy.

Special Agent Peabody has been working in New York with a special agent from that division, listing Western Union transfers of money in and out of the northeastern part of the country. Approximately four months have been covered and it is planned to cover 1943 and 1944. The information obtained will be assembled and passed on to various districts. It is expected that practically every division in the country will be affected.

Special Agent Snyder has been exploring the black market situation on fish and has run into a condition which indicates that a tremendous amount of that business has been conducted in cash. One of the features is a black market in scallops, the extent of which may be measured by the fact that for about two years only one shipment of scallops has been received in the Boston district. Most of this product is going

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In re: Special Tax Drive.

to New Bedford and from there in the black market to New York. One of the crack under-cover men of the Alcohol Tax Unit has been borrowed to survey this situation. There are three principal places to cover--T-Warf in Boston, Gloucester and New Bedford. It may be necessary to assign more Alcohol Tax Unit under-cover men after a preliminary survey is made.

The eighteen revenue agents working in conjunction with the special agents in the Boston area are engaged on cases involving black markets in liquor, lumber, jewelry, fish and textiles.

Ten deputy collectors in the Boston area are checking the jewelry and furs and have already reported several leads, some of which involve and have been forwarded to other divisions.

The Connecticut State Police furnished to the Hartford branch office a list of consignees and consignors of poultry passing through Connecticut. Most of the consignees were in New York City and the Special Agent in Charge of that division has been notified. The Collectors of the various collection districts involved have also received this information.

Four revenue agents have been assigned to assist in the black market investigations in the Providence area and they have twenty-eight cases on which to work.

In the Hartford area activity is continuing with full cooperation from the Revenue Agent in Charge and the Collector of Internal Revenue. In the entire division forty-one new cases were uncovered since the last report, making a total of one hundred and twelve black market and cash cases either under active investigation or available to investigate.

Copies of the reports received from Revenue Agents in Charge and Collectors are herewith.

On Wednesday morning I am leaving for Burlington, Augusta and Portsmouth in order to confer with the Collectors in those cities and to arrange for a more complete cooperation in the program.

David A. Kelleher
David A. Kelleher
Special Agent in Charge.

Enclosures.

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INTELLIGENCE UNIT

BOSTON

(Name of Division)

DAX:air

TREASURY DEPARTMENT

INTERNAL REVENUE SERVICE

Boston 1, Mass., April 12, 1945.

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

In re: Special Tax Drive

Herewith are an original and two carbon copies of a memorandum submitted by Special Agent Thomas F. Hurmay, which I believe will be of interest to you. On the second page, in the paragraph marked number one by red crayon, Special Agent Hurmay speaks of an interview with John B. Byrne, President of the Hartford, Connecticut Trust Company, the largest banking system in Connecticut. Mr. Byrne suggested that all paper currency be called in and exchanged for a new type of currency or a new size of bill, with penalties for non compliance. He pointed out that in this manner the net cash position of every person in the country would be known and inflation would be stopped.

Although I am aware that this matter has been considered and abandoned because of the time required to produce the new currency, I am wondering if it would not be a good idea to prepare for such a step now even if it would take approximately two years.

In the paragraph marked with crayon number two, Mr. Byrne raised the question which has been raised very frequently in this district, which is, the legal position of the banks if they furnish information to the Government which the Government has no legal authority to demand under due process of law. In the Boston district we are attempting to work it out on a basis of cooperation, using the anti-inflation features as of supreme importance to the banks.

The above is forwarded merely for your information and for whatever action you may wish to take in regard to it.

David A. Kelleher
David A. Kelleher
Special Agent in Charge.





INTELLIGENCE UNIT

Special Agent in Charge
(Office of Division)

TYPING

TREASURY DEPARTMENT

INTERNAL REVENUE SERVICE

Hartford, Conn., April 11, 1945

Mr. David A. Heller
Special Agent in Charge
Treasury District No. 1
Boston, Massachusetts

Re: Special Tax Drive

In company with Special Agent William C. Teubner, I interviewed John B. Byrne, President of the Hartford Connecticut Trust Company, which maintains twenty-two branches throughout the State, and he stated with regard to currency in amounts of \$500.00 or over, his bank, and none of the branches, have kept any list of persons requesting bills of such denomination; and as far as he knows in the instances in which bills of such large denomination were handled, they were only handled for customers of the bank.

He stopped the conference to inquire about the condition of large denomination bills in the last ten days, and returned with the information that the bank had had numerous requests to accept bills of \$500.00 and over in exchange for small bills. He stated that it is a specific rule of the institution that no large bills at any time will be exchanged for small bills for anyone, except for a customer well known to the bank. He further explained that the Hartford Connecticut Trust is not a member of the Federal Reserve System, and, therefore, they have to keep millions of dollars on hand at all times to supply their customers, and that they have recently been running into a shortage of \$20.00 bills. He said he did not know whether any other bank in Hartford kept a list of persons dealing in bills of large denomination, although he has read about it in the newspapers.

With regard to the purchase of treasurer's checks drawn to cash, Mr. Byrne advised that when he was the Chief Bank Examiner for the State of Connecticut, and at the start of prohibition, he noticed this situation arising where banks were drawing such checks to cash. He immediately, by regulation, prohibited the drawing of any treasurer's

Mr. David A. Heller
In re: Special Tax Drive

check in the State of Connecticut unless it was drawn in the name of a known person or corporation.

Mr. Byrne stated that, in his opinion, the black market and its unreported profits, the loose currency resulting from unreported income, and the other currency which is floating around consisting of kick-backs, bribes, etc., could be broken within three months by one act of the Government, namely, call in all paper currency of all denominations by a given date and exchange it for a new type of currency, or a new size of bill, with penalties of five or ten per cent for those who did not turn them in until after the dead line, plus certain criminal penalties. He pointed out that in this manner, while it would mean a tremendous amount of work for the bank in recording the names and amounts of every person who turned in old currency, the banks would be willing to do it, and would have to do it, and that in this manner the net cash position of every person in the country would be known and inflation would be stopped. He related that he has been informed the \$1,000.00 bills are now selling for \$800.00 and under.

Although he was unable to furnish any list of persons dealing in bills of large denomination, Mr. Byrne immediately raised the question as to the liability of the bank, or any bank, if they did furnish the Government with names of persons without the Government having the legal authority to demand it under due process of law.

It is recommended that a copy of this communication be forwarded to the Chief, Intelligence Unit, so that officials in Washington may have the benefit of the opinion of probably the most outstanding and best founded banker in the State of Connecticut.

Thomas F. Hurney
Thomas F. Hurney
Special Agent



INTELLIGENCE UNIT

New York

(Name of Division)

WFM:ADS

CONFIDENTIAL

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

In re: Special Tax Drive

Progress Report for Fourth Week
Ending April 21, 1948

In accordance with your instructions to submit a weekly progress report, the following is a summary of developments during the past week:

Large Currency Deposits

In the report of April 7, reference was made to a list of depositors who deposited large bills in substantial amounts totaling \$10,991,566 during the period July 1, 1944 to March 16, 1946, compiled at the Federal Reserve Bank by special agents of this office for use in the current tax drive. During the past week, separate cards listing such depositors were prepared by this office, separated as to Revenue Agents' Districts and distributed as follows:

Upper New York Division	536
Second New York Division	140
Brooklyn Division	97
Newark Division	8

In addition thereto, Special Agent in Charge, Atlanta Division - 3, Special Agent in Charge, Boston Division - 3, and one each was sent to the Special Agents in Charge at Chicago, Philadelphia and San Francisco Divisions, making a total of 789.

The Revenue Agents in Charge were requested to make immediate investigations on the basis of returns for late years and to extend the investigations to include the year 1944 on the taxpayers' retained copy.



They were particularly enjoined to exercise caution to prevent disclosure of the source of the particular information with respect to large currency deposits, and to report to this office as soon as any evidence of evasion was found.

Henry Lustig

Proprietor, Longhams Restaurants. He also is engaged in the produce business and owns and operates a stock farm and racing stable.

In the report of April 7, reference was made to a memorandum from Mr. Joseph J. O'Connell, General Counsel, relating to large cash deposits made by Mr. Lustig and his corporations totaling \$641,600 between March 3 and 13, 1946. Investigation by Special Agent James F. Scanlon of this office showed that the total deposits for the month of March 1946 were \$1,658,560. Nearly all of these deposits consisted of \$500 and \$1,000 bills.

As it appeared to be an almost impossible job to find the 1944 return of Mr. Lustig in the Collector's Office at this time, until they would be indexed perhaps two months hence, Special Agent Konyne sent Special Agent Scanlon to Lustig's banks to examine personal checks drawn by him which had not yet been returned. In this manner, the check made payable to the Collector, Second District of New York, for the March 16th payment was found, and with the Collector's serial number stamped thereon. With this information, Lustig's 1944 return was found in the Collector's Office and arrangements have been made to have a revenue agent from Mr. Krigbaum's office begin an examination of Mr. Lustig's 1944 return on Monday, the 23rd instant.

Adam Batiste
Corporal, United States Army

Captain Wolf of the Army Intelligence at Governors Island, New York City, reported that Corporal Adam Batiste, who had been stationed in the Pacific area since May 1942, had transmitted to the 126th Street Branch of the Manufacturers Trust Company and had on deposit \$54,376.90, which Batiste said he had won shooting crap in Australia. Investigation by Special Agent Scholp verified this statement that there was \$54,000 at the bank to Batiste's credit.

Batiste is presently under investigation by the Army and it was believed that the tax due on the above amount was in jeopardy. Accordingly, a prompt investigation was made and a jeopardy assessment was recommended by this office for the years 1942, 1943 and 1944, and the year 1946 closed as of April 18th. The tax for that period was determined to be \$8,662.17 and a lien was filed with the bank in that amount.

Check Cashing Cases

On April 12, a special report was submitted to you relative to a preliminary investigation under way of confidential information relating to the cashing of checks by a number of check cashing agencies in New York City, and enclosing a memorandum report prepared by Special Agent Max Stein, dated January 12, 1945, showing a total of 138 individuals and firms that had cashed checks at these agencies in a total amount of nearly three million dollars.

Special Agents Coyle and Converse have been developing information with respect to a number of them, and yesterday a special report requesting a case jacket on the following one was submitted.

General Desserts Corporation

423 West 13th Street, New York, N. Y.

and

Anthony Armentano

3558 - 78th Street, Jackson Heights, New York

The investigation disclosed that Anthony Armentano, treasurer of the above-named corporation, had cashed checks payable to the corporation in a total amount of \$59,796.33. Preliminary investigation disclosed that none of the checks known to have been cashed were entered on the books of the corporation.

Armentano was questioned under oath by the special agent and admitted that the practice of cashing checks had existed in the years 1942 to 1944, inclusive; that such checks represented sales omitted from the corporation records and from their income tax returns, and that he had personally retained the cash proceeds. It is estimated that the income so diverted will amount to somewhere between \$200,000 and \$300,000 for the three year period. Investigation of this is being continued.

Herman Feldman

200 Madison Avenue, New York, N. Y.

Under date of March 24, 1945, you transmitted to this office a communication indicating that information had been sent from Florida to the effect that Feldman is reputed to be very wealthy and is said to have lost \$40,000 on the crap table one night at Sunny Isles Casino, Miami Beach.

Under date of April 16, there was transmitted to your office a report relative to this individual by Special Agent Thomas J. Quirk. This report sets forth that the taxpayer is about sixty-six years of age; that from December 15, 1944 to March 15, 1945, he and his wife were

guests at the Honey Plaza Hotel, Miami Beach, Florida. According to Mr. Feldman, his wife is under the care of Dr. Charles I. Lambert, psychiatrist, and that it was the doctor's recommendation that the patient be taken to Florida for a rest. The taxpayer's personal checks were carefully examined and no disbursements of an unusual nature were noted. The taxpayer stated that while in Florida, he and his wife had visited Brook's at Miami and Bradley's at Palm Beach, and that Mrs. Feldman had played roulette on two occasions, not winning or losing more than \$50 each time. He stated that he did not himself gamble nor did he advance any large sums of money to be used for gambling purposes. He added that about five years ago he visited at Sunny Isles Casino, but had never been there since. The report enclosed an affidavit of the taxpayer relative to the above statements.

Revenue Agent Zagorin of the Upper New York Division is conducting a thorough examination of Mr. Feldman's 1942 and 1943 income tax returns.

The special agent concludes with the statement that there appears to be no basis for the allegation that he "lost \$40,000 on the crap table one night", and, furthermore, that there is no indication of any unreported income or other irregularities involving the taxpayer.

Benjamin and Tina Zuckerman

15 Mansbury Avenue, Newark, New Jersey

and

Jerry and Mae Pressman

118 Keer Avenue, Newark, New Jersey

Benjamin Zuckerman was indicted and plead guilty on February 25, 1938, for willfully attempting to defeat and evade his income taxes for the years 1930 and 1931. He was sentenced to a term of five years, which sentence was suspended by Judge Forman. Zuckerman did not pay the taxes due and Special Agent Jeffers is now conducting an investigation of an offer in compromise filed by Benjamin Zuckerman in the amount of \$1,500 in full settlement of tax, penalties and interest in a total amount of \$81,778.18. Accompanying the offer in compromise was a statement of financial condition on Form 433, with all the pages blank excepting page 7, which showed total receipts of \$3,500 for the twelve months previous to the date of the offer, February 1944, and disbursements of \$3,200 for the same period.

During the investigation of the offer, it was ascertained that Tina Zuckerman, the wife of Benjamin Zuckerman, had during 1944 acquired one-half interest in the Colony Surf Club and one-half interest in the West End Casino, both located in Long Branch, New Jersey. The other half interests were equally divided between Jerry Pressman and his wife, Mae.

Pressman was formerly engaged in the meat business in Newark, for the most part as a single proprietor, although for a short period at the end of 1942 he was associated with one Paul Neubeum. Pressman and Neubeum were indicted in the early part of 1943 for O.P.A. violations. Pressman filed returns for 1942 and 1943 indicating a gross income of \$10,915.35 and \$16,211.26, respectively. The bulk of the 1942 income was a net profit from his business as meat dealer, of \$8,846.79. In 1943, the principal source of his income was a gain of \$11,636.06 on the sale of securities.

In connection with the purchase of the Colony Surf Club and the West End Casino, it was ascertained that approximately \$50,000 was paid in each instance upon acquisition of the properties. Also, in each case a mortgage was given to the sellers for approximately \$100,000. During the balance of 1944, about \$50,000 was paid off on these mortgages. Thus, a balance of \$150,000 was expended by them during this year. Investigation is being continued to determine the source of this substantial sum inasmuch as returns filed by the individuals concerned do not indicate their past earnings to have been sufficient to acquire this amount of cash. Various bank accounts have been located and are being analyzed.

Liquor Black Market

Murray Radler
Newark, New Jersey

Special Agent A. C. Mason is investigating alleged unreported profit in black market operations in the sale of liquors by Radler and others during the year 1943, as it has been reported by the Newark office of the Alcohol Tax Unit that these men had received "cash side money" representing over ceiling payments.

Milltown Distilling Corporation
Nathan Passamant
New Brunswick, New Jersey

Special Agent Benjamin J. Kress is investigating the alleged profits made in black market sales of liquor by Nathan Passamant who, together with his brother, John, is connected with the Monte Carlo Wine Company, Inc., Mid-State Vinegar Company, Strait Oil Company, Pasbro Realty Company, M. P. Holding Company, and Pal Pas Realty Company. The files of the Alcohol Tax Unit disclose that Nathan Passamant and the Monte Carlo Wine Company, Inc., were indicted January 20, 1942, for conspiracy to violate Internal Revenue laws in 1940 and 1941, and the case was closed January 24, 1944, with a compromise payment of \$25,000 which was accepted by the Department of Justice.

It is significant to note that the Monte Carlo Wine Company filed an amended tax return in September 1944 for the year 1942, paying taxes of \$3,869.13. Non-taxable returns were filed for the years 1939 to 1942, inclusive, and a delinquent return for 1943 in September 1944, paying taxes of \$12,471.13. Nathan Passamant filed tax returns for the years 1939 to 1942, inclusive, but none for 1943. Non-taxable returns were filed for 1939 and 1940 and for 1941 and 1942 he paid taxes of \$46.67 and \$157.27 for those years, respectively.

By reason of the small amount of tax paid by Nathan Passamant, considering his investments in a number of companies, and because the Monte Carlo Wine Company filed amended and delinquent returns for several years, it is believed that a thorough investigation should be made of the activities of both Nathan and John Passamant, as well as of the companies they are connected with.

The foregoing information will be transmitted to the Internal Revenue Agent in Charge, Newark, New Jersey, and a request will be made that a revenue agent be assigned to cooperate in a joint investigation.

Arthur W. Banko
Contracting Engineer
Kew Gardens, New York
(SI-18984-F)

Banko was indicted by the Federal Grand Jury, Southern District of New York, on the 20th instant for attempting to defeat and evade his income taxes for 1940. Banko had reported a taxable income of \$26,009.54 with deductions of \$16,241.46, making his net income appear to be \$9,768.09, whereas his correct income was found by our agents to be \$62,472.33 with allowable deductions of \$6,113.23, a taxable balance of \$56,359.10. He reported and paid a tax of \$503.61, but should have paid \$18,061.30.

There are five Revenue Agents in Charge and seven Collectors in the territory of the New York Division of the Intelligence Unit and it is believed that they are all now actively cooperating in this campaign. It is understood, of course, that it takes time to get a campaign of this kind organized and that it may be some weeks before real results are obtained from the vast amount of material we have already put in line for investigation. Experience has shown that some of the best cases may be spoiled by attempting to rush them.

There is herewith our weekly report on Form SI-106. There are also enclosed the forms received from the Collectors of the First, Third and Fourteenth Districts of New York, and the Revenue Agents' weekly reports as follows:

Upper New York	SI 101, 103, 106
Lower New York	SI 103, 106
Buffalo	SI 103, 106
Newark	SI 103, 106

H. McQuillan

Hugh McQuillan,
Special Agent in Charge.

Enclosures.



INTELLIGENCE UNIT

New York

(Name of Location)

JFS:AM

TREASURY DEPARTMENT
INTERNAL REVENUE SERVICE

New York (7) New York
April 21, 1945

SPECIAL TAX DRIVE

Report Received, Approved and
Forwarded to Chief, Intelligence Unit

H. McQuillan
Special Agent in Charge
New York Office

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

In re: Henry Lustig,
New York, New York.

Reference is made to your letter dated April 11, 1945 in which it was requested that a brief report be submitted regarding the income reported by the above named individual and his related corporate entities in recent years. Inasmuch as the large cash deposits were made in March, 1945, question naturally arose as to whether or not these funds represented income omitted in prior years or were income in the year 1945. Your letter stated that it was desirable to know whether there are any indications that the funds represented by the cash deposits represented income from prior years and omitted on the returns.

Henry Lustig is about 50 years of age; native born of German descent. He started his business career in the year 1917 as a partner in a small fruit venture. In 1919 he organized H. Lustig Company Inc., which deals in the wholesale fruit and produce and in later years in restaurant supplies and equipment. It is not definitely known but it is rumored that Longchamps Inc., which operated for high class and expensive restaurants, became financially embarrassed to Lustig and to other creditors about 1933 and that Lustig, in order to protect his accounts receivable due from Longchamps Inc., took over control of the restaurants. With his coming into control the four original restaurants prospered and five more have been since added.

It is believed that the financial setup is as follows:

H. Lustig Company Inc. owns outright the four original restaurants and 100 per cent of the capital stock of Restaurants and Patisseries Longchamps Inc., which owns 100 per cent of the stock



In re: Henry Lustig.

of the five other restaurants, which are individually incorporated and which are listed as follows:

Lexington Longchamps Inc.
624 Madison Avenue Corp.
Broadway and 41st Street Corp.
283 Broadway Corp.
Fifth Empire Inc.

In 1937 Lustig married the sister of Arnold Rothstein, a notorious gambler who was murdered around the year 1929. Lustig is widely known as a gambler and as a race track man, and owns and operates a racing stable and at present has about a dozen horses which he races under the name of Longchamps Farms.

A survey of his personal returns for the last six years indicates that he has reported salaries of approximately \$42,000 for all the years from his restaurant corporations. He reports only very small dividends from some other investments, no capital gain or loss, and claims deductions each year between \$5,000 and \$10,000 for losses from the operations of his racing stables. He reports no gambling income or any other miscellaneous income. It is believed that Lustig has substantial gambling income which he has failed to report. It is believed, however, that this gambling income could not have amounted to the \$1,000,000 that he deposited in cash in March, 1946. It is believed but there is no proof whatsoever that his restaurants have understated their receipts and that he has diverted the proceeds to himself. It is believed that this diversion is of recent origin, for up to a few years ago Longchamps had a no tipping system whereby an automatic 10 per cent was added to each bill for the waiter. With such a system the waiters would know the amount coming to them and that it would be difficult to omit receipts for any examining revenue agent could easily verify the true receipt by computing the amount paid to the waiters. The no tipping rule was discontinued a few years ago and the restaurants operate like any other restaurant now with tips going directly to the waiters. It will be seen that if gross receipts have been diverted to Lustig personally that it was much easier to have done so in the last few years with the discontinuance of the no tipping rule.

This case has been discussed with the Internal Revenue Agent in Charge, C. R. Krigbaum, of the Second New York Division, and he has assigned Revenue Agent Donald Diehl of his office to cooperate in a joint investigation. Revenue Agent Diehl has had several conferences with this office and plans to begin his investigation the first part of next week. Further developments will be reported as they occur.

James F. Scanlon
James F. Scanlon,
Special Agent.

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INTELLIGENCE UNIT

New York

(Name of Division)

EFC:MES

TREASURY DEPARTMENT

INTERNAL REVENUE SERVICE
255 Broadway, 10th Floor
New York, 7, New York
April 20, 1946



FOR SPECIAL ATTENTION - CURRENT TAX DRIVE

Report Examined, Approved and
Forwarded to Chief, Intelligence Unit

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

J. M. Quinn
Special Agent in Charge
New York Division

In re: General Desserts Corporation,
425 West 18th Street,
New York, New York

Anthony Armentano,
3658 - 78th Street,
Jackson Heights, New York

In the general investigation of firms cashing checks through check cashers, information was obtained that in the year 1943 Mr. Anthony Armentano, Treasurer of the General Desserts Corporation, had cashed checks payable to the General Desserts Corporation in the total amount of \$59,796.33. Preliminary investigation made at the office of the General Desserts Corporation disclosed that none of the 15 checks known to have been cashed were entered on the books of the corporation.

Armentano was questioned under oath at this office today and stated that the practice of cashing checks had existed in the years 1942 to 1944 inclusive, that the omitted sales represented income omitted from the books and income tax returns, and that he personally had received and retained the cash proceeds of all of the checks cashed. Armentano listed the names and addresses of the customers whose checks had been diverted to himself. Armentano claimed that he had no records of the specific transactions and accordingly could not tell the total of the diversions. It is believed, however, that the total omitted income for the three year period will exceed \$200,000 and may be as much as \$300,000.

The corporation filed its tax returns in the office of the Collector of Internal Revenue, 3rd District of New York. The return for the year 1944 filed on March 15, 1945 has not yet been located. The returns for the years 1942 and 1943 were:

FOR SPECIAL ATTENTION - CURRENT TAX DRIVE

In re: General Desserts Corp.
Anthony Armentano

<u>Year</u>	<u>Form No.</u>	<u>Serial No.</u>
1942	1121	56740
	1120	702851
1943	1121	401652
	1120	413932

These returns were examined by the office of the Internal Revenue Agent in Charge, Upper New York Division. The omitted sales were not discovered in the course of that examination, nor did Armentano advise the revenue agent of the omissions.

It is requested that the above mentioned returns, which were forwarded to the Bureau on September 16, 1944 be sent to this office.

It is believed that the foregoing discloses that the income tax returns filed by the General Desserts Corporation and Anthony Armentano fraudulently understated the respective incomes.

It is recommended that a case jacket be issued and forwarded to this office for completion covering the alleged fraudulent evasion of income taxes by the General Desserts Corporation and Anthony Armentano for the years 1942 to 1944 inclusive.

Eugene F. Coyle
Eugene F. Coyle,
Special Agent



INTELLIGENCE UNIT

PHILADELPHIA
(Office of Division)

SI-AIF-cks

TREASURY DEPARTMENT
INTERNAL REVENUE SERVICE

Philadelphia, Pa., April 21, 1945.

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

In re: Current Tax Drive

In accordance with the request of the Commissioner, there is set forth herein a report of progress made during the past week on the current tax drive:

Atlantic City Real Estate

Photostating of abstracts of deeds of real estate sold in Atlantic City, New Jersey, during the years 1943 and 1944, was commenced, with the cooperation of the Alcohol Tax Unit. A survey was made of a few transactions to be used as an indication of the value of this information. The first test case revealed that real estate was purchased by a Philadelphian for \$30,000, \$20,000 of which was paid in cash, the balance being a mortgage. The income tax return filed by this taxpayer for the year 1943, revealed income of approximately \$2,000 from the operation of a taproom. This and other selected cases are under active examination by revenue agents.

Newspaper Clippings

With the cooperation of the Collector of Internal Revenue, Philadelphia, Pennsylvania, information contained in the file of newspaper clippings maintained as part of the regular service of this office was segregated; the filing record of the taxpayers involved is being ascertained; and positive leads as to violators of Office of Price Administration regulations is being forwarded to the proper examining agencies.

Federal Reserve Banks

Mr. C. A. Slankiewicz, Vice-President, Federal Reserve Bank, Philadelphia, Pennsylvania, reported that he has diligently contacted the various member banks in this area and that an officer of only one bank had expressed a willingness to cooperate in the



Current Tax Drive

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program outlined in Under-Secretary Bell's telegram of March 24, 1945. No leads have been forthcoming from this source.

Mr. J. W. Kossin, Managing Director, Pittsburgh Branch, Federal Reserve Bank of Cleveland, advised that he personally contacted all of the larger banks in the Pittsburgh area but found them definitely unwilling to furnish any information of this character unless the same is required by the Government under summons.

Mr. Slankiewicz is conducting a study of the flow of bills of large denominations through the Federal Reserve Bank in Philadelphia. He advised that the number of bills of this character received during the month of March was greatly in excess of the preceding months. It is hoped that this study will be completed in the very near future so that we may ascertain what tangible leads may be derived therefrom.

Poultry Dealers, State of Delaware

There is transmitted herewith a communication received from Mr. H. L. Brown, Senior Internal Revenue Agent, Wilmington, Delaware, relating to the black market in poultry in the Delaware Peninsula.

Preliminary estimates of this situation indicate that the vast majority of poultry sales made during 1943 and 1944, were at black market prices or that the amounts received above ceiling were omitted from income tax returns. Mr. Brown estimates that there is apparently \$3,600,000 in cash spread among the members of the industry on the peninsula, and that so far his inquiries disclose only one instance in which over-ceiling prices were returned for income tax purposes.

Office of Price Administration

Mr. A. F. Schuster, Internal Revenue Agent in Charge, Philadelphia, Pennsylvania, advised that the master list of damage suits instituted by the Office of Price Administration for ceiling price violations has now been decoded and the cases are being assigned to revenue agents for immediate examination.

Pittsburgh Area

Mr. Stanley Granger, Collector of Internal Revenue, Pittsburgh, Pennsylvania, stated that he has come to the definite conclusion that black market in meat is operated in the southwestern part of Pennsylvania. This market would be on cattle originating in west Virginia.

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Current Tax Drive

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and Ohio. A definite study of this subject will be made during the forthcoming week.

Excise Taxes on Furs and Jewelry

All Collectors of Internal Revenue in this district were asked to consider the feasibility of organizing groups of deputy collectors in the larger cities to make a thorough canvass of excise tax returns filed by dealers in furs and jewelry.

There is transmitted herewith a communication received from Mr. Stanley Granger, Collector of Internal Revenue, Pittsburgh, Pennsylvania, in which it is stated that in 1943, a thorough canvass was made in the cities of Pittsburgh, Erie and Johnstown, Pennsylvania, on this class of tax. The results in collections justified the time spent on this work for which reason Mr. Granger believes that the project suggested is considered feasible and accordingly, he is preparing a schedule of assignments for the larger cities.

Current Investigations

Joint investigations conducted with the offices of the Internal Revenue Agents in Charge progressed satisfactorily.

Standard Provision Company, Involving Sol Gutterman, Philadelphia, Pennsylvania. (SI-2271-P)

With the constant and valuable assistance of an informant, preliminary investigation of the black market activities of the above named individual had been in progress for the past two or three months. This company, which formerly boned and processed all of its meat and sold it in manufactured form, began in 1944 to trim the choice cuts of carcasses and sold the same to butchers in amounts above the legal ceiling prices. Definite proof that these amounts had not been reported on the company's 1944 income tax return was secured and on April 12, 1945, Mr. Gutterman was advised that an investigation of the corporation's income tax return for the year 1944 would commence immediately. This action was taken because Mr. Gutterman was making arrangements to enter a sanitarium for a rest period of approximately two weeks. His health took a sudden turn for the worse and he unexpectedly died on April 14. This was one of the best prospective cases in this office in the wholesale meat business.

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Current Tax Drive

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John Memolo, Scranton, Pennsylvania - SI-18498-F

John Memolo, one of the leading attorneys in Scranton, his brother and several of their friends, collected approximately \$250,000 as fees from the Williamsport Wire and Rope Company, which was in receivership. These fees were not reported for income tax purposes. Approximately \$110,000 of these fees was deposited to Mr. Memolo's account in a New York bank where it remained for a considerable length of time. Mr. Memolo closed the account by having the bank deliver to him 110 \$1,000 bills. Mr. Memolo refused to make any statement regarding this transaction.

On March 13, 1945, a grand jury sitting in Scranton, Pennsylvania, returned an indictment sealed at the request of an Assistant United States Attorney General. Yesterday, April 20, 1945, Judge Smith ordered the sealed indictment opened, which revealed that Mr. Memolo had been indicted for alleged evasion of income taxes for the years 1938 and 1939, in an amount approximating \$30,000. There is transmitted herewith a clipping taken from the Philadelphia Record of April 21, 1945, regarding this indictment.

Reports

Statistical reports are forwarded as follows:

Agency	SI-Form Nos.
Intelligence Unit, Philadelphia	106
Internal Revenue Agent in Charge, Philadelphia, Pa.	103-105
Internal Revenue Agent in Charge, Wilmington, Del.	101-103-105
Internal Revenue Agent in Charge, Newark, N.J.	101-103-105
Collector of Internal Revenue, Philadelphia, Pa.	102-104
Collector of Internal Revenue, Pittsburgh, Pa.	100-101-102-104
Collector of Internal Revenue, Camden, N. J.	101-102

Alfred W. Fleming
Alfred W. Fleming
Special Agent in Charge

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OFFICE OF
INTERNAL REVENUE AGENT IN CHARGE
BALTIMORE DIVISION
15 LIGHT STREET

IN REPLYING REFER TO

TREASURY DEPARTMENT

INTERNAL REVENUE SERVICE

BALTIMORE 2, MD.
324 Continental American Building
Wilmington 33, Delaware
April 16, 1945



Mr. Alfred W. Fleming
Special Agent in Charge
P. O. Box 1017
Philadelphia 5, Pennsylvania

Dear Mr. Fleming:

In re: Current Tax Drive

In accordance with our discussion of last Thursday, there is given below a brief summary of investigations thus far made into suspected "black market" operations in Delaware.

Poultry - Last Fall five Revenue Agents were assigned to make exploratory inquiries as to rumors of almost universal dealing in the "black market" by growers, buyers, and processors of poultry in the Delaware Peninsula. It was further alleged in all such transactions amounts received in excess of ceilings were paid in cash and were not recorded on the taxpayers' books or reported in income tax returns. We examined, with varying degrees of thoroughness, the records of some twenty-six taxpayers and then suspended our inquiries without having submitted any reports. This suspension was due, among other things, to the fact that we wished to correlate the information thus far collected, in order to map a practical program of investigation, to the fact that the two agents on this work who had automobiles, which were absolutely necessary in this farming country, were transferred, and to the fact that the only available hotel in that section closed for a period.

The only definite evidence of "black market" operations which we secured was the reporting in his return by one Harry Landes, a poultry buyer, of \$36,000 from "undisclosed sources" which Mr. Landes admitted was the portion - about one-fifth - retained by him from cash received in excess of selling prices. He informed us that the balance of such cash - say \$150,000 - was paid over to the growers and that at least 90% of the growers with whom he dealt demanded over-ceiling prices for their flocks and could obtain such prices either from him or from his competitors. Another buyer, Powell and Turner, a partnership, admitted to our examiners that they had not reported for taxation all of the proceeds of certain above-ceiling poultry sales, as a result of which they had been fined \$25,000 in Federal Court on charges brought by O.P.A.

Mr. Alfred W. Fleming

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There is no question in our minds that the vast majority of poultry sales made during 1943 and 1944 were at "black market" prices or that the amounts received above ceiling were omitted from income tax returns. A rough estimate may perhaps be made on the basis of what Mr. Landes admits; he handles, at most, 5% of the Delaware poultry and apparently received \$180,000 above ceiling on his sales to commission men in the larger cities; thus there is apparently \$3,600,000 in cash spread among the members of the industry on the peninsula, and we have so far found no taxpayer, with the exception of Mr. Landes, who has reported his sales at other than ceiling prices.

Meat - In September 1944 we began an examination of the books of Delaware Packing Company and of Joseph Waldman and Wolf Muir, President and Bookkeeper, respectively, of that corporation. Large and frequent cash transactions were found on the books of the corporation and in the bank accounts of the individuals. Mr. Waldman, during 1943 and 1944, purchased various parcels of real estate for \$100,000 and Mr. Muir purchased real estate costing \$40,000. Mr. Waldman reported income before 1942 was nominal and during 1943 and 1944 totaled perhaps \$40,000. Mr. Muir's reported income for the years 1942 to 1944, inclusive, totaled about \$14,000. Neither of these individuals appears to have had a bank account prior to 1943 or to have had property in any substantial amount. Inasmuch as most of the unexplained cash deposits in the accounts of the individuals were made during 1944, it was deemed advisable to suspend the examination until the 1944 returns had been filed. On this case and on the poultry cases the cooperation of your office was requested, and we understand that jackets have been authorized in both instances.

Very truly yours,

J. C. WILSON
Internal Revenue Agent in Charge

By: *H. L. Brown*
H. L. BROWN
Internal Revenue Agent

HLB:C



OFFICE OF THE COLLECTOR
TWENTY-THIRD DISTRICT
OF PENNSYLVANIA

IN REPLYING REFER TO: CPO

TREASURY DEPARTMENT

INTERNAL REVENUE SERVICE
Pittsburgh 22, Pennsylvania



April 20, 1945

Mr. Alfred W. Fleming, Special Agent in Charge
Intelligence Unit
Post Office Box 1017
Philadelphia 7, Pennsylvania

Attention: SI-AWF-cks

Dear Mr. Fleming:

This is in reply to your letter dated April 18, relative to a "current tax drive", in which you suggest a canvass of the larger cities of jewelry and fur dealers subject to excise taxes.

In 1943, a thorough canvass was made in the cities of Pittsburgh, Erie, and Johnstown, to search out delinquents and deficiencies on jewelry and fur tax, and the resultant collections justified the time spent on this work, and for that reason, has been continued at periodic intervals, to date.

A year has elapsed in most instances since the last verification was made, and the project suggested is considered feasible, and accordingly, a schedule of assignments is being prepared for the larger cities.

Emphasis is to be placed on large cash sales reflected on the records of the dealers, which, as you suggested, may afford leads for subsequent Income Tax investigations.

Form SI-100 will be submitted April 27, for Mercer County, which is presently being investigated by a squad of four deputies.

I have attached Form SI-100, showing the results accomplished in the City of Uniontown, Pennsylvania, which was completed the week of March 19, through 24, 1945.

Very truly yours,

Stanley Stanger
STANLEY STANGER
Director

SR:ec



INTELLIGENCE UNIT

Washington
(Office of Director)

SI-JSC-mfp

TREASURY DEPARTMENT
INTERNAL REVENUE SERVICE

April 21, 1945

Chief, Intelligence Unit
Bureau of Internal Revenue
Washington, D. C.In re: Special Tax Drive
Narrative Report
Week Ending April 21, 1945

Apparently the members of the Federal Reserve Banking System do not intend to furnish information with regard to cash transactions over and above a certain amount. See report of Special Agent Hawk forwarded to you April 16, commenting on information received from the Manager of the Baltimore Branch of the Federal Reserve Bank. Special Agent Kuebler of the Richmond branch office has informed me that he has conferred with Mr. Hugh Leach, President of the Federal Reserve Bank of Richmond, Virginia, the second time; that Mr. Leach advises that he has contacted a number of the large banks in the district, but thus far has obtained no results. Mr. Leach stated that he would continue his efforts, but doubted if such information would be forthcoming from the banks.

Special Agent Watson and Revenue Agent Kubis have been investigating the National Beverage Company, trade name of J. D. Ciccarello, Charleston, West Virginia. Special Agent Watson informs me that Mr. Ciccarello has admitted that during the year 1944 it was necessary for him to make black market payments in cash in order "to acquire beer in excess of his quota." Special Agent Watson furnishes a list of the dates and payments made to the Best Brewing Company of Chicago, Illinois, and to the Rochester Brewing Company of Rochester, New York. The payments range from \$3,639 in the first months of 1944 to \$8,036 in the latter months of the year. This information has been transmitted to the Chicago and New York Divisions of the Intelligence Unit and to the Alcohol Tax Unit, for possible use in connection with cases which may be pending on the two breweries mentioned.

Mention was made in the report for the week ending April 14 of the case under investigation in Baltimore, Maryland, on Jacob Spavak, wholesale meat dealer, who was indicted by the O. P. A. on April 10, on 243 counts alleging sales of meat in excess of ceiling prices. An additional indictment based largely upon the testimony of special agents of the Intelligence Unit was obtained on April 17, charging Spavak, the U. S. Packing Company of Kansas City, Missouri, and others with conspiracy. See report of Special Agent Hawk, Baltimore branch office, dated April 18, attached.

Special Agent Hawk also comments on several other cases and matters of interest in Baltimore, for the details of which see his report dated April 19, attached.

Arrangements have been made for deputy collectors to make examination of excise tax returns of fur and jewelry dealers in Baltimore, Washington, Richmond, Norfolk, Charlotte, Greensboro, and Roanoke. So far I have not received details of the arrangements made by Special Agent Watson with the Collector of Internal Revenue at Parkersburg, West Virginia. As an illustration, however, Special Agent Kuebler of the Richmond branch office arranged for the assignment of 12 specially selected deputy collectors to be assigned to this work at Norfolk under the supervision of three special agents of the Washington Division. This work at Charlotte and Greensboro, North Carolina will be performed by eight deputy collectors under the supervision of two special agents.

Special Agent Kuebler of the Richmond branch office also informs me that a large life insurance company of Richmond has arranged to furnish the names of persons who have purchased large single premium policies during the past two years, while another life insurance company still has the suggestion under consideration.

The investigation of the Wright Beef Company, Washington, D. C., has been suspended for the reason that the partnership returns are on a fiscal year basis, July 1 to June 30. A special report has been submitted and recommendation made that the Commissioner terminate the 1945 tax years of the two partners as of April 30, 1945.

J. R. COX
Special Agent in Charge



INTELLIGENCE UNIT

Washington
(Office of Director)

*SI-JEH:MDR

TREASURY DEPARTMENT APR 16 1945

INTERNAL REVENUE SERVICE

509 Calvert Building
Baltimore 2, Maryland
April 13, 1945Special Agent in Charge
Intelligence Unit
Treasury District #5
Washington 25, D. C.In re: Black Market and Currency
Transactions
Baltimore, Maryland

Several conferences have been had with Mr. W. R. Milford, managing director, Baltimore Branch, Federal Reserve Bank, regarding the subject matter of the telegram sent to the several Federal Reserve Banks by Mr. D. W. Bell of the Treasury Department.

Mr. Milford has advised that he has personally contacted about six of the larger Baltimore banks, with a view to obtaining the information requested by Mr. Bell but that it appears these banks are hesitant about furnishing such information. The officers of the banks contacted have advised Mr. Milford that, because of the confidential relationship between the banks and its depositors, it is felt that to furnish such information might result in some legal controversies. Mr. Milford further advised that he has conferred with Mr. Leach, who has found the same situation to exist in Virginia, except that in Norfolk the banks appear to be willing to cooperate.

Mr. Milford advised that while at Chicago this week he had occasion to discuss the matter with officials of the Federal Reserve banks located at Chicago, Los Angeles and New York, and that these officials had advised him they had taken the matter up with bankers in their respective districts and had obtained about the same reaction from them as he had obtained in Baltimore, except that officers of three of the large banks in New York City had expressed a willingness to secure the information suggested by Mr. Bell.

Speaking of the situation generally, Mr. Milford stated that while the telegram from Mr. Bell indicated that the matter was to be treated as confidential, the program of the Treasury Department, for investigating "black market" operators and those

handling substantial amounts of currency, for income tax evasion, has been publicized in the daily papers in some cities and in the United States News, published at Washington. He further stated that the matter had been made the subject of a special letter published to its clientele by Prentiss-Hall, Incorporated. As a result, there is presently considerable activity in the exchange of currency at the banks. In most instances bills of large denominations are being turned in in exchange for those of smaller denominations.

Mr. Milford stated that he had been advised by an officer of a member bank that a practice seems to be developing whereby the holder of bills of large denominations will employ another person to exchange the bills for smaller ones and pay him a fee for doing so, and that the agent in some instances, no doubt, will furnish a fictitious name if requested to identify himself. It appears that instances have already been disclosed which indicate that, at least in some cases, the owner of the currency will furnish a fictitious name.

From the information obtained from Mr. Milford it appears that currency in large denominations is presently being withdrawn from safe deposit boxes, and other places, and exchanged for currency in small denominations. The disposition of the small bills is, of course, not known to Mr. Milford. However, it might be stated that Special Agent Herbstreit, of this office, learned this week, from a reliable source, that several persons who have been hoarding currency have recently brought the money out of hiding and have invested it in paid-up annuities. Mr. Herbstreit is following up this information with a view to learning the identity of the individuals referred to and the companies in which the money was invested.

There appears to be need for the issuance of further instructions to the several Federal Reserve Banks and, in that connection, Mr. Milford indicated that if requested to do so he would address a communication to all of the member banks within the territory under the jurisdiction of his branch, advising such members of the program of the Treasury Department and the information requested by the Secretary's office in connection therewith, and asking the members to cooperate with duly accredited officers of the Treasury Department who might contact them for the purpose of securing the desired information.

In view of the attitude of the banks with regard to this matter, it appears that such an arrangement would produce a sub-

stantial amount of information, although it is obvious that the matter of having agents contact the banks personally at regular intervals would consume a great deal of time and some travel as well.

Edward Hauk
J. Edward Hauk
Special Agent

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INTELLIGENCE UNIT

Washington

(Name of Division)

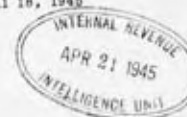
SI-22166-F

JSH:MDR

TREASURY DEPARTMENT

INTERNAL REVENUE SERVICE

509 Calvert Building
Baltimore 2, Maryland
April 18, 1945



Special Agent in Charge
Intelligence Unit
Treasury District #6
Washington 25, D. C.

In re: Jacob Spevak
Baltimore, Maryland
U. S. Packing Company
Sam Simon
Albert Simon
Melvin Simon
Kansas City, Kansas

Attached hereto are newspaper clippings relating to indictments returned by a federal grand jury at Baltimore on April 17, 1945, against the above-named defendants, charged with "black market" transactions.

One indictment, containing 70 counts, charges the U. S. Packing Company and its officers with the sale and delivery of meat to Spevak at over-ceiling prices during the period from March 30, 1943 to August 28, 1943. The second indictment, containing 70 counts, charged Jacob Spevak with having bought and received meat from the U. S. Packing Company at over-ceiling prices. The third indictment, containing two counts, charged Spevak, the Simons and the U. S. Packing Company with conspiracy to violate the Price Control Act.

The indictments are based, in part, upon the testimony of Special Agent James B. Schaeffer of this office. The facts testified to by Mr. Schaeffer were obtained by him from an examination of the books of J. Spevak & Company and an interview with Jacob Spevak, pursuant to an inquiry from the Kansas City Division of this Unit where the "black market" activities of the U. S. Packing Company were under investigation by Special Agent William M. Smith, under SI-20193-F.

SI-22156-P

During the course of his examination of the books of J. Spevak & Company Mr. Schaeffer found several journal entries whereby debits were made to purchases and corresponding credits to accounts payable, totalling approximately \$80,000.00 during the year 1943 and, in explanation of these journal entries, Jacob Spevak advised Mr. Schaeffer that they represented adjustments for amounts paid to the U. S. Packing Company for meats purchased from the latter company and that said amounts represented the "Overage" or excess over established selling prices.

Mr. Schaeffer was authorized by the Commissioner's office, on April 13, 1945, to testify before the grand jury with respect to these facts.

Edward H. Hark
J. Edward Hark
Special Agent



INTELLIGENCE UNIT

Washington
(Name of Division)SI-Special
JANER

TREASURY DEPARTMENT

INTERNAL REVENUE SERVICE

509 Calvert Building
Baltimore 2, Maryland
April 19, 1945

Special Agent in Charge
Intelligence Unit
Treasury District #8
Washington, D. C.



In re: Black Market Cases
Baltimore Office

There is transmitted herewith Form No. SI-106, reporting the inventory of black market and cash operations cases under investigation in this office for the week ended April 19, 1945. Forms SI-101 to 106 inclusive will be forwarded as soon as they are received from the Internal Revenue Agent in Charge and the Collector of Internal Revenue here.

During the past week two deputy collectors were engaged in examining the land records of Baltimore City and have obtained pertinent information relating to approximately 225 transactions involving the sale of real estate where the purchase price was \$10,000.00 or more. These deputies are continuing their examination of the land records. In addition, two deputy collectors are preparing to canvass the larger jewelers and furriers doing business in Baltimore city.

The Collector of Internal Revenue has furnished this office with the services of a stenographer and typist during all this week. The three deputy collectors who have been assigned to this office are continuing investigation of black market information and are also assisting Special Agents Hoken and Schaeffer in their investigations of a group of taxpayers involved in black market whiskey transactions.

During the past week the Internal Revenue Agent in Charge has had six internal revenue agents of his Baltimore office engaged on investigation of taxpayers alleged to be engaged in black market activities. Also five internal revenue agents have been

SI-Special

cooperating with special agents of this office in the conduct of black market investigations. Included in the types of cases being investigated by the Internal Revenue Agent in Charge, independently of the cooperation of special agents, are cases involving transactions in produce, meat and salvage materials. The latter type case resulted from information furnished to the Internal Revenue Agent in Charge on April 14, by a local manufacturer of pipe fittings. This manufacturer advised that although he was engaged on war contracts for the government, it was impossible for him to purchase steel pipe, tubing and brass valves except on the black market. He said that while this practice is detestable to him it was necessary to his continuation of business. Mr. J. C. Wilmer is including the information furnished by this person in a special report to the office of the Commissioner.

One of the internal revenue agents engaged on investigation of a taxpayer in the marine salvage business has advised that the information thus far developed indicates that the taxpayer derived a net profit in 1943 of approximately \$85,000.00 on sales totaling slightly in excess of \$100,000.00; that it appears the taxpayer has been making cash payments and furnishing whiskey, fruit, flowers, etc., to a number of persons employed by the Bethlehem Steel Company and the Maryland Dry Docks Company, from which companies he obtains a substantial part of his materials, and it appears probable the merchandise obtained by the taxpayer was stolen from the two companies named, both of which are engaged on large government shipbuilding contracts. If it develops that such is the case the government is being defrauded, in that it is paying for materials which are not actually used in completing the contracts. This might be a matter for the Federal Bureau of Investigation.

The District Supervisor, Alcohol Tax Unit, Baltimore, has furnished this office with a list of retail liquor dealers who have recently been subjected to floor stock tax investigations at Baltimore, Maryland, and Washington, D. C. This list includes the names and addresses of the licensees, together with total sales as determined by examination of the licensees books and records for the period indicated.

All the special agents of this office have been engaged upon investigation of jacketed black market cases and on development of information obtained relative to black market transactions.

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SI-Special

The inventory of black market cases under investigation in this office has not changed since my previous report of April 13th. The individual special agents have been engaged as stated in that report.

In a special report to you, dated April 18, 1945, you were advised of the indictment on April 17th of Jacob Spevak, Baltimore, Maryland, the U. S. Packing Company and its officers, Kansas City, Kansas. There were three indictments containing 142 counts alleging the purchase by Spevak and the sale by the U. S. Packing Company of meats and poultry at black market prices and conspiracy to violate the O. P. A. regulations. In my report to you of last week it was noted that Jacob Spevak, who is the subject of case SI-22186-P, was indicted here on April 13th, the indictment containing 243 counts alleging sales of meat in excess of ceiling prices. While Mr. Spevak has not as yet filed his 1944 income tax return he is expected to do so in the near future, and it is said that he intends to indicate only a fraction of his correct net income for that year.

This office has on hand information concerning approximately 165 taxpayers who are alleged to have derived substantial profits in transactions in various black market activities.

Edward Hank
J. Edward Hank
Special Agent

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INTELLIGENCE UNIT

Atlanta
(Office of Director)
PES:CB

TREASURY DEPARTMENT

INTERNAL REVENUE SERVICE

P. O. Box 4144, Atlanta 2, Georgia
April 21, 1946Chief, Intelligence Unit
Bureau of Internal Revenue
Washington 25, D. C.In re: Tax Drive Narrative Report
Week Ending April 21, 1946

The tax drive in the Sixth Treasury District, comprising the states of Alabama, Florida, Georgia and South Carolina, has been increasing in momentum during the current week, with prospects of gratifying results. A case of interest involving concealed currency was developed in Georgia, which demonstrated the value of newspaper articles as a source of information leading to possible tax evasions. Newspapers in New Jersey and Georgia recently published an account of an eleven-year-old adopted son of an Augusta, Georgia merchant and city councilman, who ran away from home with \$11,500 in currency belonging to his father which had been concealed in the house. The lad was located in Newark, New Jersey, where most of the money was recovered. This news item was picked up by several agents in the Revenue Service, not only in Georgia but in other sections of the country, with the result that an income tax examination of the foster father was started immediately. This week it was developed that, in addition to the money the boy took, the taxpayer had \$50,000 on deposit in nine different savings accounts, plus \$36,000 in War Bonds in safe deposit boxes. In all likelihood, additional wealth will be revealed from further investigation. Income tax payments of the taxpayer in recent years have been relatively small.

During the week ending April 21, 1946, there were approximately forty-eight internal revenue agents, deputy collectors, alcohol tax agents, and special agents actively engaged in black market and currency investigations in the four states of this District, involving a total of about 144 cases, potential cases, and information data on hand of the type involved in the tax drive. The cases referred to do not include a substantial number



To Chief - Cont'd.

of joint investigations with special agents where some definite evidence of tax evasion has been manifested, and in addition there is also a backlog of information and data in the form of anonymous communications, informers reports and data accumulated through the activity of agents and deputies in the field. There are approximately two hundred items of this nature which are receiving consideration.

Miami, Florida is receiving special attention by agents connected with the drive, in view of widespread gambling and loose money spending in that area. While black market cases are in evidence there as elsewhere, investigations of currency cases predominate. In the past year or so the Miami real estate market has been extremely active and there are strong indications that large sums of money have been invested in this way by nonresidents, presumably from war profits. A list of approximately six hundred real estate transactions has recently been obtained by our Miami office which will afford leads to possible tax evasions. Similarly, in Birmingham, Alabama, a list has been secured of livestock slaughterers in that state who have received subsidy payments from the Reconstruction Finance Corporation. Amounts paid to such individuals and concerns which are understood to be substantial will be checked and compared with their income tax returns.

The salutary effect of criminal prosecution of tax evaders is demonstrated by the numerous reports received in this office of alleged violations of income taxes in the Phenix City, Alabama area, as a result of the conviction of five individuals from that section of the state during the March term of Federal court at Birmingham, Alabama. These people were residents of Phenix City, a small town just across the state line from Camp Benning, Georgia, which had gained considerable notoriety for its wide-open policies, its gambling joints and dives. The taxpayers were operators or owners of such places who had either failed to file returns or had understated their income. They received prison sentences ranging from sixty days to eighteen months. The reports now being received relate to individuals engaged in similar types of operations, and such cases have been included in the tax drive.

P. K. Sanders
P. K. Sanders
Acting Special Agent in Charge



INTELLIGENCE UNIT

Treasury District No. 7
(Name of District)

TREASURY DEPARTMENT

INTERNAL REVENUE SERVICE

Louisville, Kentucky.
April 21, 1945.Chief, Intelligence Unit,
Bureau of Internal Revenue,
Washington, D. C.In re: Black Market and Cash Operation Cases
Week Ended April 20, 1945.

There are transmitted herewith form reports submitted by the Collectors of Internal Revenue of the districts of Tennessee and Kentucky, the Internal Revenue Agents in Charge of the Nashville and Louisville divisions, and the Special Agent in Charge, Treasury District No. 7. It will be noted that each supervisory officer has submitted all required reports.

During the week one investigation was concluded by representatives of this office of the Internal Revenue Agent in Charge, Louisville, Kentucky. The taxpayer involved was J. W. Goose, who is engaged in extensive gambling operations at Louisville, Kentucky. Additional taxes and penalties recommended were, respectively, \$16,400.66 and \$6,618.30. The years involved were 1941 to 1943, inclusive. An agreement was secured and no prosecution was recommended. This case was classified as a cash operation case.

With reference to the assignment of personnel, no deputy collectors in either the Tennessee or Kentucky districts have been directed to initiate investigations under this program without the cooperation of a special agent, but a special agent in each collection district has been designated to confer with deputy collectors who eventually will be engaged in this work for the purpose of instructing them as to procedure. One deputy collector in each of the collection districts is now cooperating with a special agent in making joint investigations.

The Internal Revenue Agent in Charge, Louisville Division, has assigned four revenue agents to work independently of special agents on preliminary investigation of cases which may fall within the purview of this program, and two revenue agents from the Louisville Division are working with special agents on current joint investigations. The Revenue Agent in Charge, Nashville Division, has informed me that he has assigned returns of taxpayers suspected of having engaged in black market and currency transactions to several revenue

agents for the purpose of making preliminary investigations, but that reports of progress have not been submitted due to the recent assignment of such returns. Two revenue agents of the Nashville Division are cooperating in current joint investigations of black market liquor cases.

Of the seven special agents assigned to this district, five are engaged in investigation of cases under this program, and the other two are completing reports on cases already investigated and they will be assigned to this work when available.

The District Supervisor, Alcohol Tax Unit, has not been requested to furnish any personnel as yet because most of his available investigators and special investigators are cooperating with representatives of the Office of Price Administration in an effort to expedite cases involving price ceiling violations on which the statute of limitations may toll in the near future. Information relating to a large number of black market liquor cases has been and is being made available to this office by the District Supervisor.

It is indicated that the investigation of a few substantial cases will be concluded soon, and the cooperation and interest evidenced by representatives of other agencies who are taking part in this program indicates that it will gain rapidly in momentum and will be productive of substantial tax cases. The type of cases will be confined largely to black market liquor cases and to currency cases arising from gambling operations and ordinary business ventures in which cash was utilized as a means of secreting profits.

A. M. Gray
Wm. M. Gray,
Special Agent in Charge.

WMS:h



INTELLIGENCE UNIT

Detroit

(Name of Division)

AOJ:bba

TREASURY DEPARTMENT

INTERNAL REVENUE SERVICE

1028 Federal Building
Detroit 26, Michigan
April 21, 1945Chief, Intelligence Unit
Bureau of Internal Revenue
Washington, D. C.

In re: Special Investigations

There are transmitted herewith weekly form reports by the following agencies in the cities designated:

Collectors of Internal Revenue - Cincinnati, Columbus, Cleveland
Toledo and Detroit

Revenue Agents in Charge - Cleveland, Cincinnati and Detroit

Special Agent in Charge - Detroit

In going over these reports, it will be noted that the Cleveland, Cincinnati and Columbus offices are rather slow in getting started, but every effort is being made to get the work in process in these cities. There is plenty of work to be done in all of these cities, and our report as a whole shows that the work is beginning to pile up. In other words, our inventory is beginning to increase and undoubtedly will pile up faster than we can dispose of the cases.

Up to the present time, cases involving fraud penalties closed through this office involve nine cases approximating \$175,000 in tax and penalties, and it is estimated that the Collectors' offices have closed out approximately 30 cases involving about \$50,000.

There is a large inventory of cases pending in the offices of the Revenue Agents in Charge in this district which will involve substantial amounts of taxes and penalties and undoubtedly a number of prosecution cases, but it will take some time to clear these cases out due to their size and the possibility of prosecution. It is this type of case which will begin to pyramid in our inventory. Such cases as will not involve a possibility of prosecution will, of course, be processed through without much difficulty and will represent the largest amount of our turnover.

Chief, Intelligence Unit
Washington, D. C.

A considerable number of leads are coming into this district through your office as well as from various other sources. However, quite a few of these leads, while they involve work in tracing have turned out to be without substance.

In my last report I mentioned to you about a purse that the police in Detroit had picked up containing \$30,000 in large denomination bills and on running this matter to its conclusion it was found that the money represented a bank roll belonging to a local gambler who has been filing returns regularly and reporting substantial amounts of tax, and further he has been regularly checked by the Internal Revenue Agent's office and it is not believed any tax is due from the source indicated.

This week notice was received from the Philadelphia Division regarding the sale of a large hotel property in Atlantic City, which, according to a newspaper article, was handled for \$1,000,000 in cash, the alleged purchaser being a Detroit man. This matter was immediately looked into and it was found that this individual had just recently been involved in a transaction in Detroit, in which this office is now making an investigation, whereby he loaned \$700,000 to purchase a going war plant, as a result of which he got a commission of \$50,000. It is believed very likely that a similar deal was made in Atlantic City and it has been suggested to the Philadelphia office that further inquiry be made at that point in line with the above suggestions so that the real purchasers might be uncovered at that end. A number of other instances of this type could be cited, and this is merely mentioned to show that a certain amount of work will have to be done in running these leads out, which will likely not be productive. Nevertheless, it is still felt that the drive now being made is having a certain effect which cannot be measured by our statistics, in that the public is becoming aware of more activity in certain directions.

A. C. Grunewald
A. C. Grunewald
Special Agent in Charge



INTELLIGENCE UNIT
CHICAGO

(Name of Division)

AFM:MD

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

TREASURY DEPARTMENT

INTERNAL REVENUE SERVICE

Chicago 90, Illinois,
April 21, 1945.



In re: Special Tax Drive

This is a weekly report, written to cover the investigation being made under the title set forth above. Heretofore this work has been referred to by this office as "Black Market Income Tax Investigations".

No information has been received from the Federal Reserve Bank in Chicago. Special Agent W. A. Johnson and I had a conference yesterday with the president and with one of his principal assistants. The reason, of course, for failure to receive specific information from the Federal Reserve Bank is that the latter has received none from member institutions. The outlook under the existing plan is hardly more encouraging than it was a week ago. A direct approach by this office, to the Continental Illinois National Bank and Trust Company, for example, might be an experiment worthy of a trial.

The Office of Price Administration in Chicago has not yet furnished the information which it has agreed to furnish. Information has been procured in other places from the Office of Price Administration, and some reference will be made to that in subsequent portions of this report. As the general program of investigation takes form, it appears that no definite disadvantage has accrued from the delay in obtaining information from the Office of Price Administration in Chicago. Information in volume from other sources is at hand.

The Collector of Internal Revenue, at Indianapolis, held a conference with a large number of his subordinates on April 14. The program of investigation was discussed in detail. A decision has been reached to concentrate first on retail package liquor stores and taverns. As soon as that work is well under way, it is the intention to extend the investigation to the jewelry field. Twenty deputy collectors have already been assigned. The Collector, in his weekly bulletin to the personnel of his organization, set forth at length the instructions to be followed in carrying out the program.



At this point, as a matter of interest, it may be stated that a list has been obtained from the Indianapolis office of the Office of Price Administration of approximately 500 individuals and corporations who have paid triple damages based upon sales of various products at prices in excess of ceiling prices. The list covers the period from February 1, 1944, to March 31, 1945. Index cards have been prepared. The corporation cards have been referred to the Internal Revenue Agent in Charge. The individual cards have been retained by the Collector for use in deputy collectors' investigations.

Internal Revenue Agents under the supervision of the Internal Revenue Agent in Charge, at Indianapolis, now have under investigation thirteen cases in various parts of Indiana, which have been designated as black market cases. Five examining officers are employed upon that work, and additional examining officers are employed upon other cases which appear to come well within the scope of the present project, although they have not been looked upon as strictly black market cases. Three special agents are engaged on various aspects of the project in the State of Indiana.

The Collector of Internal Revenue, at Milwaukee, has made progress in organizing for this work. The project is under the direct supervision of two assistants to the chief of the field division. Both of these men have had many years of experience in the investigation of fraud cases. Instructions have been issued to the chiefs of each of the six field divisions. It is planned shortly to have a conference in Milwaukee, which will be attended, among others, by the chiefs of the field divisions. One may look forward with the expectation of tangible results from the District of Wisconsin. That district is unique from the viewpoint of the fact that the Collector, over a long period of time, under various administrations, has given special attention to individual fraud cases. The result is that he now has a group of field deputies, division chiefs, and employees in the office of the field division, who, perhaps, are better qualified to do fraud work than are the majority of employees in any other Collector's organization.

The Internal Revenue Agent in Charge, at Milwaukee, has likewise made progress in organizing for this work. He has assigned additional examining officers under the direct supervision of Internal Revenue Agent Alex Himmelsa, to whom reference was made in last week's report. Conferences have been held with the enforcement officer of the Office of Price Administration, who has already furnished considerable information regarding black market operators. Cases of taxpayers engaged in the meat business, for the most part, appear to offer the greatest promise, and for the present, concentration will be on them.

In last week's report, the plans of the Collector of Internal Revenue and the Internal Revenue Agent in Charge, at Springfield, were outlined. There appears to be no need to repeat them here.

Conferences have been held in Chicago this week with the District Supervisor of the Alcohol Tax Unit, and with his principal assistants. An arrangement has been made to utilize the services of as many investigators of the Alcohol Tax Unit as may be needed to procure evidence in connection with income tax investigations of liquor cases. The Alcohol Tax Unit, as is well known, has prepared many black market liquor cases for prosecution. While the available evidence in the average case of that kind may be sufficient to support a prosecution for O.F.A. violations, it usually is not sufficient to support a prosecution for income tax evasion, and generally is inadequate as a basis for assessment of income tax deficiencies. Concurrently with the investigation of liquor cases being conducted by Internal Revenue agents and special agents, investigators of the Alcohol Tax Unit will undertake to procure information which is in line with their ordinary investigative procedure. For example, it will be necessary to trace transfers of many warehouse whisky certificates and the District Supervisor, among other things, is willing and anxious to do that work.

There is set forth below information regarding certain cases to which reference has not been made in prior reports, and additional information respecting cases to which some reference heretofore has been made.

Logansport Machine Company, Inc., et al., Logansport, Indiana,
SI-16746-F.

Special Agent L. H. Durbin submitted a report, dated March 30, 1942, covering an investigation of the income tax liability of the above-named taxpayer, and other entities. The taxes and penalties computed during the investigation approximated \$143,000 for the corporation and \$28,000 for Mr. Charles H. Wilkinson, the president thereof. A recommendation was made for prosecution of Mr. Wilkinson and of the corporation. The Chief Counsel did not concur. Mr. Wilkinson has since died. The last year covered in that investigation was 1938. Another investigation is now under way for subsequent years. Upon Mr. Wilkinson's death, Mr. John Cotner became president of the corporation. He informed the attorney and the accountant for the corporation that, shortly before the death of Mr. Wilkinson, an invoice had been made up purporting to show a purchase of raw materials in the approximate amount of \$105,000 from the Logansport Machine Company, Inc., by a partnership operated by Mr. Wilkinson and Mr. Cotner. A check was issued by the partnership for the fictitious invoice; it was cashed by Mr. Wilkinson, and the proceeds were divided with Mr. Cotner in the respective proportions of 85% and 15%. After the disclosure by Mr. Cotner, amended income tax returns were filed and the receipt of that money was duly reported. Mr. Cotner was ousted and the corporation's attorney was appointed to succeed him.

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The Logansport Machine Company, Inc., has paid over \$500,000 as "engineering fees" on contracts obtained from the War Department, and the present president of the corporation has stated that it is his belief that Mr. Cotner received 50% of those fees. Extensive investigations of the activities of the Logansport Machine Company, Inc., have been made by auditors of the War Department, and their files have been turned over to the Internal Revenue Agent in Charge. This case is not a black market case, and at the moment there is no certainty that it is an important "currency" case. However, the information procured in the prior investigation and the information now at hand, tends to show that income taxes have been evaded and that funds have otherwise been perpetrated upon the Government during the "high-spending" years. It is the intention to go forward with this work and developments will be reported from time to time.

Jolly Kids Garment Manufacturing Company, Chicago, Illinois,
involving Sol and Meyer A. Hammerman, SI-22244-F.

This case has been under investigation for approximately two months. The Jolly Kids Garment Manufacturing Company, a Michigan corporation, was dissolved on July 5, 1943, and was succeeded by a co-partnership, bearing the name Jolly Kids Boys. The corporation and the partnership were, and are, garment manufacturers. The general offices have been maintained at Chicago, and plants have been operated at Kalamazoo, Michigan, and South Haven, Michigan. Definite information has been received indicating that the corporation, as of December 31, 1942, had \$147,000 worth of yard goods in its inventory, which was not reflected on its books. It is alleged that the merchandise omitted from the closing inventory was sold in the original pieces by Messrs. Sol and Meyer Hammerman, (two of the principals), and the proceeds thereof appropriated to themselves. Two such sales made in New York City by Mr. Sol Hammerman, in person, have been verified. Currency was demanded and paid. Indications of similar sales have been found in St. Louis, Missouri, but efforts to verify them have thus far been unsuccessful. Intensive investigation has been made at the points where the merchandise in question was believed to have been stored prior to sale, in an effort to locate records of shipment by truck, express, or railroad. Those efforts likewise have not resulted in such success to date. This case is not one of any particular importance from the viewpoint of the amount of money involved, yet it is a black market and currency case. If the suppressed inventory and diverted sales can be proved, the restoration of the sales to the corporation, and the charging of preferential dividends to the individuals, probably will result in total taxes and penalties in excess of the aggregate of the suppressed inventory and diverted sales.

United Sales Agency, et al., Chicago, Illinois.

This case has not been jacketed, but the investigation is already under way. It is a liquor case, and involves a partnership, a joint venture, and several individuals. The principals are Mr. Maurice B.

Frank, and his wife, Vera M. Frank. Sales for 1943 and 1944 exceeded \$17,000,000. Certain over-ceiling payments are known to have been made in this case, but the persons implicated state that the money was returned to the payors. There is reason for the belief that the investigation will definitely establish the receipt of over-ceiling prices, and that it will establish substantial income tax deficiencies. The business grew up "over night", and one of the attorneys representing the taxpayers, recently ventured the assertion that many "mistakes" had been made. The investigation will be difficult, and it cannot be conducted in a short period of time. Some doubt was expressed regarding the advisability of beginning this difficult investigation under the present project. However, it was obvious that the investigation would have to be made at one time or another, and the conclusion was reached, despite the obstacles, that the work should proceed at this time.

Starr Pen Company, Chicago, Illinois.

The Internal Revenue Agent in Charge has begun an investigation of this case with limited cooperation from the Intelligence Unit. The Starr Pen Company is a partnership and there are five individuals involved. The partnership return for the fiscal year ending June 30, 1944, is said to reflect a deduction approximating \$750,000, for triple damages alleged to have been paid by reason of violations of O.P.A. price ceilings. Indications are that this amount has not been paid, and that, in fact, the liability has not been determined. Information procured from the Office of Price Administration indicates that the partnership during the period included in the present investigation, received approximately \$285,000 in over-ceiling prices which were not entered on the books.

Amazon Hose and Rubber Company, Harry E. Jacoby, President, Chicago, Illinois, 31-22118-F.

Reference has been made to this case in prior reports. Diversions of proceeds of corporation sales have been verified in an amount well in excess of \$200,000. Indications are that the diversions of proceeds of corporation sales exceeded \$400,000. One of the Chicago banks at which many of the customers' checks are known to have been cashed, does not have records which will permit verification. Mr. Jacoby states, and perhaps truthfully, that he is unable to remember many of the customers' checks which were diverted and cashed by him, or in his behalf, except that the major portion of the checks received from the United States Rubber Company were diverted. It is not practical to circularize the customers, because there are more than 6,000 of them on the books. It is believed, moreover, that many sales were made to customers whose names do not appear on the books. Some sales are being "blocked in" by correspondence with customers in appropriate instances, but it now appears that the

principal part of the "blocking in" work will have to be done in Florida. The Chicago internal revenue agent who did a considerable amount of this work while he was on another assignment at Miami, was forced to return, because of the necessity for the issuance of 90-day letters in certain gangster-currency cases, on which the limitation was expiring (Frank Nitto, et al). The indications are that the only way in which any considerable part of the remaining diverted sales can be "blocked in" is to examine the Recordak films in two Florida banks, for each business day during four winter seasons, and for each business day during a part of one summer. This is a rather formidable undertaking, and will consume some little time.

This office understands that the Department and the Bureau are quite anxious to have indictments returned at early dates in a number of black market and currency cases. Mr. Jacoby has acknowledged that he diverted to himself proceeds of sales of the Amazon Hose and Rubber Company to the extent of \$400,000. More than half of that amount has been verified. The evidence in its present status will support an indictment and prosecution. This office, if it is desired, can now submit a summary report, and the case could go to the grand jury without much delay. It is suggested for consideration that this plan be followed. If that were done, the tax computation would have to be based, in part, upon Mr. Jacoby's statement. However, in all probability, there would be an interim between the date of the indictment and the date of trial. In that interim, the work of verification of diverted sales could proceed. In any event, there is doubt that diverted sales in excess of the amount which Mr. Jacoby acknowledges can be proved.

Crucible Steel Casting Company, Involving William Lange, F. A. Lange, Jr., A. C. Lange, Milwaukee, Wisconsin, 31-20953-F.

Accompanying last week's report was a status report, dated April 13, 1945, prepared by Special Agent Paul T. Bhemme. A copy of the status report has been reviewed by Mr. John Riley, Division Counsel, with headquarters in Chicago. The Chief Counsel recently suggested to him over the telephone, that he go to Milwaukee for the purpose of discussing the evidence in this case with the agents who have conducted the investigation. Mr. Riley has made tentative plans to be in Milwaukee on April 29. The preparation of the customary internal revenue agent's and special agent's reports in this case would be an arduous and slow-moving task. At the forthcoming conference with Mr. Riley, consideration will be given to the matter of preparing summary reports. The case is of unusual consequence from several points of view. One of them is the large amounts of money involved. An indictment in this case probably would be followed by extensive publicity, and that undoubtedly would have a wholesome effect in the State of Wisconsin, and elsewhere in the middle west.

This office is encouraged in the belief that the work of deputy collectors in the four collection districts in Treasury District No. 9, will show concrete results within the next ten days or two weeks. The deputy collectors are, and will be employed upon the smaller cases. The average small case can be investigated and closed in a relatively short period of time. The situation with respect to cases having the attention of internal revenue agents and special agents is obviously different. The reason that some of the cases in the latter classification are completed, or are near completion, is that the investigations have been under way for considerable periods of time. Many of the new cases which are being taken up cannot, under the best conditions, be closed at early dates. This assertion has special application to taxpayers, whose records are inadequate, and who are known to have conducted numerous transactions by passing currency from hand to hand.

G. T. Madden
Special Agent in Charge.



INTELLIGENCE UNIT

Dallas

(House of Representatives)

TREASURY DEPARTMENT

INTERNAL REVENUE SERVICE

Dallas 2, Texas, April 21, 1945.

Via Air Mail

Chief, Intelligence Unit,
Bureau of Internal Revenue,
Washington 25, D. C.

Special Tax Drive



I have had conference this week with Internal Revenue Agent in Charge William E. Logan, Collector of Internal Revenue J. C. Fernandez, and District Supervisor Fred C. Farrell, all of New Orleans, for the purpose of coordinating and putting into effect procedure that will ensure close attention to black market and currency cases. The immediate result of those meetings has been the assignment of personnel to investigate several liquor cases in New Orleans, under the supervision of Special Agent Lankert. Also, Mr. Fernandez will tour his district the coming week with a view of inventorying possible black market violations. His deputies will conduct preliminary investigations and report to me all cases where fraud is indicated.

I propose to confer today with Collector of Internal Revenue Eugene Fly, Jackson, Mississippi, for the purpose of making a similar arrangement, and next week with Collector of Internal Revenue Frank Penfield, Austin, Texas. Considerable correspondence has been had with both concerning the program, and each has in progress a survey to ascertain and to segregate for immediate attention cases which should be included in the drive.

Splendid cooperation is being received from all Bureau field offices in the Division and when procedure has been worked out and the surveys mentioned have been completed, I expect to be able to furnish you the weekly reports of the activities of those agencies. To date the reports received have been to the effect that the only cases they have identifiable as black market or currency operations are those being investigated in cooperation with this Unit. They, of course, are taken into consideration in the report being submitted by this office.

In the current week, there have been no important developments in cases under investigation. The only final report submitted related to Eugene T. Calongne, now deceased, New Orleans. In his lifetime, Mr. Calongne was a lottery operator and acquired substantial



assets with currency, presumably from his lottery. That investigation disclosed a deficiency of \$68,129.63, but no ad valorem fraud penalty was recommended in view of the taxpayer's death.

There is enclosed herewith report (Form No. SI-106) of the activities of this office for the week ending today.

James M. Coomer
James M. Coomer,
Acting Special Agent in Charge.

WEB/fnc



INTELLIGENCE UNIT

KANSAS CITY
Office of District

SI-106/r

Via Air Mail

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

TREASURY DEPARTMENT

INTERNAL REVENUE SERVICE

Kansas City, Missouri

April 21, 1945



In Re: Black Market and Cash
Transaction Investigations

In compliance with the instructions set forth in your letter dated April 5, 1945, concerning the investigations involving black market operators and others dealing in cash transactions resulting in possible Federal tax evasions, the following narrative report, commenting upon the important developments and the progress being made on the investigations under way, is submitted.

A joint conference was held at Wichita, Kansas, on April 18, 1945, with Collector Lynn E. Brodrick, the heads of the various units of his office, and Internal Revenue Agent in Charge Russell A. Walsh and his assistant, for the purpose of putting into operation the instructions of Commissioner Luman with respect to the tax investigations of black market operators and other persons whose transactions are being handled in cash, presumably resulting in tax evasions.

A similar conference was held in Oklahoma City on April 19, 1945, with Collector H. C. Jones and representatives from the office of Internal Revenue Agent in Charge Dallas A. Sims. Earlier in the week I discussed the subject matter of the above mentioned conferences with Collector Dan M. Nes and his assistants at Kansas City, Missouri.

A conference will be held at St. Louis with Collector Finnegan and Revenue Agent in Charge Ishlaman on April 24, 1945. Soon thereafter a conference will also be held at Little Rock with Collector of Internal Revenue Roy G. Paschal.

It is intended that these conferences will result in putting into effect the Commissioner's instructions with respect to coordinating the investigations of black market operators and persons involved in substantial cash transactions. The firms mentioned in



2 - Chief, Intelligence Unit - 4/21/45

Your letter of April 8 were mimeographed by Collector Bradrick and the lists are being distributed to each Collector and Revenue Agent in Charge located within Treasury District No. 11. By next week we will have these form reports being submitted to your office in compliance with your instructions.

On April 17, 1945, I contacted the president of the Federal Reserve Bank at Kansas City, Missouri, and discussed with him Under Secretary Bell's telegram of March 24, and arranged for the president of that bank to personally furnish me with the names of all persons within the Tenth Federal Reserve District withdrawing or depositing currency in amounts of \$25,000 or more. A similar conference will be held with the president of the Federal Reserve Bank of St. Louis on April 24, 1945.

Submitted with this report are the original and one copy of Form 31-104, reporting investigations completed by the Intelligence Unit prior to April 2, 1945, involving black market and cash transaction cases during the past few months. There were a number of other cases completed by the Intelligence Unit, most of which involved strictly cash transactions with respect to the purchase of liquor from dealers along the Missouri-Kansas-Oklahoma border by bootleggers from the dry states of Oklahoma and Kansas. These cases were not considered in this report for the reason that most of them involved the years 1940, 1941, and 1942. We commenced these investigations in 1942 and most of them were completed before black market sales in liquor became prevalent. As result of these investigations, substantial amounts of taxes and penalties were assessed and in every instance collection was made in full by the Collector's office. Collector Lee advises me that a review of the tax returns filed by these liquor dealers for the years subsequent to 1942 indicates that on the whole they are filing returns which report net incomes consistent with their operations.

There are attached original and one copy of Form 31-104, showing the inventory of black market and cash transaction cases under investigation by the Intelligence Unit for the week ended April 21, 1945. This form shows that we have eight cases under investigation, which fall within the category mentioned above, and that a total of eleven persons are implicated in these investigations. None of the cases are yet ready to report.

Frank W. Lohr
Frank W. Lohr
Special Agent in Charge

Attachments

- 2 -



INTELLIGENCE UNIT

SAINT PAUL
(Name of Division)

SI-EAH:FW

TREASURY DEPARTMENT
INTERNAL REVENUE SERVICE

St. Paul, Minnesota, April 21, 1945



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

In compliance with your instructions, there is submitted herewith weekly report commenting upon important developments and the progress of particular investigations of prospective black market and currency cases in the states of Minnesota, North Dakota, South Dakota, Iowa and Nebraska.

Since the report submitted under date of April 13, 1945, by Special Agent in Charge Arthur A. Stone, conferences have been had with the Collectors for the states of North Dakota, South Dakota, Nebraska and Iowa, with the Internal Revenue Agent in Charge, etc., Omaha, and with district enforcement attorneys, Office of Price Administration, or their representatives in the aforementioned states. At these conferences the program in general and the required procedure were discussed in much the same manner and with the same results as were indicated by Mr. Stone in his communication of April 13 with reference to a similar conference held in this office on April 10.

District enforcement attorneys, Office of Price Administration, now have furnished this office with a list of about twenty prospective income and excise tax cases. It is possible also that some of them may involve currency users. Further information concerning these individuals and firms is being compiled by this office, and when completed the cases will be assigned to the proper Collector or Internal Revenue Agent in Charge for proper action and reported by them in their subsequent weekly reports. Additional lists and information are to be expected from officials of the Office of Price Administration when further opportunity has been had to compile same.

Collectors for the states of North Dakota and South Dakota state that the program can not be gotten under way by them until

next week, when the required reports will be submitted. Due perhaps to delay in the mails, no reports have been received as yet from the Collectors for the states of Nebraska and Iowa.

There are enclosed herewith Form SI-101, and Forms SI-102 and SI-104 submitted by the Collector for Minnesota for the week ending April 20; Form SI-101 and Forms SI-103 and SI-105 for the week ending April 20 submitted by the Internal Revenue Agents in Charge, Omaha and St. Paul.

Forms SI-101 and SI-106 for the week ending April 20, relating to the St. Paul Division of the Intelligence Unit, are also enclosed. There are nine cases either under consideration or active investigation by this Unit. The investigation of case SI-22144-F, Fred C. Cave, a coin slot machine operator, received gross income greatly in excess of that reflected by his income tax returns and that he maintained no bank accounts but instead employed the use of safe deposit vaults to hold large sums of cash, a considerable amount of which was used during the period under consideration in the acquirement of a farm and other capital assets. A substantial additional tax liability will be disclosed. It is a certainty that prosecution will be recommended in this case, and it is believed that the available evidence will amply support such recommendation.

The investigations by this Unit of other cases reflected by Form SI-106 have not yet progressed to the point that definite statements may be made concerning their possibilities. In one case, where considerable sums of cash appear to have been used in brokerage transactions and probably not shown in toto in the gross receipts of the taxpayer, a case jacket has been requested. The other cases listed upon that form are in somewhat of a preliminary status, and no definite conclusion can as yet be made concerning them. However, it is believed that in some instances they will warrant the issuance of case jackets.

E. A. Hayes

E. A. Hayes,
Acting Special Agent in Charge



INTELLIGENCE UNIT

Denver (Dist. No. 13)

(Name of Division)

MoE:J

TREASURY DEPARTMENT

INTERNAL REVENUE SERVICE

Denver, Colorado

April 21, 1945



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

In re: Black Market and Cash
Transaction Cases

Receipt is acknowledged of your communication of April 5, 1945, received in this office late April 7, transmitting a memorandum of a conference held in the Commissioner's office on March 28, 1945. During the week beginning April 10, 1945, conferences were held by me and by special agents designated for that purpose with the Collectors' offices of this district and others designated by the collectors to take part therein; with the Revenue Agent in Charge at Denver and Salt Lake City, and also with employees designated by them to undertake this program; and the supervisor of the Alcohol Tax Unit and others designated by him to take part. In view of this condition, it seemed that no good purpose could be served by submitting reports as of the close of last week.

Appropriate organization, in so far as practicable on short notice, has been set up in each of the above organizations for the purpose of carrying out this program. It is expected that additional personnel will be required as the actual investigation of cases is undertaken. Some exploration work was done last week, particularly in regard to the examination of records and files in the Office of Price Administration. A survey of the results of this work indicates that most of the cases handled by the Office of Price Administration in this area have involved persons in the lower income brackets.

The work of the personnel of the agencies involved has been spent primarily up to this date in the exploration work. However, work on certain cases of this type which had previously been started as joint investigations has been continued. It may be well to mention in particular one of the active joint investigations. This case involves a plumbing contractor whose main source of income for the years 1942 and 1943 was derived from sub-contracting work on war activities. This taxpayer kept his books and reported his income under the accrual basis, and substantial amounts of income, which should have been reported in 1942, was omitted and reported in a return of a newly-



formed partnership for 1943. The investigation of this case is practically completed and it appears that tax in excess of \$30,000 will be recommended, as well as prosecution.

From the surveys which have been made within the past two weeks, as well as some sources of confidential information available to me, I am of the opinion that this type of case will probably be more productive in this area than those which may be classified as actual black market cases.

Contacts have been made by me with the managers of the branch Federal Reserve Banks at Denver and at Salt Lake City in relation to what information may be expected from them as a result of Mr. Bell's telegram of March 24, 1945, to the presidents of the Federal Reserve Banks. The manager of the Denver branch of the Federal Reserve Bank informed me this morning that he had just received the request from the president of the Federal Reserve at Kansas City and, while he had not had time to make contacts with banks in this area, he felt that they would be productive of some results. The manager of the branch of the Federal Reserve Bank at Salt Lake City stated that he has already made contacts with some of the larger banks there, but found that some of the bankers may be unwilling to give out the information requested but that others had promised his cooperation. He mentioned that in one instance the officers of one bank did not want to take the responsibility of furnishing such information without a meeting of their Board of Directors. He stated that he suggested that probably this should not be done at this time. Arrangements have been made to keep in constant touch with the officers of these two branches of the Federal Reserve Bank.

The form reports requested in your letter of April 5, 1945, from the following, are forwarded herewith:

Internal Revenue Agent in Charge, Denver
Internal Revenue Agent in Charge, Salt Lake City
Collector of Internal Revenue, Denver
Collector of Internal Revenue, Salt Lake City
Collector of Internal Revenue, Albuquerque

Through some misunderstanding, the Collector at Cheyenne did not get his reports to this office for today's report, but informed me by telephone this afternoon that he would forward the original to your office, transmitting copies thereof to me.

Also forwarded herewith are form reports, Nos. SI-101 and SI-106, showing respectively cases of the type covered in this program, closed prior to April 2 and on hand at this time. Some of the cases included in both reports involve farmers and livestock men in the San Luis Valley

area of Colorado, who sold some of their produce at black market prices. Special Agents of this office also participated in at least eight lesser cases of this nature in that area, but these have not been included in the report on form SI-101. The office of the Revenue Agent in Charge at Denver also made some investigation of cases similar to those last above mentioned, but I am informed that it was the opinion of that office that those cases did not come within the purview of this program and hence have not been included in their report.

I think it may be of interest for you to note the type of communications sent to employees regarding this program by Internal Revenue Agent in Charge, Denver; Collector, Denver; Collector at Albuquerque; and Supervisor of Alcohol Tax Unit, Denver. They are enclosed herewith.

W. E. McIlveen
W. E. McIlveen
Special Agent in Charge
HE

Enclosures

BIAS:ME

Alcohol Tax Unit
Denver, Colorado
April 16, 1945Investigators in Charge
Alcohol Tax Unit, District No. 15Special Investigative Section
Denver, Colorado

There is enclosed for your information and guidance
copy of Bureau letter dated April 11, 1945, ATX:188A,
with copy of Intelligence Unit letter of April 5, 1945, and
copy of Minutes of Meeting held in Commissioner's office March 20,
1945, all with reference to ways and means to perfect and strengthen
procedures and activities in discovering tax evasions on the part of
individuals who do not report income derived from black market trans-
actions and other lucrative wartime enterprises.

J. W. Merrill
Assistant Supervisor, Inf.Colorado
New Mexico
Utah
Wyoming

1 copy to Mr. W. E. Mohrman, Intelligence Unit

shs

DIVISION CIRCULAR # 136

TO ALL EXAMINING OFFICERS:

Black Market and ^{Cash} Operations

Secretary Berenson 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 war time enterprises, legal and illegal.

The Bureau is now inaugurating a drive to discover and investigate cases of this type.

Commissioner Tamm has 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, Alcohol Tax Unit, 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 Tamm designated the Special Agent in Charge to head and co-ordinate the activities of the group in his territory.

Plans formulated and instructions received to date provide for a weekly report from this office to the Special Agent in Charge which must be submitted on Friday. On Saturday the Special Agent in Charge will submit via air mail his report to the Chief of the Intelligence Unit who will promptly refer these reports to the Commissioner and the Secretary.

The above outline of plans illustrates the importance attached to this endeavor and all Agents are instructed to be on the alert for indications of this type of case and upon discovery of such indications the matter should be immediately discussed with Agent Wm. H. Sherwood, liaison contact officer, who is in charge of this activity.

This matter has been the subject of previous correspondence from the Bureau and has been given considerable attention in the past. However, a much more intensive effort is now being made.

A concerted effort on the part of all of the investigative agencies of the Treasury Department is being made to uncover cases of the type mentioned. All available sources of information are to be utilized including, but by no means limited to, the records of the Office of Price Administration relative to violation of the Emergency Price Control Act of 1942.

Denver, Colorado,
April 20, 1945

The information obtained from these sources will be carefully analyzed to determine what further action, if any, is necessary. When the information is deemed sufficient to justify an examination the pertinent income tax returns, if not already in this office, will be requisitioned and the information assembled with the appropriate file.

While this work of exploring available sources of information for the purpose of detecting and establishing cases of this nature will be carried on by agents assigned to this special work all other agents should be on the alert and if, in connection with their regular assignments, they should discover indications of black market activities or tax evasion accomplished through the manipulation of such they should immediately confer with Agent Sherwood. Agents working outside of Denver should immediately advise this office by mail giving full details of any information in their possession.

The only exception to the procedure outlined in the preceding paragraph relates to agents assigned to the Albany area office. These agents, instead of communicating by mail with Agent Sherwood should consult with Agent Blair of that office and be guided by his instructions.

In this connection it will be necessary for Agent Blair to advise Agent Sherwood promptly with respect to all pertinent information required for the weekly reports.

The matter of prompt reporting on the part of every agent cannot be over emphasized for the reason that every case of this kind must be included in a weekly inventory report until it is completed and a final weekly report made showing the result of the investigation.

In accordance with instructions received from the Bureau investigation of this type of case is to take precedence over any and all other work.

Reference is made to Field Procedure Memorandum No. 367, dated March 30, 1945, which was distributed to all agents and contains instructions relative to the deductibility of amounts paid for commodities in excess of ceiling prices established by the Office of Price Administration.

Attention is also called to the fact that any fine assessed for violations of the provisions of the Emergency Price Control Act of 1942 are not deductible.

Payments made in satisfaction of judgments or in compromise or settlement of pending litigation involving alleged violations of the Emergency Price Control Act of 1942 may or may not be deductible.

depending upon the circumstances. See I.T. 3627 and I. T. 3630.

In connection with this matter the term "black market" is to be construed liberally so as to include not only violators of the Emergency Price Control Act of 1942 but also those taxpayers resorting to such transactions or other manipulations in order to evade tax on large war time profits.

There is quoted from Bureau letter dated March 12, 1945, Symbol: IT-100 -

"The following is quoted from a letter and is submitted for your information and guidance:

"The recommendation of your office of an overassessment of \$4,524.70, based solely on the value of foreign investments in countries invaded or occupied by the Enemy on or after December 7, 1941, under Section 127(a)(2) of the Internal Revenue Code, as added by Section 156, Revenue Act of 1942 and the Regulations thereunder, has been approved by the Commissioner in the form of a public decision dated March 1, 1945. The war losses allowed were taken from the amended return by the revenue agent and there is no affirmative statement in the report that the sums claimed were verified and that the basis of such claim was in accordance with the Internal Revenue Code.

"The letter to you from the revenue agent dated 12/28/43 (3-2 PG-9-43) shows the examination to be "T.E.A." or a thorough field examination of average class. While compliance with the instructions in the Internal Revenue Agents' Manual on the preparation of reports is not to be burdensome and time consuming, the efficiency of examining officers are appraised by the understanding of these instructions. A complete examination, especially one consuming in excess of nine days, requires disclosure of essential facts of value in connection with the adjustments recommended as well as discussion on important items appearing in the return or books of account and records.

"Where an overassessment is disclosed which requires the preparation of a substantiation of record for the Chief Counsel (Internal Revenue Agents' Manual - Paragraph 730) and a public record must be issued, a complete statement of facts is required in the revenue agents reports with respect to each of the important items producing the review tax liability as well as a complete preparation and assembly of the case file for submission to the Income Tax Unit for post review and the Chief Counsel's office for preparation of the public decision.

"A similar letter is being sent to all divisions."

-4-

There is quoted below Bureau letter dated March 31, 1945.
Symbols IT:VI:UR:LAP

" In Re: F. H. E. Oil Company
v. Commissioner

"Reference is made to the case of F. H. E. Oil Company v. Commissioner, decided by the Circuit Court of Appeals for the 5th Circuit, on March 6, 1945, in which Article 29.23 (a)-16 of the Regulations is declared to be invalid.

"The procedure to be followed under the 'circumstances' has been carefully weighed and it is the considered opinion of this office that the Bureau should continue to follow the existing regulation notwithstanding the Court's decision.

"The Commissioner has approved this policy which you should direct the personnel of your division to follow."

Assignment of Rental Income

In the case of Ralph E. Lum, U. S. Circuit Court of Appeals, Third Circuit, promulgated January 30, 1945, it was held that an assignment to the wife was voted and that the income so assigned should be taxed to her.

This decision is in conflict with the principle set forth in the Supreme Court decision of Commissioner v. E. Horst, Ct. D. 1472, C. B. 1940-2, 206; Commissioner v. E. Hubank Ct. D. 1473 Ct. 1940-2, 209; Harrison v. E. Schaffner, Ct. D. 1503 CB 1941-1, 321. See also Midwood Associates v. E. Commissioner (C.C.A.-2-1940) 115 F. (2d) 71.

It is the position of the Bureau (F.P.N. #370 dated April 12, 1945) not to follow the decision in the Lum case.

Sale of Partnership Assets

In the case of George W. and Rebecca V. Thornley, U. S. Circuit Court of Appeals, Third Circuit, promulgated January 15, 1945, it was held that the holding period of the stock dated back to the date of the acquisition of the partner's interest, where the partners transferred all of the partnership assets to the corporation.

This is in conflict with G.C.M. 11557, XII-1 CB 128; G.C.M. 20251, 1938-2 C:169 and G.C.M. 23415 (Confidential Unpublished Ruling No. 1257) and the case of City Bank Farmers Trust Co. 47 F. Supp. 98.

It is the intention of the Bureau not to follow the Thornley case above referred to (F.P.N. #371 dated 4/12/45), but to continue to follow G.C.M. 23415.

Hers E. Salyers
Internal Revenue Agent in Charge.

Denver, Colorado
April 21, 1945

To the Deputies:

IMPORTANT

The following is an excerpt from a meeting held in Washington regarding the possibility of fraud in black market operations, also other sources of "easy money".

"NOTES OF MEETING IN COMMISSIONER'S OFFICE AT 10:00 A.M.,
WEDNESDAY, MARCH 28, 1945, TO CONSIDER MEANS FOR STRENGTH-
ENING 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.

-2-

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. Ivey 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"

You will note that the Commissioner and the Secretary of the Treasury are very much interested in these activities. It becomes a "must" order of the day as far as the Collector's office is concerned. It is very important, therefore, that each deputy report to this office any information he may obtain regarding large cash transactions or any indication of black market operations. If, in any of your investigations, you discover possibility of fraud it is suggested that you immediately back away from the case and submit a report to this office.

For the present several deputies are being assigned to do nothing but this kind of work and unless you have been chosen for this assignment it is requested that you proceed with your work as usual with the exception of reporting cases which might come under the categories suggested above.

T. L. Girault
Chief Field Deputy

12"

TREASURY DEPARTMENT
INTERNAL REVENUE SERVICE
ALBUQUERQUE, NEW MEXICO

FD:GLM:MPR

March 28, 1945

ALL DEPUTIES:

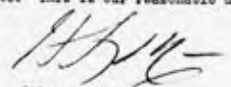
(CONFIDENTIAL)

Subject: Treasury Tax Inquiry at Resort Areas

No doubt each of you have read the newspaper accounts of the tax inquiry at Resort Areas which was ordered by Secretary Morgenthau, and the results being obtained. Persons spending lavishly at various resorts are under investigation in a country-wide drive to trap income tax evaders cheating the Government of billions in taxes. Agents and Deputies are also looking into the produce, liquor, meat, gas and other trades where shortages are known to exist and where there are signs of Black-market Operations.

New Mexico being a relatively small collection district, it is not anticipated that special investigators will be sent here on assignments such as those mentioned above, therefore, it is the duty and requirement of each Zone Deputy to carefully check all suspected tax evasions and delinquencies in your respective zones. There are a number of resort towns in New Mexico such as Red River, Ruidoso, Cloudcroft, Hot Springs, and others where lavish spending, gambling, etc., must be checked this spring and summer. You can secure names and addresses of those involved and request that their income tax returns be checked, pick up delinquents that have never filed returns of both income and miscellaneous taxes. Keep your eye on Black-market operations and investigate for possible tax evasions. Where you suspicion fraud and have gone far enough into a case to justify your suspicions, and where a case requires considerable time and special effort, you are instructed to make a detailed report to this office of your findings and a thorough and special investigation will be made. All Zone Deputies, including both the Income Tax Squad and the Miscellaneous Deputies, are hereby instructed to be on the alert at all times throughout your zones for tax evasions and delinquencies to the extent that same will not be permitted to exist in this Collection District. I am sure each of you are mindful of the fact that such tax evasions and delinquencies could be embarrassing to the Collector and the entire office should we Deputies not be on the alert and fail to discover same when they may exist.

In order to effectively carry out the above instructions, each deputy in preparing your itineraries in the future must allow sufficient time in each town or city you visit to not only close the pending work in the files, but spend several extra days in canvassing and investigating so that you will know what is going on in that particular area and so that you will uncover tax evasions and delinquencies. Beginning in April, a separate Comparative Statement showing number of Federal Tax Canvass Forms (F.D. 13) completed by each Deputy and the number of delinquent and tax evasion pick-ups obtained as a result will be prepared monthly for the information of the Commissioner, Supervisor, Collector and the entire field forces. I am sure we can count on each of you to do an excellent job of investigating and I am confident we will show the desired results. This is our reasonable duty.


Giles L. Matthews
Chief Field Deputy



INTELLIGENCE UNIT

San Francisco
(Office of Director)

RHS

TREASURY DEPARTMENT
INTERNAL REVENUE SERVICE408 Alexander Building
San Francisco 4, California
April 21, 1945Chief, Intelligence Unit
Bureau of Internal Revenue
3317 Internal Revenue Building
Washington 25, D.C.

In re: Black Market Reports

There are transmitted herewith the following reports on black market and cash operations, Form No. SI 101, from the Alcohol Tax Unit, Treasury District #14, Internal Revenue Agent in Charge, San Francisco Division, Collector of Internal Revenue, First California District, and Intelligence Unit, Treasury District #14.

Weekly reports are also transmitted from the Internal Revenue Agent in Charge on Forms SI-102 and SI-104.

It is expected that additional reports, Form SI 101 from Los Angeles, California, Reno, Nevada, Phoenix, Arizona and Honolulu, T.H. will be transmitted within the next week and that weekly reports of current operations will be functioning by the end of next week.

Report Form No. SI 101 covering cases completed and reported prior to April 3, 1945 does not state how long a period is to be covered. For that reason, reporting officers in this district have reported only cases completed within the past four months.

Sincerely yours,

Ralph E. Read
Special Agent in Charge

FOR DEFENSE



INTELLIGENCE UNIT

Seattle
(Office of Director)

WDF:VMO

TREASURY DEPARTMENT

INTERNAL REVENUE SERVICE

210 U. S. Court House
Seattle 4, Washington
April 14, 1945Chief, Intelligence Unit
Bureau of Internal Revenue
Washington, D. C.In re: Income Tax Drive on
Black Market Operators and
Cash Transactions

Pursuant to the instructions contained in your letter of April 5, 1945 a drive has been instituted in Treasury District No. 15 against black market operators and others who have been resorting to cash transactions in the conduct of various questionable enterprises. As will appear from Form No. SI-101, submitted herewith, we have already had considerable activity in these types of cases and have previously established contacts with the various sources mentioned in your letters, particularly with the Office of Price Administration, the War Production Board and the Federal Reserve Bank.

Form No. SI-101 attached shows that since 1942 this division has completed eleven cases against black market operators as follows:

- 5 - against U.P.A. violators engaged in businesses such as jewelry, gasoline, restaurants, candy and tobacco and hotel operations.
- 4 - against black market liquor dealers.
- 2 - against W.P.B. violators engaged in selling equipment without priorities.

We have also completed thirteen cases against individuals who have been resorting to cash transactions in the conduct of their questionable enterprises as follows:

FOR DEFENSE



- 5 - against gamblers.
- 4 - against slot machine operators.
- 2 - against night clubs and bars.
- 1 - against operator of a house of prostitution.
- 1 - against a jewelry company.

In these twenty-four cases we have recommended additional taxes and penalties totalling \$549,287.07 and the criminal prosecution of five individuals on tax evasion charges. Of the additional taxes and penalties recommended a total of \$334,763.22 has been agreed to by the taxpayers or actually paid in.

Of the five criminal prosecutions recommended four are still pending and of these three are considered to be exceptionally good criminal cases against these types of operators. The three cases are as follows:

1 - SI-19837-F - Myer Rothstein

Rothstein is the most notorious gambler in Seattle and has been engaging in heavy gambling operations during the entire war period, his gambling houses being patronized by shipyard, airplane plant and other war workers.

2 - SI-20488-F - Fred H. Coleman, et al

Coleman was the operator of the "Spinning Wheel" Cabaret, a notorious night club, dance hall and bar in Seattle which catered to the soldiers, sailors and merchant seamen. Coleman is an ex-convict and club he operated had a very bad reputation.

3 - SI-21713-F - Wyman & Kravik

Wyman was engaged in the refrigeration equipment business in Tacoma and violated the W.P.B. regulations by obtaining priority equipment by having the purchases billed to the "Fort Lewis Post Exchange", while he actually received the equipment and sold it to his regular customers. All these illegal transactions were handled in cash and omitted from his tax returns.

Form No. SI-106 attached shows that there is pending in the division at the present time a total of thirty-eight investigations involving black market operations or cash transactions in the conduct of various questionable enterprises. The investigations may be classified as follows:

- 4 - against liquor dealers suspected of black market operations, which cases were referred to us by the Alcohol Tax Unit.
- 8 - against used car dealers, clothing stores, lumber dealers, tobacco dealers, hotels, and rooming houses suspected of black market operations, which cases were referred to us by the Office of Price Administration.
- 2 - against refrigeration equipment dealers or salesmen engaged in the sale of this equipment without priorities, which cases were referred to us by the War Production Board.
- 24 - against gamblers, slot machine operators, night clubs, road houses, gasoline service stations, jewelry stores, liquor dealers, restaurants, meat and grocery stores, drug stores, doctors, all of whom are suspected of engaging in black market or other illegal operations.

All these cases have been under active investigation and without question additional taxes and penalties and some criminal prosecutions will result from most of them, however, many of them involve the year 1944 and we have found that a number of these taxpayers have secured extensions of time in which to file their 1944 returns, which will necessarily delay the completion of some of the investigations.

Cases SI-22278-F and SI-22179-F are against small liquor law violators who have been selling at over-ceiling prices. These cases will be reported on shortly. Additional taxes and fraud penalties will be collected on them, but it is not expected that criminal prosecution will be recommended. Very good progress is being made in case SI-22267-F which involves a lumber brokerage concern. Definite evidence of substantial unreported income and over-ceiling sales has been developed and it is believed this will be a prosecution case. Case SI-22023-F is a small case related to the Wyman & Kravik case (SI-21713-F), which has already been mentioned. Final report on this case is being prepared at the present time and criminal prosecution

will be recommended. The remaining investigations have not yet reached the stage where any definite report can be made.

Conferences have been held with Internal Revenue Agent in Charge Seth H. Stockton, Seattle Division, Collector Clark Squire, District of Washington and Alcohol Tax Unit District Supervisor W. R. Woods and communications have been addressed to the other Collectors of Internal Revenue and Internal Revenue Agents in Charge in the District on the subject of this income tax drive. Also, the matter of the drive was brought up at the Regular Monthly Meeting of the Treasury Enforcement Agencies of this district on April 10th and the heads of each agency agreed to cooperate with the Intelligence Unit in every way possible. Because of the location of the offices of the other Internal Revenue officials in this district (Helena, Montana, Boise, Idaho, Salt Lake City, Utah, Portland, Oregon) it was not possible to receive the Forms No. 102 - 103 - 104 and 105 in time for submission with this week's narrative report but it is hoped that they can be submitted next week.

William E. Frank

William E. Frank
Special Agent in Charge

Encls.



INTELLIGENCE UNIT

Seattle

(Name of District)

WEP:SE

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

TREASURY DEPARTMENT

INTERNAL REVENUE SERVICE

Seattle, Washington
April 21, 1945

In re: Income Tax Drive on Black Market
Operators and Cash Transactions

This report is submitted to cover the activities of the Seattle Division on the above designated drive for the week ending April 21, 1945 and to transmit the Forms SI-100, 102, 103, 104 and 105 received from the Collectors of Internal Revenue and Internal Revenue Agents in Charge in this district, as well as Form SI-106 for this office.

As Form SI-106 shows, eight new black market and currency cases were received in this division and one was closed during the past week. Two of the cases received were from your office and were based on information on cash transactions received from Federal Reserve Banks. Two of the new cases were referred to us by the Office of Price Administration and four were from the War Production Board. The case closed related to a doctor in Portland, Oregon who had been reported to us as hoarding \$1000 bills and not paying his proper income taxes. Preliminary investigation of this matter was made and it was found that the doctor (SI-Special - Dr. J. G. Manning) had filed timely tax returns reporting substantial income for his type of practice and a survey of all banking facilities disclosed no trace of any bills of large denomination handled by him. His records were adequate and well kept and his returns had been prepared by a certified public accountant. A survey of his net worth indicated that it was in keeping with the incomes reported on his tax returns for a number of years. Accordingly, the matter was closed as unworthy of further investigation by this service.

In case SI-22278-F, which was mentioned in last week's report, George L. Marino and Ray E. Miller, the taxpayers, paid to the Collector of Internal Revenue approximately \$4000 in additional taxes and fraud penalties and final report will be submitted as soon as the deputy collector's report is received. Marino and Miller were bellhops in one of the Seattle hotels who had been selling liquor by the bottle to hotel guests at very exorbitant prices. The case had been referred to us by



the Alcohol Tax Unit and as the sales were all cash sales and as the taxpayers had no books, records or bank accounts, we were only able to establish a tax liability greater than reported by proving cash expenditures. No prosecution will be recommended in this case.

In case SI-22267-F relating to the Northwest Lumber Company of Bellingham, Washington, also mentioned in last week's report, we received a report from the Kansas City Division on collateral investigation made in Oklahoma which gave us definite evidence that the Northwestern Lumber Company had made \$90,000 in over-ceiling sales in that state which were not recorded on their books for tax purposes. Satisfactory progress is being made in this case but as it has ramifications in Texas and Illinois it will be some time before it can be completed.

Last week we received a case from the Office of Price Administration in Portland which disclosed that the Chamberlain Hotel had been renting rooms at over-ceiling prices. The owners only began operating this hotel in 1944. The O.P.A. investigators in checking their records found many obvious alterations of the room rates. They turned over the books and records to this Unit and photostatic copies were made of all altered entries, however, the records of the Collector's office showed that the hotel operators had received an extension of time in which to file their 1944 return until May 15, 1945.

In the case of A. R. Krans, operator of a Seattle night club named "The Stork Club", the Alcohol Tax Unit obtained indictments this week against Krans for violation of the liquor statutes and Krans was also convicted and sentenced to ten years imprisonment on a state charge of assault with a deadly weapon. Krans is now at liberty under \$25,000 bail pending appeal.

In a special investigation case jacket has just been requested on one Harry L. Naen, a Seattle gambler, and it has been established that he made heavy winnings late in 1944 and early in 1945 and failed to report them on his 1944 return or to file an estimate for 1945. Naen was prevailed upon by the special agent and revenue agent to permit them to inspect his safe deposit box and they found approximately \$20,000 cash therein. It is expected that about \$10,000 in additional taxes and penalties will be collected in this case.

Inspection of the forms submitted by Collectors Squire and Penwell and by Internal Revenue Agent in Charge Stockton will disclose that these offices have been handling no black market or currency cases independently of the Intelligence Unit. The reason for this is that it has been

the practice in this district for the Collectors and Revenue Agents in Charge to request the cooperation of this Unit as soon as cases of this type were brought to their attention. The forms from the Collectors in Idaho and Oregon and from the Revenue Agent in Charge in Utah will be forwarded for association with this report as soon as they are received.

William E. Frank

William E. Frank
Special Agent in Charge

Enclosures.

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IPCOG 125 April 1945Pages 1 to 23, Incl.INFORMAL POLICY COMMITTEE ON GERMANYDIRECTIVE TO COMMANDER-IN-CHIEF OF U.S. FORCES OF
OCCUPATION REGARDING THE MILITARY GOVERNMENT OF GERMANYReferences: a. JCS 1067
b. SWMCC 2 SeriesNote by the Secretaries

The attached directive has been approved by the Informal Policy Committee on Germany subject to certain additions to be issued as supplements to this paper.

CHARLES W. MCCARTHY

ALVIN F. RICHARDSON

RAYMOND E. COX

Secretariat

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April 25, 1945

DIRECTIVE TO COMMANDER-IN-CHIEF OF U.S. FORCES OF OC-
CUPATION REGARDING THE MILITARY GOVERNMENT OF GERMANY1. The Purpose and Scope of this Directive:

This directive rescinds JCS 1067 and is issued to you as Commanding General of the United States forces of occupation in Germany. As such you will serve as United States member of the Control Council and will also be responsible for the administration of military government in the zone or zones assigned to the United States for purposes of occupation and administration. It outlines the basic policies which will guide you in those two capacities after the termination of the combined command of the Supreme Commander, Allied Expeditionary Force. Supplemental directives will be issued to you by the Joint Chiefs of Staff as may be required.

As a member of the Control Council you will urge the adoption by the other occupying powers of the principles and policies set forth in this directive and, pending Control Council agreement, you will follow them in your zone. It is anticipated that substantially similar directives will be issued to the Commanders in Chief of the U.K., USSR and French forces of occupation.

PART I

General and Political

2. The Basis of Military Government

a. The rights, power and status of the military government in Germany are based upon the unconditional surrender or total defeat of Germany. The Text of the Instrument of Unconditional Surrender is at Appendix "A". You will assure that the policies set forth in that Instrument are carried out in your zone of occupation even though the defeat of Germany is not followed by a formal signing of the Instrument.

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b. Subject to the provisions of paragraph 3 below, you are, by virtue of your position, clothed with supreme legislative, executive, and judicial authority in the areas occupied by forces under your command. This authority will be broadly construed and includes authority to take all measures deemed by you necessary, appropriate or desirable in relation to military exigencies and the objectives of a firm military government.

c. You will issue a proclamation continuing in force such proclamations, orders and instructions as may heretofore been issued by Allied Commanders in your zone, subject to such changes as you may determine. Authorizations of action by the Supreme Commander, Allied Expeditionary Force, may be considered as applicable to you unless inconsistent with this or later directives.

3. The Control Council and Zones of Occupation:

a. The four Commanders-in-Chief, acting jointly, will constitute the Control Council in Germany which will be the supreme organ of control over Germany in accordance with the agreement on Control Machinery in Germany at Appendix "B". For purposes of administration of military government, Germany has been divided into four zones of occupation. The agreed protocols on zones are at Appendix "C".

b. The authority of the Control Council to formulate policy and procedures and administrative relationships with respect to matters affecting Germany as a whole will be paramount throughout Germany. You will carry out and support in your zone the policies agreed upon in the Control Council. In the absence of such agreed policies you will act in accordance with this and other directives of the Joint Chiefs of Staff.

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c. The administration of affairs in Germany shall be directed towards the decentralization of the political and administrative structure and the development of local responsibility. To this end you will encourage autonomy in regional, local and municipal agencies of German administration. The German economic structure shall also be decentralized. The Control Council may, however, to the minimum extent required for the fulfillment of purposes set forth herein, permit centralized administration or establish central control of (a) essential national public services such as railroads, communications and power, (b) finance and foreign affairs, and (c) production and distribution of essential commodities.

d. The Control Council should adopt procedures to effectuate, and you will facilitate in your zone, the equitable distribution of essential commodities between the zones. In the absence of a conflicting policy of the Control Council, you may deal directly with one or more zone commanders on matters of special concern to such zones.

e. Pending the formulation in the Control Council of uniform policies and procedures with respect to inter-zonal travel and movement of civilians, no civilians shall be permitted to leave or enter your zone without your authority, and no Germans within your zone shall be permitted to leave Germany except for specific purposes approved by you.

f. The military government personnel in each zone, including those dealing with regional and local branches of the departments of any central German administrative machinery, shall be selected by authority of the Commander of that zone except that liaison officers may be furnished by the Commanders of the other three zones. The respective Commanders-in-Chief shall have exclusive jurisdiction throughout the whole of

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Germany over the members of the armed forces under their command and over the civilians who accompany them.

g. The Control Council should be responsible for facilitating the severance of all governmental and administrative connections between Austria and Germany and the elimination of German economic influence in Austria. Every assistance should be given to the Allied Administration in Austria in its efforts to effectuate these purposes.

4. Basic Objectives of Military Government in Germany:

a. It should be brought home to the Germans that Germany's ruthless warfare and the fanatical Nazi resistance have destroyed the German economy and made chaos and suffering inevitable and that the Germans cannot escape responsibility for what they have brought upon themselves.

b. Germany will not be occupied for the purpose of liberation but as a defeated enemy nation. Your aim is not oppression but to occupy Germany for the purpose of realizing certain important Allied objectives. In the conduct of your occupation and administration you should be just but firm and aloof. You will strongly discourage fraternization with the German officials and population.

c. The principal Allied objective is to prevent Germany from ever again becoming a threat to the peace of the world. Essential steps in the accomplishment of this objective are the elimination of Nazism and militarism in all their forms, the immediate apprehension of war criminals for punishment, the industrial disarmament and demilitarization of Germany, with continuing control over Germany's capacity to make war, and the preparation for an eventual reconstruction of German political life on a democratic basis.

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d. Other Allied objectives are to enforce the program of reparations and restitution, to provide relief for the benefit of countries devastated by Nazi aggression, and to ensure that prisoners of war and displaced persons of the United Nations are cared for and repatriated.

5. Economic Controls:

a. As a member of the Control Council and as zone commander, you will be guided by the principle that controls upon the German economy may be imposed to the extent that such controls may be necessary to achieve the objectives enumerated in paragraph 4 above and also as they may be essential to protect the safety and meet the needs of the occupying forces and assure the production and maintenance of goods and services required to prevent starvation or such disease and unrest as would endanger these forces. No action will be taken in execution of the reparations program or otherwise which would tend to support basic living conditions in Germany or in your zone on a higher level than that existing in any one of the neighboring United Nations.

b. In the imposition and maintenance of such controls as may be prescribed by you or the Control Council, German authorities will to the fullest extent practicable be ordered to proclaim and assume administration of such controls. Thus it should be brought home to the German people that the responsibility for the administration of such controls and for any breakdowns in those controls will rest with themselves and German authorities.

6. Denazification:

a. A Proclamation dissolving the Nazi Party, its formations, affiliated associations and supervised organi-

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nations, and all Nazi public institutions which were set up as instruments of Party domination, and prohibiting their revival in any form, should be promulgated by the Control Council. You will assure the prompt effectuation of that policy in your zone and will make every effort to prevent the reconstitution of any such organization in underground, disguised or secret form. Responsibility for continuing desirable non-political social services of dissolved Party organizations may be transferred by the Control Council to appropriate central agencies and by you to appropriate local agencies.

b. The laws purporting to establish the political structure of National Socialism and the basis of the Hitler regime and all laws, decrees and regulations which establish discriminations on grounds of race, nationality, creed or political opinions should be abrogated by the Control Council. You will render them inoperative in your zone.

c. All members of the Nazi party who have been more than nominal participants in its activities, all active supporters of Nazism or militarism and all other persons hostile to Allied purposes will be removed and excluded from public office and from positions of importance in quasi-public and private enterprises such as (1) civic, economic and labor organizations, (2) corporations and other organizations in which the German government or subdivisions have a major financial interest, (3) industry, commerce, agriculture, and finance, (4) education, and (5) the press, publishing houses and other agencies disseminating news and propaganda. Persons are to be treated as more than nominal

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participants in Party activities and as active supporters of Nazism or militarism when they have (1) held office or otherwise been active at any level from local to national in the party and its subordinate organizations, or in organizations which further militaristic doctrines, (2) authorized or participated affirmatively in any Nazi crimes, racial persecutions or discriminations, (3) been avowed believers in Nazism or racial and militaristic creeds, or (4) voluntarily given substantial moral or material support or political assistance of any kind to the Nazi Party or Nazi officials and leaders. No such persons shall be retained in any of the categories of employment listed above because of administrative necessity, convenience or expediency.

d. Property, real and personal, owned or controlled by the Nazi party, its formations, affiliated associations and supervised organizations, and by all persons subject to arrest under the provisions of paragraph 8, and found within your zone, will be taken under your control pending a decision by the Control Council or higher authority as to its eventual disposition.

e. All archives, monuments and museums of Nazi inception, or which are devoted to the perpetuation of German militarism, will be taken under your control and their properties held pending decision as to their disposition by the Control Council.

f. You will make special efforts to preserve from destruction and take under your control records, plans, books, documents, papers, files, and scientific, industrial and other information and data belonging to or controlled by the following:

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- (1) The Central German Government and its subdivisions, German military organizations, organizations engaged in military research, and such other governmental agencies as may be deemed advisable;
- (2) The Nazi Party, its formations, affiliated associations and supervised organizations;
- (3) All police organizations, including security and political police;
- (4) Important economic organizations and industrial establishments including those controlled by the Nazi Party or its personnel;
- (5) Institutes and special bureaus devoting themselves to racial, political, militaristic or similar research or propaganda.

7. Demilitarization:

a. In your zone you will assure that all units of the German armed forces, including para-military organizations, are dissolved as such, and that their personnel are promptly disarmed and controlled in accordance with policies and procedures set forth in the Instrument of Unconditional Surrender or in other directives which may be issued to you. Prior to their final disposition, you will arrest and hold all military personnel who are included under the provisions of paragraph 6.

b. The Control Council should proclaim, and in your zone you will effectuate, the total dissolution of all military and para-military organizations, including the General Staff, the German Officers Corps, the Reserve Corps and military academies, together with all associations which might serve to keep alive the military tradition in Germany.

c. You will seize or destroy all arms, ammunition and implements of war and stop the production thereof.

d. You will take proper steps to destroy the German war potential, as set forth elsewhere in this directive.

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a. You will search out, arrest, and hold, pending receipt by you of further instructions as to their disposition, Adolf Hitler, his chief Nazi associates, other war criminals and all persons who have participated in planning or carrying out Nazi enterprises involving or resulting in atrocities or war crimes.

b. All persons who, if permitted to remain at large would endanger the accomplishment of your objectives will also be arrested and held in custody until trial by an appropriate semi-judicial body to be established by you. The following is a partial list of the categories of persons to be arrested in order to carry out this policy:

(1) Officials of the Nazi Party and its formations, affiliated associations, and supervised organizations, down to and including Local Group Leaders (Ortsgruppenleiter) and officials of equivalent rank;

(2) all members of the political police, including the Gestapo and Sicherheitsdienst der S.S.;

(3) The officers and non-commissioned officers of the Waffen S.S. and all members of the other branches of the S.S.;

(4) All General Staff Corps officers;

(5) Officials of the police holding a rank, or equivalent positions of authority, above that of Lieutenant;

(6) Officers of the SA holding commissioned rank;

(7) The leading officials of all ministries and other high political officials down to and including urban and rural buergermeister and officials of equivalent rank, and those persons who have held similar positions, either civil or military, in the administration of countries occupied by Germany;

(8) Nazis and Nazi sympathizers holding important and key positions in (a) National and Gau civic and economic

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organizations; (b) corporations and other organizations in which the government has a major financial interest; (c) industry, commerce, agriculture, and finance; (d) education; (e) the judiciary; and (f) the press, publishing houses and other agencies disseminating news and propaganda. It may generally be assumed in the absence of evidence to the contrary that any persons holding such positions are Nazis or Nazi sympathizers;

(9) All judges, prosecutors and officials of the People's Court (Volksgericht), Special Courts (Sondergerichte) and other extraordinary courts created by the Nazi regime;

(10) Any national of any of the United Nations or associated states who is believed to have committed offenses against his national law in support of the German war effort;

(11) Any other person whose name or designation appears on lists to be submitted to you by the J.C.S. or whose name may be so notified to you separately.

If in the light of conditions which you encounter in Germany, you believe that it is not immediately feasible to subject certain persons within these categories to this treatment, you should report your reasons and recommendations to your government through the Joint Chiefs of Staff. If you believe it desirable, you may postpone the arrest of those whose cases you have reported, pending a decision communicated to you by the J.C.S. In no event shall any differentiation be made between or special consideration be accorded to persons arrested, either as to manner of arrest or conditions of detention, upon the basis of wealth or political, diplomatic, industrial, or other rank or position. In your discretion you may make such exceptions as you deem advisable for intelligence or other military reasons.

9. Political Activities

a. No political activities of any kind shall be countenanced

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unless authorized by you. You will assure that your military government does not become committed to any political group.

b. You will prohibit the propagation in any form of Nazi, militaristic or pan-German doctrines.

c. No German parades, military or political, civilian or sports, shall be permitted by you.

d. To the extent that military interests are not prejudiced and subject to the provisions of the three preceding subparagraphs and of paragraph 10, freedom of speech, press and religious worship will be permitted. Consistent with military necessity, all religious institutions will be respected.

10. Public Relations and Control of Public Information:

As a member of the Control Council, you will endeavor to obtain agreement for uniform or coordinated policies with respect to (a) control of public information media in Germany, (b) accrediting of foreign correspondents, (c) press censorship, and (d) issuance of official news communiques dealing with Control Council matters. U.S. policies in these matters will be sent to you separately and you will be guided by these in your negotiations on the Control Council.

11. German Courts:

a. All extraordinary courts, including the Volksgerichtshof (People's Court) and the Sondergerichte (Special Courts), and all courts and tribunals of the Nazi Party and of its formations, affiliated associations and supervised organizations will be abolished immediately.

b. All ordinary criminal, civil and administrative courts, except those previously re-established by order of the military government, will be closed. After the elimination of all Nazi features and personnel you will permit those which are to exercise jurisdiction within the boundaries of your zone to resume operations under such regulations, supervision and control as you may

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consider appropriate. Courts which are to exercise jurisdiction over territory extending beyond the boundaries of your zone will be reopened only with the express authorization of the Control Council and under its regulation, supervision and control. The power to review and veto decisions of German courts shall be included within the power of supervision and control.

12. Police:

With the exception of the Reichskriminalpolizei (criminal Police) all elements of the Sicherheitspolizei (Security Police), e.g., Gelbststrafpolizei (Gestapo), and the Sicherheitsdienst der S.S. will be abolished. Criminal and ordinary police will be purged of Nazi personnel and utilized under the control and supervision of the military government.

13. Political Prisoners:

Subject to military security and the interests of the individuals concerned, you will release all persons found within your zone who have been detained or placed in custody on grounds of race, nationality, creed or political opinions and treat them as displaced persons. You should make provision for the review of convictions of alleged criminal offenses about which there may be substantial suspicion of racial, religious or political persecution, and in which sentences of imprisonment have not been fully served by persons imprisoned within your zone.

14. Education:

a. All educational institutions within your zone except those previously re-established by Allied authority will be closed. The closure of Nazi educational institutions such as Adolf Hitler Schulen, Napolas and Ordensburgen, and of Nazi organizations within other educational institutions will be permanent.

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b. A coordinated system of control over German education and an affirmative program of reorientation will be established designed completely to eliminate Nazi and militaristic doctrines and to encourage the development of democratic ideas.

c. You will permit the reopening of elementary (Volkschulen), middle (Mittelschulen) and vocational (Berufsschulen) schools at the earliest possible date after Nazi personnel has been eliminated and textbooks and curricula have been provided which are free of Nazi and militaristic doctrine. The Control Council should devise programs looking toward the reopening of secondary schools, universities and other institutions of higher learning. After Nazi features and personnel have been eliminated and pending the formulation of such programs by the Control Council, you may formulate and put into effect an interim program within your zone and in any case may permit the reopening of such institutions and departments which offer training which you consider immediately essential or useful in the administration of military government and the purposes of the occupation.

d. It is not intended that the military government will intervene in questions concerning denominational control of German schools, or in religious instruction in German schools, except insofar as may be necessary to insure that religious instruction and administration of such schools conform to such Allied regulations as are or may be established pertaining to purging of personnel and curricula.

15. Arts and Archives:

Subject to the provisions of paragraph 8 above, you will make all reasonable efforts to preserve historical archives, museums, libraries and works of art.

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PART II

ECONOMIC

General Objectives and Methods of Control

16. You will assure that the German economy is administered and controlled in such a way as to accomplish the basic objectives set forth in paragraphs 4 and 5 of Part I of this Directive. Economic controls will be imposed only to the extent necessary to accomplish these objectives, provided that you will impose controls to the full extent necessary to achieve the industrial disarmament of Germany. Except as may be necessary to carry out these objectives, you will take no steps (a) looking toward the economic rehabilitation of Germany, or (b) designed to maintain or strengthen the German economy.

17. To the maximum extent possible without jeopardizing the successful execution of measures required to implement the objectives outlined in paragraphs 4 and 5 of this directive you will use German authorities and agencies and subject them to such supervision and punishment for non-compliance as is necessary to ensure that they carry out their tasks.

For this purpose you will give appropriate authority to any German agencies and administrative services you consider essential; provided, however, that you will at all times adhere strictly to the provisions of this directive regarding denazification and dissolution or elimination of Nazi organizations, institutions, principles, features, and practices.

To the extent necessary you will establish administrative machinery, not dependent upon German authorities and agencies, to execute or assure the execution of the provisions of paragraphs 20, 30, 31, 32, 39 and 40 and any other measures necessary to an accomplishment of your industrial disarmament objectives.

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18. In order to decentralize the structure and administration of the German economy to the maximum possible extent, you will

a. ensure that the action required to maintain or restore essential public utilities and industrial and agricultural activities is taken as far as possible on a local and regional basis;

b. on no account propose or approve in the Control Council the establishment of centralized administration of controls over the German economy except where such centralization of administration is clearly essential to the fulfillment of the objectives listed in paragraphs 4 and 5 of this directive. Decentralization in administration should not be permitted to interfere with attainment of the largest practicable measure of agreement on economic policies in the Control Council.

19. You will institute or assure the maintenance of such statistical records and reports as may be necessary in carrying out the objectives listed in paragraphs 4 and 5 of this directive.

20. You will initiate appropriate surveys which may assist you in achieving the objectives of the occupation. In particular you will promptly undertake surveys of supplies, equipment and resources in your zone. You will endeavor to obtain prompt agreement in the Control Council to the making of similar surveys in the other zones of occupation, and you will urge appropriate steps to coordinate the methods and results of these and other future surveys conducted in the various zones. You will keep the Control Council, United States Representative on the Reparation Commission and other appropriate authorities, currently apprised of the information obtained by means of intermediate reports or otherwise.

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21. You will estimate requirements of supplies necessary to prevent starvation or widespread disease or such civil unrest as would endanger the occupying forces. Such estimates will be based upon a program whereby the Germans are made responsible for providing for themselves, out of their own work and resources. You will take all practicable economic and police measures to assure that German resources are fully utilized and consumption held to the minimum in order that imports may be strictly limited and that surpluses may be made available for the occupying force and displaced persons and United Nations prisoners of war, and for reparation. You will take no action that would tend to support basic living standards in Germany on a higher level than that existing in any one of the neighboring United Nations and you will take appropriate measures to ensure that basic living standards of the German people are not higher than those existing in any one of the neighboring United Nations when such measures will contribute to raising the standards of any such nation.

22. You will urge upon the Control Council that uniform ration scales be applied throughout Germany, that essential items be distributed equitably among the zones, that net surpluses be made available for export to Allied countries, and that imports be limited to the net deficits of Germany as a whole.

Labor, Health, and Social Insurance

23. You will permit the self-organization of employees along democratic lines, subject to such safeguards as may be necessary to prevent the perpetuation of Nazi or militarist influence under any guise or the continuation of any group hostile to the objectives and operations of the occupying forces.

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24. You will permit free collective bargaining between employees and employers regarding wages, hours and working conditions and the establishment of machinery for the settlement of industrial disputes. Collective bargaining shall be subject to such wage and hour controls, if any, as may be instituted or revived by your direction.

25. Subject to the provisions of paragraph 47 of this directive you are authorized to direct German authorities to maintain or reestablish non-discriminatory systems of social insurance and poor relief.

26. You are authorized to direct the German authorities to maintain or re-establish such health services and facilities as may be available to them.

Agriculture, Industry and Internal Commerce

27. You will require the Germans to use all means at their disposal to maximize agricultural output and to establish as rapidly as possible effective machinery for the collection and distribution of agricultural output.

28. You will direct the German authorities to utilize large-landed estates in a manner which will facilitate the accommodation and settlement of Germans and others or increase the acreage under cultivation.

29. You will protect from destruction by the Germans, and maintain for such disposition as is determined by this and other directives or by the Control Council, all plants, equipment, patents and other property, and all books and records of large German industrial companies and trade and research associations that have been essential to the German war effort or the German economy. You will pay particular attention to research and experimental establishments of such concerns.

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30. In order to disarm Germany, the Control Council should

a. prevent the production, acquisition by importation or otherwise, and development of all arms, ammunition and implements of war, as well as all types of aircraft, and all parts, components and ingredients specially designed or produced for incorporation therein;

b. prevent the production of merchant ships, synthetic rubber and oil, aluminum and magnesium and any other products and equipment on which you will subsequently receive instructions;

c. seize and safeguard all facilities used in the production of any of the items mentioned in this paragraph and dispose of them as follows:

(1) remove all those required for reparation;

(2) destroy all those not transferred for reparation if they are especially adapted to the production of the items specified in this paragraph and are not of a type generally used in industries permitted to the Germans (cases of doubt to be resolved in favor of destruction);

(3) hold the balance for disposal in accordance with instructions which will be sent to you.

Pending agreement in the Control Council you will take these measures in your own zone. You will not postpone enforcement of the prohibitions contained in subparagraphs a and b and the instructions in subparagraph c without specific approval of your government through the Joint Chiefs of Staff.

31. As an additional measure of disarmament, the Control Council should

a. prohibit initially all research activities and close all laboratories, research institutions and similar technical organizations except those considered necessary to the protection of public health;

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b. abolish all those laboratories and related institutions whose work has been connected with the building of the German war machine, safeguard initially such laboratories and detain such personnel as are of interest to your technological investigations, and thereafter remove or destroy their equipment;

c. permit the resumption of scientific research in specific cases, only after careful investigation has established that the contemplated research will in no way contribute to Germany's future war potential and only under appropriate regulations which (1) define the specific types of research permitted, (2) exclude from further research activity any persons who previously held key positions in German war research, (3) provide for frequent inspection, (4) require free disclosure of the results of the research and (5) impose severe penalties, including permanent closing of the offending institution, whenever the regulations are violated.

Pending agreement in the Control Council you will adopt such measures in your own zone.

32. Pending final Allied agreements on reparation and on control or elimination of German industries that can be utilized for war production, the Control Council should

a. prohibit and prevent production of iron and steel, chemicals, non-ferrous metals (excluding aluminum and magnesium), machine tools, radio and electrical equipment, automotive vehicles, heavy machinery and important parts thereof, except for the purposes stated in paragraphs 4 and 5 of this directive;

b. prohibit and prevent rehabilitation of plant and equipment in such industries except for the purposes stated in paragraphs 4 and 5 of this directive; and

IPCOG 1

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TOP SECRET

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a. safeguard plant and equipment in such industries for transfer on reparation account.

Pending agreement in the Control Council, you will put such measures into effect in your own zone.

33. The Control Council should adopt a policy permitting the conversion of facilities other than those mentioned in paragraphs 30 and 32 to the production of light consumer goods, provided that such conversion does not prejudice the subsequent removal of plant and equipment on reparation account and does not require any imports beyond those necessary for the purposes specified in paragraphs 4 and 5 of this directive. Pending agreement in the Control Council, you may permit such conversion in your zone.

34. Subject to the provisions of paragraphs 30 and 32, the Control Council should assure that all feasible measures are taken to facilitate, to the minimum extent necessary for the purposes outlined in paragraphs 4 and 5 of this directive

a. repairs to and restoration of essential transportation services and public utilities;

b. emergency repair and construction of the minimum shelter required for the civilian population;

c. production of coal and any other goods and services required for reparation, for your forces and, subject to the provisions of paragraph 21 of this directive, for the German people.

You will assure that such measures are taken in your own zone pending agreement in the Control Council.

35. In your capacity as zone commander and as member of the Control Council you will take steps to provide for the equitable interzonal distribution and the movement of goods and services essential to the purposes set forth in paragraphs 4 and 5 of this directive.

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TOP SECRET

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36. You will prohibit all cartels or other private business arrangements and cartel-like organizations, including those of a public or quasi-public character such as the Wirtschaftsräte providing for the regulation of marketing conditions, including production, prices, exclusive exchange of technical information and processes, and allocation of sales territories. Such necessary public functions as have been discharged by these organizations shall be absorbed as rapidly as possible by approved public agencies.

37. It is the policy of your government to effect a dispersion of the ownership and control of German industry. To assist in carrying out this policy you will make a survey of combines and pools, mergers, holding companies and interlocking directorates and communicate the results, together with recommendations, to your government through the Joint Chiefs of Staff. You will endeavor to obtain agreement in the Control Council to the making of this survey in the other zones of occupation and you will urge the coordination of the methods and results of this survey in the various zones.

38. With due regard to paragraph 4 a, the Control Council should adopt such policies as are clearly necessary to prevent or restrain inflation of a character or dimension which would definitely endanger accomplishment of the objectives of the occupation. The Control Council, in particular, should direct and empower German authorities to maintain or establish controls over prices and wages and to take the fiscal and financial measures necessary to this end. Pending agreement in the Control Council you will assure that such measures as you consider necessary are taken in your own zone. Prevention of restraint of inflation shall not constitute an additional ground for the importation of supplies, nor shall it constitute an additional ground

IPCOG 1

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TOP SECRET

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for limiting removal, destruction or curtailment of productive facilities in fulfillment of the program for reparation, demilitarization and industrial disarmament.

Power, Transportation and Communications

39. Both as member of the Control Council and zone commander you will take appropriate steps to ensure that

a. power, transportation and communications facilities are directed in such a way as to carry out the objectives outlined in paragraphs 4 and 5 of this directive;

b. Germans are prohibited and prevented from producing, maintaining or operating all types of aircraft.

You will determine the degree to which centralized control and administration of power, transportation and communications is clearly necessary for the objectives stated in paragraphs 4 and 5 and urge the establishment of this degree of centralized control and administration by the Control Council.

Foreign Trade and Reparation

40. The Control Council should establish centralized control over all trade in goods and services with foreign countries. Pending agreement in the Control Council you will impose appropriate controls in your own zone.

41. Both as member of the Control Council and as zone commander you will take appropriate steps to ensure that

a. the foreign trade controls are designed to carry out the objectives stated in paragraphs 4 and 5 of this directive;

b. imports which are permitted and furnished to Germany are confined to those unavoidably necessary to the objectives stated in paragraphs 4 and 5;

c. exports to countries other than the United Nations are prohibited unless specifically authorized by the Allied governments.

IPCOG 1

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TOP SECRET

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42. Both as member of the Control Council and as zone commander you will adopt a policy which would forbid German firms to participate in international cartels or other restrictive contracts and arrangements and order the prompt termination of all existing German participations in such cartels, contracts and arrangements.

43. You will carry out in your zone such programs of reparation and restitution as are embodied in Allied agreements and you will seek agreement in the Control Council on any policies and measures which it may be necessary to apply throughout Germany in order to ensure the execution of such programs.

IPCOG 1

- 23 -

4/25/45

Charles Bell
John Pehle
Secretary Morgenthau

Please prepare a letter for me to the employees of
Surplus Property, telling them I appreciate the good
work they have done, and I am sorry to see them go.
Give them an explanation of why I asked for the transfer.
I want to have this in my hands not later than 1:30 today.

Done

22

26

April 26, 1945.

Dear Henry:

I thought that you might like to see the
letter that I had sent to the employees of the
Treasury Department who were transferred with
the Surplus Property group. I am sending you
a copy herewith.

Sincerely,

(Signed) Henry

Honorable Henry A. Wallace,
Secretary of Commerce,
Washington, D. C.
Enclosure.

CHW/d

Envelope marked Done

4/25/45

Charles Bell
John Pehle

Secretary Morgenthau

Please prepare a letter for me to the employees of
Surplus Property, telling them I appreciate the good
work they have done, and I am sorry to see them go.
Give them an explanation of why I asked for the transfer.
I want to have this in my hands not later than 1:30 today.

Done

25

April 25, 1945.

Dear Henry:

I thought that you might like to see the
letter that I had sent to the employees of the
Treasury Department who were transferred with
the Surplus Property group. I am sending you
a copy herewith.

Sincerely,

(Signed) Henry

Honorable Henry A. Wallace,
Secretary of Commerce,
Washington, D. C.
Enclosure.

GWS/da

Envelope marked Personal

OFFICE OF WAR MOBILIZATION AND RECONVERSION
WASHINGTON, D. C.

OFFICE OF THE DIRECTOR



April 25, 1945

HA

Dear Mr. Morgenthau:

I received your letter of April 21 concerning my appointment to the Office of War Mobilization and Reconversion. To merely state that I appreciate your kindness in writing is to put it mildly. This is going to be a very hectic job and perhaps more than I bargained for.

The trip to Palestine was very exciting and worthwhile. There is still much work to be done on the project and I am trying to make a contribution on a part time basis. This looks like a very difficult thing to do but I shall make every effort to contribute in both directions.

Expressions like yours will certainly help me. I hope to see you soon.

Sincerely,

Bob

Robert R. Nathan

The Honorable Henry Morgenthau
The Secretary of the Treasury

EXECUTIVE OFFICE OF THE PRESIDENT
WAR REFUGEE BOARD
WASHINGTON 25, D. C.



OFFICE OF THE
EXECUTIVE DIRECTOR

APR 25 1945

My dear Mr. Secretary:

I am pleased to send you herewith a copy
of the report of the War Refugee Board for the period
from April 9 to 21, 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 period from April 9 to 21, 1945

OPERATIONS FROM SWITZERLAND

Cables received from Representative McClelland reported the departure of twenty-four trucks from Geneva to make relief distributions in German territory. On April 11, six trucks loaded with nineteen tons of food parcels, two with gasoline, and two carrying repair parts, tools, etc., and a team of mechanics left to go via Kreutzingen, unload food at the concentration camps of Oranienburg and Ravensbrück en route, and then proceed on to Lüneburg to remain for work in that area. Another special convoy of ten trucks carrying 42,000 kilograms of relief supplies including 900 Board parcels left on April 17 for Mauthausen, which is twenty-five kilometers east of Linz, Austria. In view of the rapid approach of the eastern fighting front and the possibility that the presence of additional InterCross personnel might also afford an opportunity for protective action at this critical time, it was the feeling of InterCross that an extraordinary effort should be made to send parcels in to this large combined concentration camp and penitentiary, said always to have been among the worst in the Nazi system, where there are a great many detainees of Polish, French and Italian nationality, as well as smaller numbers of other nationalities. Leaving with the Mauthausen convoy were four trucks destined for the Dachau area carrying only gasoline to be used to operate trucks distributing relief to camps in that area from the InterCross depot. Ten more trucks were expected to be made available to InterCross before the end of the month for carrying relief to unassimilated persons of all categories.

In addition to the parcel stocks in Switzerland and Sweden, the Board has obtained by purchase from the War Department 206,000 parcels in Switzerland originally packed for distribution under the auspices of the American Red Cross to

- 2 -

prisoners of war. Representative McClelland was advised of the acquisition of these parcels under the condition that they be repackaged before delivery by Interross and that they be delivered only to concentration camps. The American Red Cross representative in Geneva is receiving instructions to turn these parcels over to the Board, and we have requested Representative McClelland to arrange for the repacking, which he has reported can be accomplished at the rate of 3,000 parcels per day.

We learned from Representative McClelland that a truck convoy arrived at Kreuzlingen, Switzerland, on the night of April 10 with three hundred French women from the concentration camp of Ravensbrück. Since these women were exchanged for German civilians, who it is understood were taken in Alsace, their release does not represent any concession on the part of the Germans without a concrete reciprocal consideration. After lengthy negotiations by the International Red Cross with the Germans, there appears to be a willingness to permit the exit from Germany only of civilian detainees of French and Belgian nationality in exchange for similar groups of German civilians now held by the French and the Belgians. While the Germans do not insist that these exchanges be on a person for person basis, they are to be limited to women, children, and elderly people; there is no evidence that the Germans will be willing to allow the evacuation of women who are being used as labor, although the International Red Cross is continuing to negotiate for this. Since seven Jewish women were included in the convoy of French women, it does not seem that the Germans are discriminating against Jews within these national groups.

The Nazis were reported by these women to be following a policy of simply working the detainees at Ravensbrück to death; when they are no longer able to work, they are literally discarded. There is, unhappily, every reason to believe that this practice is being followed with other similar groups of Schutzhaftlinge and that the statistics reported from Ravensbrück probably predict the findings which may be expected with regard to civilian detainees in general. It was stated that the Interross delegate who accompanied the trucks bringing the women from Ravensbrück was informed by an SS official that Interross could evacuate all the remaining French women at this camp as soon as it wished. However, out of at least 3,000 French women who were there last October, there seem to be only 300 still left. Half of the 3,000 are believed to have died, and it is thought that the many hundreds still unaccounted for are in work companies detached from the camp.

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As a result of this information, the International Red Cross is making a special effort for the immediate procurement of a few buses from the Swiss army to supplement the prison-of-war parcel trucks now available for such evacuations, and the possibility of using a blocked prison-of-war parcel train for a similar purpose is also being examined. It is hoped that the removal of some detainees of other than French and Belgian nationality may be accomplished on an "ad hoc" basis, depending on the attitude of the individual camp commanders.

Our Legation in Bern advised us that the Swiss Legation in Germany reported under date of April 6 that, authorization having just been obtained to visit Theresienstadt, a representative was being sent to that camp very soon, and that it was endeavoring to obtain authorization to visit Bergen Belsen.

Representatives of private organizations and the Swiss police informed McClelland of the arrival at Konstanz on April 18 of sixty-nine Jewish refugees, most of them apparently from Bratislava, and that they were to be admitted to Switzerland on the following day. One of these informants was said to have just returned to Switzerland from an extended trip, including Theresienstadt and Bergen Belsen, in the company of an SS official. He reported that there are 20,000 Jews at Theresienstadt, including many new arrivals from Austria and Slovakia, and that the SS official who traveled with him arranged for the capitulation of the camp of Bergen Belsen with all of its inmates. McClelland asked that information be obtained as soon as possible from military authorities concerning detainees and conditions found in this and other camps in the line of the advance of our armies.

Relief Operations in Yugoslavia

According to information which Representative McClelland received from the International Red Cross, the camps of Jablanac, Jasenovac, and Starogradska, located along the Sava River about one hundred kilometers southeast of Zagreb, are in territory which is now a battle zone or has been taken over by Marshal Tito. Shipments of relief goods from Switzerland to this region are unfortunately no longer physically possible, and it was indicated that the only possible channel for relief goods for this area would seem to be through Italy.

- 4 -

OPERATIONS FROM SWEDEN

Representative McClelland relayed to us information supplied by the International Red Cross concerning the number of Board parcels shipped from Göteborg either to concentration camps or to Lübeck for later delivery to camps. The details are as follows:

Shipped to Hamburg-Neuengamme on March 5,	10,800	
Shipped to Hamburg-Neuengamme on March 16,	10,800	
Shipped to Ravensbrück on March 17,	9,600	
Shipped to Intercoast depot at Lübeck on March 17,	13,200	44,400
Released for distribution by the Swedish Red Cross,		39,324
Parcels remaining at Göteborg on April 14		140,604
Original number of parcels at Göteborg		224,328

A later cable from McClelland informed us of the shipment of the remaining 140,000 parcels to Lübeck on the SS MAGDALENA on April 16.

Our Legation in Stockholm cabled the Board and our Embassy in London that, as a result of the release of Board parcels for distribution by the Swedish Red Cross as indicated above, the proposed expansion of the parcel program of a private organization in Sweden is not now of such immediate urgency. Accordingly, the supplies to be purchased for the larger program will be stock-piled in Sweden for immediate post-war delivery.

A late cable from Minister Johnson brought the news of the arrival of approximately 5,000 Danish and Norwegian Jews in Malmö on April 16. These refugees are believed to comprise virtually all of the Danish and Norwegian Jews in German concentration camps and their release for transfer to an especially arranged Swedish internment camp was achieved by a Swedish Red Cross official through special negotiations conducted during recent weeks. Minister Johnson advised us that the Swedish Foreign Office is endeavoring to secure the release of Norwegian Jews held in Grini under a similar agreement for special internment in Sweden.

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TURKISH-GERMAN EXCHANGE

Following receipt of the information that a number of Jewish refugees had been included in a recent Turkish-German exchange, a Turkish official informed our Embassy in Ankara that these individuals were embarked on the BROTHINGHOLM without prior notification to or the consent of the Turkish Government and that few of them have any claim to Turkish nationality. We authorized our Embassy to renew if necessary the assurances given to the Turkish Government by this Government early last year with respect to the maintenance and evacuation of refugees admitted to Turkey. At our request, the United Nations Relief and Rehabilitation Administration cabled instructions to its Cairo mission concerning the action to be taken if it should become necessary for UNRRA to assume responsibility for the care and shelter of these refugees.

Information since cabled from Ankara indicated that, of a total of 330 exchange passengers who arrived at Istanbul on April 10, 290 were permitted official entry to Turkey. Pending a decision as to their ultimate destination, the remaining 40 persons (7 Jews of former Turkish nationality who have been deprived of their Turkish citizenship, 70 Jews without documents of identification, and 3 persons who are apparently Turkish nationals but have no passports) were temporarily put aboard a vessel at Istanbul, where they were questioned by Turkish officials in an effort to establish their identity, nationality, etc. A later cable from our Embassy brought the information that hotel rooms have been engaged for these 40 refugees and instructions have been issued by the Turkish Foreign Office to allow them to come ashore. Discussions by our Embassy with the British Embassy regarding their admission to Palestine were reported to be progressing favorably.

SPANISH REPUBLICAN REFUGEES IN PORTUGAL

According to information reaching us from a private source, particulars concerning Spanish Republican refugees in Portugal have been submitted to the Intergovernmental Committee in London through the American Embassy in Lisbon, and lists of the refugees which were furnished to the Mexican Legation in Lisbon have been forwarded to the Ministries of Interior and Foreign Affairs in Mexico. It was indicated that these lists contained the names of 75 single men in hiding in Lisbon and 22 who are imprisoned, as well as the names of 19 families, 3 of whom are imprisoned.

- 6 -

JEWISH REFUGEES IN SHANGHAI

A report from Minister Johnson in Stockholm outlined the results of discussions and negotiations concerning the proposal advanced some time ago for the evacuation to Sweden of part of a group of Jewish Rabbis and rabbinical scholars who are refugees in Shanghai. It was indicated that the Government of Japan has consistently taken the position that release of the refugee group would be allowed, apparently to relieve congested conditions in Shanghai, provided outside transportation facilities are furnished for this purpose. Rail transportation facilities from Shanghai to the Russian border are said to be reserved entirely for Japanese military purposes, and there are neither Japanese nor Russian vessels running between Shanghai and Vladivostok. In the absence of any available neutral shipping in the Shanghai area, and in view of the possibility that additional obstacles may result from the deterioration of Russo-Japanese relations, our Legation was of the belief that the removal of this group under presently existing conditions is a technical impossibility.

William O'Dwyer
William O'Dwyer
Executive Director

LFG-1441
Distribution of true
reading only by special
arrangement. (SECRET W)

Stockholm
Dated April 25, 1946
Rec'd 7:34 a.m., 25th

Secretary of State,
Washington.

1947, April 25, 8 p.m. (SECTION ONE OF TWO)

TOP SECRET FOR DEPARTMENT AND WAR REFUGEE BOARD

Supplementing my 1235, of April 8, 8 p.m., and my
1196 of March 28, 8 p.m.

Norbert Masur of local Dossicksa for Seeligen
and official of the Swedish section of the World Jewish
Congress proceeded to Berlin on Thursday afternoon with
Kersten for a discussion with Himmler on the Jewish
problem. The trip was without incident and they were
met in Berlin by Himmler's assistant Schellenberg. The
party proceeded to Kersten's estate approximately 80 km
outside of Berlin and were joined there by Himmler at
approximately 2:30 a.m. The discussion lasted until
approximately 5 a.m., on Friday at which time Himmler
left. According to Masur, Himmler appeared in top form
in resplendent uniform and discussed the Jewish problem
in a formally pleasant and matter of fact manner. Masur
stated his position as previously made clear to Kersten
and Schellenberg; that he had no official status, had no
authority to promise anything and was simply a private
Jew expressing the fears of all his people for the ultimate
fate of the Jews remaining in Germany.

Himmler reviewed the historical development of
anti-Semitism in Europe and particularly the efforts of
his party to remove the Jewish problem from the Reich.
He reminded Masur that he himself (Himmler) had created
the policy of removing Jews from Germany without violence
and that he in 1935 had formed an organization to foster
the migration of Jews out of Germany. He spoke with
considerable length and bitterness of the extent to
which the Allies had propagandized German atrocities.

He mentioned specifically Poland and Russia. With respect
to Poland Himmler stated that atrocity stories concerning
crematoria were vicious propaganda since the crematoria
were the only means the German authorities could cope
with rapidly spreading typhus epidemic. He was particularly
bitter concerning Allied propaganda during the past few
days on the concentration camps at Bergen Belsen and
Buchenwald. He pointed out that these two camps and
their inmates had been left intact to the Allies at
his own command and that all he was getting in return
was Allied horror stories.

Masur raised with Himmler the following major points:

One. That Jews should remain in their present camp
and that they should not be subjected to the further
physical deterioration of being moved from place to place.

Two. That permission would be granted to evacuate
Jews to neutral countries whenever possible.

Three. That the most humane care possible be
given the Jews until the camps fell into Allied hands.

JOHNSON

EDA

DSH-1336
Distribution of true
reading only by special
arrangement. (SECRET W)

Stockholm

Dated April 25, 1945

Rec'd 11:10 p.m.

Secretary of State,

Washington

1847, April 25, 8 p.m., (SECTION TWO)

Himmler and Schellenberg stated that there had been about 80,000 Jews in Bergen-Belsen and 6,000 in Buchenwald. They said there were an additional 20,000 in Neuhausen Mellitz, 20,000 Jews in Ravensbruck and about 20,000 Jews in the Resenstadt. In addition there were several smaller concentration camps in southern Germany and around Innsbruck.

Himmler made the following specific promises:

One. The Jews interned in Norway (about 80) would be released immediately and escorted to the Swedish border.

Two. 1,000 Jewish women in Ravensbruck would be released immediately and permitted to come to Sweden. According to latest information these women are in fact being transported through Denmark by lorries of the Swedish Red Cross and are expected to arrive tomorrow.

Three. Certain lists of Dutch Jews in the Resenstadt would be released but there appears to be no hope of evacuating them.

Four. Himmler gave only a half promise that there would be no further evacuation of Jews from camp to camp.

Five. Red Cross organizations were promised free access to camps for delivery of food and medical supplies.

Six. No Jews would be shot.

Himmler emphasized in the strongest possible terms that no publicity should be given to the conference and

that absolute secrecy must surround his liberation of any Jews. He referred to them all as "Poles" apparently mindful of his promise to Hitler that he would not release any more Jews.

Masur gave an interesting description of Berlin -- which he called a frightfully ruined and dead city. He was particularly impressed by the almost complete absence of soldiers. All roads were congested with refugees -- many who had been waiting for three weeks from Eastern Germany. He also saw a long procession of prisoners being moved from Granienburg. Throughout his entire visit Allied planes were roaring overhead without a shot being fired at them.

END MESSAGE.

JOHNSON

JX

Ankara, April 25, 1945

RESTRICTED

No. 1226

Subject: Exchange Ship BROTTINGHOLM'S
Call at Istanbul.

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

Sir:

With reference to the Embassy's telegram no. 552 of April 23, 1945, reporting the departure of the Swedish liner BROTTINGHOLM from Istanbul on April 21 bearing a party of German nationals en route to Germany, I have the honor to chronicle briefly the events connected with the BROTTINGHOLM'S call at the port of Istanbul.

The ship arrived at Istanbul on the morning of April 10, bringing (Embassy's telegram no. 496, April 11) a total of 330 passengers, of whom 229 were Turkish nationals, twenty-one of other nationality, and eighty of doubtful nationality status, now being studied by the Turkish authorities. According to the Ankara newspaper HURRIYET of April 11, 1945, the ship also brought 2500 tons of cargo which included machinery, machine parts, iron and steel articles, cellulose, newsprint, and 300 kilos of medical supplies.

The ship remained at dock for a few days to unload her cargo, prepare for the accommodation of the passengers proceeding to Sweden (fifty of whom had boarded the ship at Port Said, Egypt, and were already aboard), and take on Turkish export goods as cargo for the return voyage. She was then moved offshore to a mooring.

The German exchange group from Ankara, numbering 124 left by special train for Istanbul on April 17, 1945, accompanied by the Assistant Director General of Protocol, Mr. Benoit Sefik Omdoganci. An officer of the Embassy who witnessed the departure of the train from the suburban railway station at Gazi Ciftlik was impressed by the smart clothes and apparent good spirits of the members of the group. Upon arrival at Haydarpasa Station, Istanbul, the next morning, April 18, the group was

cc: Miss Chaumoy (for the Sec'y) Cohn, DuBois, Gaston, Hodel,
McCormack, O'Dwyer, Files

-2-

immediately taken aboard a Bosphorus ferryboat, the Gostepo. After having papers and luggage checked at the Galata Customs House, the passengers were delivered direct to the BROTTINGHOLM at its mooring. That evening the Germans interned at Istanbul were brought to the Customs House for the final check and then taken to the ship. Final loading and completion of formalities delayed the ship's departure until April 21. As reported in the Embassy's Telegram 552, April 23, under reference, the passenger list of 439 persons included 311 of the Germans under internment in Turkey (leaving in this country 152 Germans who had been expected to go back but who decided against making the trip), fifty Germans who had boarded the ship at Port Said, one Spaniard, two Portuguese (Dr. Luis Morton de Matos, former Portuguese Charge d'Affaires, and his wife), fifty-one Swiss, and twenty-four Swedes. Those Germans who refused to return on the exchange ship are to be interned temporarily, according to the Istanbul newspaper CUMHURİYET of April 19, 1945, in the German School at Istanbul. Their subsequent disposition is under consideration by the Turkish Government. The responsible official at the Ministry of Foreign Affairs told an officer of the Embassy some days ago that it was planned to place them in enforced residence in an Anatolian provincial town under conditions similar to those in which there are now held certain German nationals at Corum, Yozgat and Kireshir.

Mr. Etienne Lardy, Swiss Minister at Ankara, is reported by the Istanbul newspaper TANIRI of April 20, to have said regarding assertions that German citizenship would be withdrawn from those Germans who refused to return to Germany on the BROTTINGHOLM:

"No application has been made to my Government by the German Government with the purpose of depriving of German citizenship the Germans wishing to remain in Turkey. These Germans will remain as they are for the present. However, there is no telling what the future may bring."

As representative of the Protecting Power, Mr. Lard and his staff have been overwhelmed with work in making arrangements for the BROTTINGHOLM exchange. The Minister himself has been criticized at Ankara by the United Nations' representatives for his legalistic interpretations of German rights and privileges and his insistence on doing everything possible for his German charges.

Respectfully yours,

E. L. Packer,
Charge d'Affaires ad interim.

CC:

Division of Near Eastern Affairs.
File No. 711.5
REQ/gm
To the Department in Original and hectograph.

12"

PARIS

Dated April 26, 1945

Rec'd 10:45 a.m.

Secretary of State

Washington

2088, April 26, 10 a.m.

FOR WAR REFUGEE BOARD FOR MOSES LEAVITT AMERICAN
JOINT DISTRIBUTION COMMITTEE FROM JOSEPH SCHWARTZ.

"We confirm receipt ten million francs from Universal
Films. Please make no further arrangements this nature
until you hear from us."

CAFFARY

EB

KSA-1758

PLAIN

Lisbon

Dated April 25, 1945

Rec'd 3:12 a., 27th,

Secretary of State,
Washington.

1993, Twenty-fifth.

RRB 394 JMC 225 FOR LEAVITT FROM THOSE

Gottfarb advises Swedish Minister Danielsson
Budapest and entire staff returned Stockholm, Legation
Secretary Raul Wallenberg whose activities behalf
Jews you familiar missing since January. Believed
murdered. Gottfarb suggests you send cable thanking
Danielsson for Legation's work.

BARUCH

JIS

London

Dated April 25, 1945

Rec'd 12:40 p.m.

Secretary of State,

Washington.

4195, April 25, 10 a.m.

FOR WRS FROM MANN

Please deliver following message to Messrs Leavitt
from Harold Linder, JDC London:

While I am increasingly convinced ICA will participate
in Greece and in time other loan, it is believed by Kansas
to be highly unlikely they will join us in Crimea venture.
Am writing.

WINANT

JN

241

PLAIN

Lisbon

Dated April 25, 1945

Rec'd 11:07 p.m., 26th

Secretary of State,

Washington.

891, Twenty-fifth

WRS 397 JDC 228 FOR LEAVITT FROM TROSK.

Reznik advises OSS medical mission of 14 left
Italy for Yugoslavia.

BARUCH

JNS

242

CABLE TO AMERICAN LEGATION, STOCKHOLM, FOR CABLE FROM WAR REFUGEE BOARD

Please deliver the following message to Frits Hollander, Postbox 7306,
from Kurt Grossman of World Jewish Congress:

QUOTE SEND THREE FOOTPAGES TO FAMILY ALEXANDER LOTAR
KINER, INTERMENT NUMBER 1995 CAMP KIRCHACH-HESS. UNQUOTE

THIS IS NEW STOCKHOLM CABLE NO. 363

9:45 a.m.
April 25, 1945

243

CABLE TO AMERICAN EMBASSY, PARIS, FROM THE WAR REFUGEE BOARD

Please deliver the following message to Joseph Schwartz from M. A.

Learitt of American Jewish Joint Distribution Committee:

QUOTE SUPPLEMENTING PREVIOUS MESSAGE URGING YOUR EARLIEST
RETURN WE THINK IT WOULD PROVE GREATEST VALUE HAVE YOU HERE
IF POSSIBLE DURING WAY IN CONNECTION ALL OUR PROBLEMS BOTH
OVERSEAS AND THIS COUNTRY STOP PAID UNIVERSAL \$10,000.
UNQUOTE

9:45 a.m.
April 25, 1945

CABLE TO AMERICAN LEGATION, BERNE, FOR NICELELAND, FROM THE WAR REFUGEE BOARD

Please deliver the following message to Sally Mayer, St. Gall, from M. A.

Leavitt of American Jewish Joint Distribution Committee:

QUOTE PLEASE ADVISE WILLIAM FELDMAN THAT MEDICAL SUPPLIES FOR ROMANIA MEDICINE IN WAREHOUSE HERE WAITING SHIPMENT. WE HAVE OPPORTUNITY SHIP AS FILLER SPACE THESE SUPPLIES ON UNITED STATES BOATS GOING DIRECTLY BLACK SEA PORT CARRYING RELIEF SUPPLIES FOR POLAND CZECHOSLOVAKIA. CAN FELDMAN ARRANGE WITH APPROPRIATE AUTHORITIES THAT THESE SUPPLIES BE UNLOADED AND TRANSPORTED INLAND. IF THERE SHOULD BE DIFFICULTIES SECURING SUCH ARRANGEMENTS WOULD WE CAN SHIP TO CAIRO AND TRANS-SHIP FROM THERE BUT THIS WILL TAKE MUCH LONGER. PLEASE HAVE FELDMAN ADVISE SOONEST. ALSO ASK FELDMAN ADVANCE THAT ROMANIAN GOVERNMENT GIVE AMERICAN VESSEL RECURRENT IMPORT SPECIFIC LICENSE FOR MEDICINES. UNQUOTE

THIS IS NEW HIGH CABLE NO. 509

9:45 a.m.
April 25, 1945

CABLE TO AMERICAN LEGATION, BERNE, FOR NICELELAND, FROM WAR REFUGEE BOARD

Please deliver the following message to Gerhard Riegner, 37

Quai Wilson, Geneva, from Kurt Grossman of World Jewish Congress:

QUOTE READ THAT TRANSPORT OF 3,000 CZECHOSLOVAK JESHS FROM GERMANY ARRIVED IN MOSCOW. CAN YOU SECURE REPORT ON SURVIVORS GERMANY RETURNED AND LIST 3,000 JESHS. UNQUOTE

THIS IS NEW HIGH CABLE NO. 508

9:45 a.m.
April 25, 1945

248

CABLE TO AMERICAN LEGATION, BERNE, FOR LOUGHELAND, FROM NAT REFORM BOARD

Please deliver the following message to Gerhard Heyger, 37 Quai
Wilson, Geneva, from Kurt Grossman of World Jewish Congress:

QUOTE: RESISTANCE 15,000 FRANKS FOR RESCUE LEOPOLD LINGENBAUM.
UNQUOTE

THIS IS NEW YORK CABLE NO. 510

9:45 A.M.
April 25, 1945

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Bern
 TO: Secretary of State, Washington
 DATED: April 26, 1945
 NUMBER: 3437

SUMMARY

Federal Political Department has not been able to get detailed information on refugees accounts which were referred to in Department's 886 dated February 28 and which the Legation has requested repeatedly. (Sequence Legation's March 16 cable No. 1614.) Because this matter is very urgent, Political Department was informed by the Legation regarding the Department's wishes and conditions as described in Department's No. 886 and today Kahlil orally informed EC that complete agreement between the Swiss Government and the Department as to the latter's wishes in this matter exists and confirmation in writing will be made by the Swiss Government.

For our cooperation in the problem the Government of Switzerland is facing concerning these refugees, Kahlil asked EC to express his Government's appreciation and also for this further evidence of our Government's humanitarian action with regard to these refugees. Same concern was expressed by a representative of the Finance Department at a meeting today that delivery of these bills to the U.S. would be at risk of the Swiss but he agreed with other Swiss officials that on this point no reservation would be made.

At this point 214 refugee accounts with total deposits of 882,950 were revealed by a Federal Political Police check at the Banque Populaire Suisse, according to statement by Kahlil. This report is provisional, he also said, and refugees other than those from Axis countries are probably included in this number. When police check is finished he promised more precise details.

Legation would receive all cases for initial approval under program to be instituted immediately, Kahlil said, and other data required under paragraph 3 of Department's cable No. 886 would be put at Legation's disposal.

HARRISON

DC/LHR 4/27/45

Bern
 Dated April 26, 1945
 Rec'd 1 p.m.

Secretary of State,
 Washington.

PRIORITY

2421, April 26 11 a.m.
 FOR C'DITION OF WRB FROM KATZKI AND HUGENHILL.

At meeting held April 23, IORC made preliminary decision discontinue all shipments of food parcels from Switzerland to Germany. German territory NE of Swiss border has now become military operations zone which from technical point of view makes it impossible for moment to send either trucks or black trains via this route. Principal IORC dispatching point for German bound shipments is at Kreuzlingen, now definitely excluded as point of departure. IORC's present decision was also motivated by danger to life and limb incurred by personnel travelling through such zones of military operations as well as danger of plundering for which committee felt it could no longer assume responsibility certain of their personnel already having been injured through bombardment and aerial attack. As a result of this decision several convoys transporting WRB parcels and other supplies destined for concentration camps have been held at Kreuzlingen and Geneva pending developments in the transport situation.

We urged IORC to explore all possibilities for dispatching trucks by other routes than those heretofore used but now inaccessible. At a conference with Burckhardt on April 24 he informed us that single other possible route through Buchs-Jeckkirch-Landect and from thence northward is under consideration. As this road runs directly through Reduit and in addition may be impassable due to snow at Arlberg Pass this possibility requires further exploration. We are meanwhile actively pursuing matter of WRB parcel shipments with IORC in order take advantage of any opportunity relief supplies to civil detainees which may remain.

With reference to Department's 1493, WRB's 803 April 18, Amersfoort representative in Geneva has now received instructions from Washington to release to WRB in Switzerland 200,000 POW parcels purchased by board from War Department for our program. Should developments make it impossible for IORC to continue controlled deliveries of parcels to civil detainees in Germany it

-E- 2421, April 25, 11 a.m., from Bern

may be necessary to reconsider use to which these new WEB parcels will be put.

ICRC has informed us that because of limited facilities and backlog of other repackaging requirements they will not be able to begin repackaging these WEB parcels for at least three weeks. This will prove period to observe developments. Meanwhile we would welcome any suggestions you might wish to make.

Since March 23, ICRC has shipped from WEB stocks in Switzerland approximately 16,790 parcels destined for Theresienstadt, Vienna area and camp of Landsberg Am Lech. In addition substantial relief supplies furnished ICRC's RMA by JDC, union OSE and Sternbach's organization have been shipped also largely as a result of fuel obtained throughbeard's efforts.

In view of confused transport situation in Germany ICRC has not yet been able to inform us how much of this will arrive at its destination.

HARRISON

23

Bern

Dated April 25, 1946

Rec'd 2:48 p.m.

Secretary of State

Washington

2425, April 25, noon.

FOR C'DWIER OF WEB FROM KATZKI AND MCCLELLAND

Two columns of trucks comprising 28 vehicles arrived in Switzerland on April 23 and 24 bringing French, Belgian and Dutch women and an unspecified number of men from concentration camp of Mauthausen Gellins. A third column transporting similar groups also consisting of 14 trucks is awaited. Total number of persons involved this movement is between 800 and 900. We do not as yet have any details regarding number of our proteges who might be included but shall inform you as soon as further details are known.

HARRISON

JN

MS-1191
Distribution of true
reading only by special
arrangement. (SECRET W)

Bern
Dated April 25, 1945
Rec'd 1:40 p.m.

Secretary of State,
Washington.

2426, April 25, 1 p.m.

FOR CARRIER OF WUB FROM KATZKI AND MOELLERLAND

ICRC informed us that the 6 Renault trucks dispatched
to Luebeck where it was planned they would remain for
distribution of WUB parcels (Legation's 2271, April 19)
will now unfortunately have to return to Switzerland due
to developments in military situation.

ICRC plans request permission from French military
authorities now controlling German territory along Swiss
border to allow Luebeck and other trucks pass northward
through their zone to resume food deliveries in Germany
to still accessible camps.

HARRISON

JH

120-1730

PLAIN

Lisbon

Dated April 25, 1945

Rec'd 11:06 p.m., 26th

Secretary of State,
Washington.

WM, Twentyfifth

WUB 395 JHC 226 FOR LEAVITT FROM THOMAS

Reznik received and distributing 24,990 packages.

BARUCH

JHS

KRM-1759

PLAIN

Lisbon

Dated April 25, 1945

Rec'd 3:17 a.m., 27th,

Secretary of State,
Washington.

892, Twenty-fifth.

WUS 396 JMC 227 FOR LEAVITT FROM TROES.

Resnik entered Bologna April 23, 2 days after
liberation. JMC first voluntary agency to enter.
Emergency relief being granted. Further details follow.

BARUCH

JMS

CABLE TO AMERICAN EMBASSY, LISBON, FROM THE WAR REFUGEE BOARD

Please deliver the following message to Martha Sharp from Charles
H. Joy of Unitarian Service Committee, 25 Beacon Street, Boston, Mass.

QUOTE WAS REUNIONED CABLE APRIL 5 APPEALS TO CIO AND AFL
AND IMPOSSIBLE BECAUSE OF HUNGER WHICH WE CANNOT COMPEL
ANTIFASCIST TO SEND LARGER FUNDS TO PORTUGAL THEY ARE CON-
VINCED DANGER OF STARVATION TO THOUSANDS OF THEIR CLIENTS
IN SPAIN FAR OUTWEIGHED DANGER TO LIMITED NUMBER OF THEIR
CLIENTS IN PORTUGAL. I AM VERY SORRY BUT YOU WILL HAVE TO
STRETCH YOUR ANTIFASCIST MONEY FOR SPANISH CAUSES. SUGGEST
IF NECESSARY YOU STOP MATERIAL AID TO THOSE IN PRISON.
MESSAGE INTERGOVERNMENTAL COM MITTEE PROMPTLY TAKING OVER
IN MAY. UNQUOTE

THIS IS NEW LISBON CABLE NO. 176

9:45 a.m.
April 25, 1945

NOT TO BE RETRANSMITTED

COPY NO. 4

SECRETOPTEL NO. 132

Information received up to 10 a.m. 25th April 1945.

NAVAL

1. Anti-Submarine Operations. 23rd. 19th Escort Group made promising attack at entrance Kola Inlet.

MILITARY

2. Western Front. Southern Sector. First French Army, advancing from Lake Constance, reached Ulm. 7th U.S. Army reached Danube West of Ulm and made contact with First French Army. Further East bridgehead at Dillingen expanded and U.S. troops approaching Donaueschingen along north bank of Danube. Central Sector. 3rd U.S. Army advancing on wide front S.E. of Muenberg gained up to 65 miles. Regensburg captured and U.S. armour within 35 miles of Passau on Austrian border. 1st U.S. Army cleared Eilenburg and Dessau; mopping up continues west of River Mulde. Northern Sector. 2nd British Army reached outskirts of Bremen.
3. Eastern Front. Russians made further progress N.W. of Berlin, capturing town 23 miles W.N.W. of city. S.W. of Berlin advancing troops linked up with those from South. During these advances further 11 suburbs Berlin taken. Grossenhain, 17 miles N.W. Dresden captured.
4. Italy. 8th Army captured Ferrara and is pressing towards River Po. N.E. of Ferrara resistance heavy and determined but to west our forces established on south bank of river on 10 mile front. U.S. troops of 5th Army cleared considerable areas south of River Po and extended both hold on south bank and bridgehead across river S.E. of Mantua. On western coast Spezia fallen and U.S. forces made slight gains in sector inland from sea.
5. Burma. Advancing south from Yenangyaung our forces now within 4 miles and troops established Nague. Further east advance down Mandalay. Rangoon-Mandalay-Rangoon railway halted to permit regrouping although armoured column pushed on 10 miles beyond Toungoo to capture Oktwin.

AIR

6. Western Front. 24th. Lancasters 104 bombed railway centre at Bad Oldesloe (near Lubeck - 506 tons) Mitchells 144 successfully attacked strong points in Bremen Area and U.S. Mediums 163 Landau Airfield and oil depot. Fighters and Fighter bombers 1039 (missing 14) operated over Northern Sector and 466 (missing 3) over Central Sector. 13 enemy aircraft destroyed in combat and 19 on ground; over 600 road and rail vehicles also destroyed. Allied medium bombers 176 (missing 2) attacked ammunition dump near Munich. Aircraft 585 (missing 3) operated over Southern Sector and destroyed 80 enemy aircraft on ground. Transport aircraft 973 operated to Continent; 6,751 ex-prisoners of war brought back to this country. 24th/25th.(night). Bomber Command aircraft 177 despatched including Mosquitoes 40 against Schleissheim airfield and 37 against Pasing Transformer Station. All safe.
7. Mediterranean
23rd. Escorted U.S. Heavies 621 (missing 1) attacked bridges in Po Valley (1,400 tons) and 98 bombed supply dump near Milan (239 tons); photographs show good results. Medium 287 and Fighter Bombers and Fighters 1,373 (missing 16) attacked communications and retreating enemy forces: over 1,000 road vehicles destroyed.