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 Book 841
 April 26-27, 1945

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

April 26, 1945
9:30 a.m.

1067 REVISED

Present: Mr. Bard
Mr. Downey
Mr. Crowley
Commander Richardson
Lt. Giffuss
Lt. Bancroft
Mr. Clayton
Mr. Despres
Mr. Riddleberger
Mr. Cox
Gen. Hilldring
Major Blower
Col. McCarthy
Mr. Fowler
Mr. Coe
Mr. Glasser
D. W. Bell
Mr. Friedman

April 25 draft of Ipcog I
which was originally attached
was recalled by the War Dept.
to be destroyed.

MR. CLAYTON: Well, Mr. Secretary, we have the mimeographed copies now of the documents that we passed on yesterday and the day before. We have a few and there will be some more over shortly. Do you think that we should go over those documents, or should we go immediately to the financial? I really think that we ought to take time sometime this morning to read these two documents. It won't take very long if we do it rather hurriedly, and if we all understand that nobody will make any suggestions of any change unless it's something really of substance. I don't think it would take too much time, and I think we'd all be a little happier about it if we did that than if we didn't.

MR. BARD: Is the financial thing part of this?

MR. CLAYTON: No, the financial isn't part of this because we haven't passed on that. This is what we have passed on, but there are several changes, as you recall.

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GEN. HILLDRING: Which will be added to that.

MR. CLAYTON: We will have that mimeographed as soon as we agree upon it.

MR. BARD: We've got to do this.

H.M.JR: We'll do the financial first.

MR. CLAYTON: That's quite all right. Shall we read it paragraph by paragraph?

H.M.JR: I just want to explain that I'll have to excuse myself at ten-thirty to eleven. I have a regular press conference.

MR. CLAYTON: (Reading attachment A) You will make full application in the financial field of the principles stated elsewhere in this directive and you will endeavor to have the Control Council adopt uniform financial policies necessary to carry out the purposes stated in paragraphs 4 and 5 of this directive. You will take no steps designed to maintain, strengthen or operate the German financial structure except insofar as may be necessary for the purposes specified in this directive."

I'll go right on unless somebody stops me.

"2. The Control Council should regulate and control to the extent required for the purposes set forth in paragraphs 4 and 5 the issue and volume of currency and the extension of credit in Germany and in accordance with the following principles:

"a. United States forces and other Allied forces will use Allied Military marks and Reichsmark currency or coins in their possession. Allied Military marks and Reichsmark currency and coin now in circulation in Germany will be legal tender without distinction and will be interchangeable at the rate of 1 Allied Military mark for 1 Reichsmark. Reichskreditkassenscheine and other German

military currency will not be legal tender in Germany.

"b. The Reichsbank, the Rentenbank or any other bank or agency may be permitted or required to issue bank notes and currency which will be legal tender; without such authorization no German governmental or private bank or agency will be permitted to issue bank notes or currency."

H.W.JR: Just one moment. This thing--one Allied Military mark being exchangeable for one Reichsmark, do you Treasury people feel that is all right? I mean, do we want to absorb all that, huh?

MR. COE: Yes, that has been the arrangement right straight through. It is just the way we want it.

MR. BELL: It is what we've done in all the other countries.

MR. CLAYTON: (Reading) "c. The German authorities may be required to make available Reichsmark currency or credits free of cost and in amounts sufficient to meet all the expenses of the forces of occupation, including the cost of Allied Military Government and including to the extent that compensation is made therefor, the cost of such private property as may be requisitioned, seized, or otherwise acquired, by Allied authorities for reparations or restitution purposes.

"Pending agreement in the Control Council you will follow these policies in your own zone.

"You will receive separate instructions relative to the currency which you will use in the event that for any reason adequate supplies of Allied Military marks and Reichsmarks are not available, or if the use of such currency is found undesirable.

"You will not announce or establish in your zone, until receipt of further instructions, any general rate of exchange between the Reichsmark on the one hand and the U.S. dollar and other currencies on the other. However,

a rate of exchange to be used exclusively for pay of troops and military accounting purposes in your zone will be communicated separately to you.

"3. Subject to any agreed policies of the Control Council, you are authorized to take the following steps and to put into effect such further financial measures as you may deem necessary to accomplish the purposes of your occupation:

"a. To prohibit, or to prescribe regulations regarding, transfer or other dealings in private or public securities or real estate or other property.

MR. BARD: What do they do if for several months the Control Council doesn't agree on that?

MR. CLAYTON: Then the commander in our zone carries out these instructions in his zone. That is stated all the way through.

MR. BARD: I see.

MR. CLAYTON: Yes, he has complete authority in his own zone and carried out these instructions there pending such time as the Control Council may agree upon it for the whole area.

"b. To close banks, but only for a period long enough for you to introduce satisfactory control, to remove Nazi and other undesirable personnel, and to issue instructions for the determination of accounts to be blocked under sub-paragraph 6d below.

"c. To close stock exchanges, insurance companies, and similar financial institutions for such periods as you deem appropriate.

"d. To establish a general or limited moratorium or moratoria only to the extent clearly necessary to carry out the objectives stated in paragraphs 4 and 5 of this directive.

"4. Resumption of partial or complete service on the internal public debt at the earliest feasible date is deemed desirable. The Control Council should decide the time and manner of such resumption.

"5. Subject to any agreed policies of the Control Council,

"a. You will prohibit:

"(1) the payment of all military pensions, or other emoluments or benefits, except compensation for physical disability limiting the recipient's ability to work, at rates which are no higher than the lowest of those for comparable physical disability arising from non-military causes.

"(2) the payment of all public or private pensions or other emoluments or benefits granted or conferred:

"(i) by reason of membership in or services to the former Nazi party, its formations, affiliated associations or supervised organizations.

"(ii) to any person who has been removed from an office or position in accordance with paragraph 6 of part 1 or paragraph 10 of this part, and

"(iii) to any person arrested and detained in accordance with paragraph 6 of part 1 during the term of his arrest, or permanently, in case of his subsequent conviction.

"b. You will take such action as may be necessary to insure that all laws and practices relating to taxation or other fields of finance, which discriminate for or against any persons because of race, nationality, creed or political opinion, will be amended, suspended, or abrogated to the extent necessary to eliminate such discrimination.

"c. You will hold the German authorities responsible for taking such measures in the field of taxation and other fields of public finance, including restoration of the tax

system and maintenance of tax revenues, as will further the accomplishment of the objectives stated in paragraphs 4 and 5.

H.M.JR: I want to raise a point. Does this speak of restitution of property?

MR. CLAYTON: No. That is covered. Where did we cover that point? We cover that in reparations.

MR. COE: That is one of the general objectives that is in the preamble of the committee in the initial section of the document.

H.M.JR: The reason I raised it is because the French have been in North Africa now for several months, and it was said that the people who had property taken away from them would have it given back to them. I don't know whether it has ever been given back yet, but certainly it is six months or so after the French government took over, and there is great difficulty. Just seeing this, I wondered if we couldn't learn something from what took place in North Africa and see about restitution of property that was seized. Couldn't it be turned over to them more promptly?

MR. COE: There is a later provision in here which establishes a blocking procedure for internal restitution, and that is designed to speed up that very process of getting it back.

GEN. HILLORING: I think we did much better in Italy where we had a free hand. We had difficulty with the French themselves in North Africa.

H.M.JR: I know.

GEN. HILLORING: They were very cautious and slow. We ought to cover it in here.

H.M.JR: I don't think it is enough, though. These poor people that had stuff taken away from them should get it back into their hands, and it should be decided what

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they should pay for it and what it is worth, and so forth.

MR. CLAYTON: It should be covered, and we will see what is said here later, and then take a look at it.

MR. FOWLER: It is covered in paragraph 43. It is mentioned in a very general way.

MR. CROWLEY: I think it is fundamental.

H.M.JR: Church property.

MR. CROWLEY: And individuals' property too.

MR. CLAYTON: We will come to that in just a minute, Mr. Secretary, in this document, and we'll look at references to it elsewhere.

(Mr. Clayton completes reading document.)

I don't see a direct reference to restitution.

MR. DESPRES: It only calls for the impounding of this type of property. Now, the disposition of it, finding of the former owners, etc., isn't dealt with in this directive at all because this is just the initial step to see that you bring the property under control.

MR. CLAYTON: Where do we refer to restitution?

MR. FOWLER: Paragraph 43.

MR. BELL: It is in this other document we took up yesterday.

MR. FOWLER: "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."

I am not personally familiar with the background of

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that. I think Baile is much more familiar with it. I understand that there have been a series of negotiations at one time or another on restitution, but I am not familiar with their nature or progress.

MR. FRIEDMAN: General Hilldring, isn't it true that under this blocking provision, paragraph 8, that your people in the field are working out a system of regulations and planning for seizure?

GEN. HILLDRING: For restitution? I think the point the Secretary makes is that we should tell him to do that, and I think that is a good suggestion. I think it is so important that we shouldn't leave it to the discretion of the Control Council, but should tell him he will institute plans for the prompt restitution of confiscated property, or--

MR. CROWLEY: General, I think with the kind of government they have had there that I might own property, and Goebbels or somebody might force me to sell it to them for ten cents on the dollar, and I think your commissioner ought to have the right to take whatever evidence he has in the sale of property where they have been sold under duress.

H.M.JR: In Algiers they took a chain of moving picture theaters away from a fellow for thirty million francs, and when he wanted to come and get them back he said they were worth seventy-five million francs. I'll bet that fellow hasn't his chain of theaters back yet, and the point is they should do something. Give him the theaters back and let them fix the price afterwards. They should do something like that. He could get the benefit of it in the meantime.

MR. CROWLEY: If you got possession back, you could adjust the difference afterwards.

GENERAL HILLDRING: As your people say, Mr. Secretary, I know--I talked to Bernie when he was back here, and I know he has a lot of people working on this very thing. They are working on very detailed plans, but in spite of that, I think to support Eisenhower particularly with these

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other partners there we should tell him to do this.

H.M.JR: That would be just.

MR. COE: If you turn to page five, on the top of the page, I think number (2) there is the category that refers to this type of property. I would propose that at the end of the paragraph, the whole thing, we add, "In the case of property covered by (2) above, you will institute measures for prompt restitution." I think that would meet the Secretary's point.

MR. CLAYTON: Why not just put it in paragraph (2) and say, "In the case of such properties you will institute measures for prompt restitution?"

MR. COE: That will be all right. I thought otherwise, because below we have, "In the case particularly of property blocked under (1) (a) above."

MR. CLAYTON: Put it at the end of paragraph five.

MR. COE: Yes, sir.

MR. CLAYTON: Yes, put it down.

MR. DESPRES: Read it again.

MR. COE: "As in the case of property blocked under (2) above, you will institute measures for prompt restitution."

MR. CLAYTON: Now, with that change is this document satisfactory?

GEN. HILLDRING: I have just one comment, Mr. Secretary. It hasn't anything to do with this. It is just a protocol thing, really. It is in regard to paragraph eight, and I noticed it also in reading this thing. It says, "You will take such measures, but in any event you will report the facts back to the Control Council." Now, that is all right after they have an agreed policy in

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the Control Council, but prior to that time he should, if he does this, report back to the Joint Chiefs of Staff. What we are trying to tell him is to report back to his next highest authority. I think the Secretary ought to go through the whole document and see that it is the Control Council or, prior to an agreement in the Control Council on any policy, the Joint Chiefs of Staff, so that he would know we want him to report either to the Control Council or, prior to the adoption of the policy, to the JCS.

MR. DESPRES: Do you think it ought to be "higher authority," or should we spell it out?

GEN. HILLDRING: I think if we said "higher authority," he might not look upon the Control Council as such. I don't know whether Eisenhower would look to that as higher authority. I think he would look to the Joint Chiefs of Staff.

MR. BARD: Wouldn't one reason for that clause be so that the Control Council will accumulate a lot of information?

GEN. HILLDRING: That is the reason there, I think, yes. But whether it is for information, guidance, or appeal, we want to get it--I think we want to get back to this Committee. That is what you want, isn't it?

MR. CLAYTON: Gentlemen, why not have him report to both the Control Council and the Joint Chiefs of Staff? Wouldn't you think perhaps that would be advisable even if you had agreement in the Control Council?

GEN. HILLDRING: I think that is the right formula, having him report to the Control Council and JCS--

MR. COE: When he reports to the Control Council--

GEN. HILLDRING: Through the whole document, wherever he is to report--

MR. CLAYTON: Wherever he is to report to the Control Council, he reports also to the Joint Chiefs of Staff.

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MR. COE: On this last suggestion which I made, we may want a safeguarding clause in there. We are trying to draft one up here informally because, though we want prompt restitution, we also don't want then to be told to do something where they are really dealing with clocks and what not, so we are trying to devise something.

GEN. HILLDRING: In other words, Mr. Secretary, this is agreeable to the War Department otherwise.

H.M.JR: It is all right with Treasury.

MR. BELL: I have two little questions on page three. What does it mean, or is it proper to say that you will exercise general supervision over German public expenditures in order to ensure that they conform to the interests and purposes of the occupying forces? Isn't it something else besides the interest and purposes of the occupying forces?

MR. CLAYTON: Where are you reading from?

MR. BELL: Page three, (D), at the bottom.

GEN. HILLDRING: It would be better if you said, "The purposes of the occupation," leaving the forces out.

MR. BELL: It seems to me it is the objectives rather than the forces.

MR. GLASSER: We should use the standard language. It should be "objectives stated in paragraphs four and five."

MR. CLAYTON: I think that is right. It is just a standard way, yes.

MR. BELL: On page five, (B) at the bottom says, "Other appropriate authority." What do you mean by that other than the Control Council?

MR. CLAYTON: What is the answer to that?

MR. GLASSER: That would be the Reparations Commission, Control Council, or in the case of the zone, perhaps the JCS. It depends on whatever is the appropriate authority.

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MR. BELL: That is understood, is it, that--

MR. CLAYTON: Well, the commander would be the judge as to what authority he thinks would be appropriate. He would know what bodies had authority with respect to a matter of this kind. It might be, of course, as Harold says, the Joint Chiefs of Staff in his own zone.

MR. BELL: Even if the Control Council is established, something else might be appropriate authority other than the Control Council.

MR. CLAYTON: The Control Council will be established, but it doesn't follow that they will agree, and they will have to unanimously agree in order to make any of their directives or regulations effective, so that--

MR. BELL: In the absence of that agreement he can go ahead or go some place else.

MR. CLAYTON: Yes, in the absence of that agreement he is his own boss in these directives in his own zone and would report to the JCS.

MR. BELL: I see.

MR. CLAYTON: The question has been raised here by paragraph nine on page seven which reads, "In addition to the provisions of paragraph 6c of this Directive, you will eliminate other undesirable personnel and influences from the Reich Ministry of Finance and from all public and private financial institutions, agencies and organizations." What was your point, Emil?

MR. DESPRES: The reference to 6c is denazification of the political directive. In the redraft of this an attempt was made to get all those things together in one place in the directive, and it is our view that the categories that are covered there are sufficiently comprehensive to include anybody you might want to eliminate.

MR. FRINMAN: It is not entirely clear that it is. There might be certain reasons for moving financial people

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who are not covered by that provision. What is your objection to the provision? Is it an editorial change?

MR. RIDDLEBERGER: Confine the denazification provision to one place in the directive. If you want to enlarge it--we might want to go to the foreign office for the same thing--you indicate special reasons, and I think in the form of composition it would be well to put all denazification provisions in one place.

MR. DESPRES: In the political directive it says, "All other persons hostile to Allied purposes," and so forth, and it includes the category of finance.

MR. FRIEDMAN: I think in the financial field, perhaps more than any other, you are going to have a difficult time saying that somebody who is clearly undesirable is a Nazi or militarist, particularly in the financial field. It seems to me a very wise precaution, and if the only objection is the form of composition of the document, it seems very wise to have a provision in here to deal with people that are not going to be necessarily Nazis or militarists. There are going to be more borderline cases of whether a person is a Nazi or not a Nazi in the financial field than otherwise, and there are going to be more undesirable people.

MR. RIDDLEBERGER: I don't agree with that. I can give you a good list in the political field that would be very comprehensive.

MR. DESPRES: I think establishing in the criteria just "undesirable personnel" without any kind of a limitation is an example of the kind of thing Mr. Crowley was talking about yesterday. It is the only one I can think of, actually, in the directive.

MR. FRIEDMAN: Are you afraid of taking out too many people, or what?

MR. DESPRES: There is no kind of criteria given here. It deals with people in very broad categories that are covered in the political directive. Anybody else you want can go. Now, actually, I--

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MR. FRIEDMAN: I take it the military people, when you say "other undesirable personnel," will understand it is undesirable from the point of military government to have them there. I take it you don't want just removing--

MR. CROWLEY: Start from the top and work down. Start right up at the top and work down.

MR. CLAYTON: Yes, I am in favor of that, too. The aspect of this that gives me a little concern is that it probably puts on the zone commander a higher degree of responsibility with respect to detailed management of German institutions than perhaps the Secretary had in mind, because we have discussed a good deal of the desirability, with which I agree, of making the Germans themselves to the greatest degree consistent with our purposes here responsible for the administration of their own institutions.

H.M.JR: When you say the Secretary--

MR. CLAYTON: I am referring to you. I think we have all agreed that what we want to do is to make the Germans themselves as much responsible as we possibly can for the administration of their own institutions consistent with the purposes of the occupation and of the reparations, and so on.

Now, if we in addition to the very broad, sweeping directive here about the removal of personnel--if we just say in addition to all of that, "You can remove anybody else that you don't like," why, I think that it may put so much responsibility on him that you endanger your fundamental objective of trying to make the Germans themselves run their own institutions.

MR. FRIEDMAN: I think that if I may--

H.M.JR: Sure.

MR. FRIEDMAN: I think that no one has ever been troubled about the controls you have to impose to kick out undesirable

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personnel. I don't think that is the kind of control the discussions have been about. It seems to me that the other kind of controls where you run the German economy, that is one thing--but to get rid of the undesirable personnel, it seems to me no one has ever had any dispute or discussion about that. I don't see quite what additional responsibility is put on the zone commander.

MR. CROWLEY: Doesn't that come under the administrative thing, anyhow, if a man is going to run that for the Allied Commission, that he himself is going to have to get rid of the undesirable personnel? It is part of his administrative responsibility, isn't it?

MR. FRIEDMAN: That is correct, but my point is that in the field it is important that it be understood, particularly in the financial field, that you don't let people remain simply because they didn't belong to the Nazi Party or weren't members of an Officers Reserve Corps, and in the financial field it is particularly important that we get people out, and the people in the field have the broadest authority. I just don't see any objection to it.

MR. CLAYTON: Maybe I have some defect in expression, but my point is this, that if in addition to the very broad authority which is given here in the directive, rather to the zone commander, that he must remove this and that and the other--and if you look at that again, it is extremely broad and would presumably cover all undesirable persons that may be in these institutions. If in addition to that you say, "Remove anybody else that you don't like," why the fellow who is running the institution, the German, will probably say, "All right, if you are going to do that, come and run it yourself." It is very difficult for a manager to manage any kind of institution if somebody is going to say, "I don't like the color of this fellow's eyes, or this or that or the other," and you kick him out. That is just about what this gets down to. Let's read it again.

MR. BARD: There is one thing. Suppose a man has to do with just the financial elements and turns over just this piece of paper to the one man who is doing the job. It

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doesn't say anything about that in this financial setup. There is no harm in repeating it so you have got it in various elements of the same document.

MR. CLAYTON: That is part of the same document. This is just a section of a big document.

MR. FOWLER: I wonder if I could make a point. If I understand Mr. Bard's suggestion, what he would say in paragraph nine is, "You will take special care to see to it that the provisions of paragraph six of this directive are applied to the Reich Ministry of Finance."

MR. BARD: He would refer back to the military paragraph and see that he had the authority.

MR. FOWLER: I think there is another point here, though, saving that--there is still a point of difference apart from that emphasis here.

MR. CLAYTON: May I just, in order to make--

MR. BARD: As you say, military authority has to be given to him, anyway, but this just says, throw out anybody you feel like throwing out.

MR. CLAYTON: May I just, in order to get it in the record, read it again--number nine? "In addition to the provisions of paragraph 6 c. of this Directive, you will eliminate other undesirable personnel and influences from the Reich Ministry of Finance and from all public and private financial institutions, agencies and organizations." Now, we need to read paragraph 6 c., which reads as follows: "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, (3) industry, commerce, agriculture, and finance, (4) education, and (5) the press, publishing houses and other agencies disseminating

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news and propaganda. Persons are to be treated as more than nominal 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."

It just seems to me that that is so broad that it is going to cover everybody that is hostile to Allied purposes as well as Nazi supporters or militaristic believers or supporters, and that if you go beyond that and remove people from an organization, you are going to take such an intimate and detailed control of the administration of that organization that if I were the manager of it, I would just tell you to come and run it.

H.M.JR: I feel all these documents are so far better than I had any hope for that I am perfectly willing to sit tight. I mean, they are so much better than I had hoped for, and I would almost say so completely satisfactory to me that I am not going to argue.

MR. CLAYTON: Is there any objection to the deletion of nine? If not, we will just delete it.

H.M.JR: I am delighted.

MR. COE: Do you want to consider Mr. Bard's suggestion there?

MR. FRIEDMAN: Of referring back?

MR. FOWLER: "You will make sure that you will take special care to see to it that the provisions of paragraph 6c of this directive are vigorously applied."

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MR. FRIEDMAN: "In the financial field."

MR. BARD: I didn't make any particular point of it; I just thought that if you had this and didn't have the other, why, I think it would be altogether--

H.M.JR: As a matter of fact, General Hilldring, when you get this thing up in book form and various field offices get the book--

GEN. HILLDRING: Yes, the directive goes out from the JCS--this will be all one document, but as Mr. Bard said, it is likely that the fellow that deals with finance would fold the other section under and work on the finance.

H.M.JR: You will have to run another school somewhere.

GEN. HILLDRING: We will have to police Bernis to see that he reads the other two sections.

MR. CLAYTON: Mr. Secretary, I have the time if the rest of you have, and I think that we ought to reread this document, the two sections of this document that were passed yesterday, because there were quite a few changes that were made, and I think we should go through the whole business right here now with the understanding that nobody will suggest changes unless they are of real substance.

H.M.JR: Well, with that understanding I will slip out, but there are four Treasury Representatives. Mr. Bell is here, and if you will just go right ahead, I am well represented here, so I can do my regular press, but I will stay until then. But when I slip out, you just go right ahead.

MR. RIDLEBERGER: Mr. Secretary, there is one point you might like to hear. I would like to refer to the use of the word "Diplomatic" in paragraph eight.

H.M.JR: You fellows do look after your own kind.

MR. RIDLEBERGER: Yes. May I give some explanation? This is not on our part, anyway.

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H.M.JR: How about the rural buergermeister?

MR. RIDDLEBERGER: I will let Mr. McCloy carry that torch.

H.M.JR: What page?

MR. RIDDLEBERGER: Page ten of the copy you have.

MR. CLAYTON: Nine, isn't it?

MR. BELL: Nine.

MR. RIDDLEBERGER: Page ten.

MR. CLAYTON: Nine on nine.

MR. RIDDLEBERGER: I beg your pardon. It is the end of eight-A, next to the last sentence, "In no event shall any differentiation be made--"

MR. GLASSER: It is eight-B, really, Jimmy.

MR. RIDDLEBERGER: I am talking about this new eight-B. The sentence reads, "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." We have no objection to that, except the word diplomatic, and this is the point which I think I have been asked to make: We are very dubious about inserting any provisions in this directive that will in any way affect the theory of diplomatic immunity. I understand you can arrest persons like Von Papen--in our opinion you can arrest him and keep him arrested forever more. There is a point when you commence to use the word diplomatic. The theory of immunity has been established over many years, and we are most anxious to maintain it. I think there are very good reasons for that, and I think, Mr. Secretary, if I gave you one or two concrete examples of what it means, I think I could explain it better. For example, in 1939 and '40 we insisted on keeping our Consulate in Warsaw open

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all through the siege. The result of that was we were able to make contact with any number of persons who were of British or French nationality. A large number of Palestinian women, for example, got in touch with us. We were subsequently able to arrange for their transfer to Berlin. Immunity gives you certain rights. I found out in 1940 that the Germans had transferred a number of these Palestinian women into the Gestapo prison on the Alexandria plots. The Foreign Office denied that they were there, so we put on our hats and went down there and demanded to be admitted, and we were. We found them, talked to them, and went straight back to the Foreign Office and said, "Now we know. We have seen these people there, and under the general right of protection for British subjects, these persons who are of the Jewish race have got British passports, and we demand they be accorded some protection the same as the British subjects," and we insisted that they be taken to an internment camp where we could inspect conditions of their living.

We had a number of cases like that of other arrests whereby we learned through the grapevine that persons were held, and we saw them, and then we demanded that they have the rights of protection. Now, it is for cases like that so that we can move around and be certain that we can go places that we want to maintain this whole theory of diplomatic immunity.

H.M.JR: I compliment you on your case.

MR. RIDDLEBERGER: It is an actual case. We had another case.

H.M.JR: I was with my father in Turkey for three years, and he was representing these other countries--the Americans in Bulgaria. I remember a famous case there where a British bookkeeper, they claimed, was a spy, and they held special sessions of Parliament to have him expelled from the country.

MR. RIDDLEBERGER: Yes.

H.M.JR: I don't know whether you remember that, but it was very interesting.

(Discussion off the record.)

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H.M.JR: Let me just ask you this. If you leave that word out specifically referring to them, does that mean that all diplomats will not be tried for war guilt?

MR. RIDDLEBERGER: It does not. They are still included.

H.M.JR: Von Papen or anybody else?

MR. RIDDLEBERGER: Any diplomat.

H.M.JR: The Minister of Foreign Affairs?

MR. CLAYTON: Ribbentrop?

H.M.JR: Any of those people, and you just want this as a matter of precedent.

MR. CLAYTON: If there is no objection, we will eliminate the word "diplomatic."

MR. FRIEDMAN: The other range of positions covers everybody.

H.M.JR: As long as it means Ribbentrop and Von Papen will be tried for war guilt, I am satisfied.

Is there anything else?

MR. RIDDLEBERGER: I have nothing.

(Secretary leaves the conference temporarily.)

MR. CLAYTON: Now shall we go ahead?

(Reading "Directive to Commander-in-Chief of U. S. Forces of Occupation Regarding the Military Government of Germany," attachment B)

"1. 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

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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."

That really ties the whole business to him as Supreme Commander in his own zone under this directive if he hasn't got the general agreement.

"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.

"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.

"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

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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."

GEN. HILLDRING: May I interrupt? With respect to clauses "b" and "c," are they ready to attach to this?

MR. RIDDLEBERGER: They are all ready, with the exception, of course, of the protocol on zones of occupation, which has now been subject to modification as a result of the French request for participation. I understand we are expecting daily the views of the JCS on the French zone. We cannot complete the negotiations until that is done.

GEN. HILLDRING: The reason I asked the question is we are very anxious to get the thing processed. Therefore, the moment this is submitted to the JCS, which is supposed to be right now, can't we amend this and say, "with respect to these sections, the agreed protocols on zones will be forwarded to you."

MR. RIDDLEBERGER: You don't have to do that, because there is a protocol on zones already adopted and agreed upon and approved by the three heads of State. However, the one on zones will have to be modified.

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GEN. HILLDRING: As long as you have got an Appendix "c" to fit in here today--

MR. RIDDLEBERGER: We have an Appendix today, and it will hold until it is amended by French participation.

MR. CLAYTON: "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 established 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 Germany over the members of the armed forces under their command and over the civilians who accompany them.

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"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 influences 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.

"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

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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 organizations, 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.

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"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 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."

MR. BARD: That begins by saying that any man that served with the German Army can't hold office or can't participate in any of these--that means everybody, practically.

MR. CLAYTON: I don't so understand it, Ralph.

MR. BARD: It says, "All active supporters of Nazism or militarism." A soldier is a supporter.

GEN. HILLDRING: That is a stricter interpretation than we have put on it, Mr. Bard.

MR. BELL: Everybody above the age of six.

MR. CLAYTON: Of course, those soldiers--just an ordinary private has no other choice; he has to serve. Many of them, I dare say, have served that would have liked very well not to.

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MR. FOWLER: What you really mean are Fascists and supporters of Nazism.

MR. BELL: You certainly mean the SS Troops.

MR. BARD: I could interpret it that a soldier carrying a gun was a supporter of Nazism.

MR. CLAYTON: You could so construe it. That may be, General, something that will come up early in its application.

GEN. HILLDRING: Yes. This formula isn't much different from what his present denazification policy is, and I don't think he will apply it that rigidly.

MR. CROWLEY: You'd think he is going to have so damn much business he isn't going to get down to that right away.

GEN. HILLDRING: Not right away, but what Mr. Bard says is true.

MR. CROWLEY: It will be back for revision before he gets down that far.

MR. CLAYTON: You will have to cable right away.

MR. BELL: Just about the same as you had in Italy.

GEN. HILLDRING: Not as tight as that.

MR. FRIEDMAN: They will do it, anyway, if they want to.

MR. GLASSER: Militarism in that sense is really anism, more of the doctrine of military organization. That is what is intended here, and that is the way the ism is usually interpreted. I think a soldier in the Army is part of a military organization, is really a puppet of whatever militarism there may be in the community.

GEN. HILLDRING: I think he will interpret this as saying he won't use Army officers or SS Troops. But I think we could assume that under this language he could use others.

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GEN. HILLDRING: I think the texts are already ready, Mr. Crowley. They have been working on them with the help of your agency for over a year now, and I think--I would like to check on this, but if they are not ready now, they are practically ready. There will be very little delay.

MR. CROWLEY: You will have a lot of bandits, letting them run around.

GEN. HILLDRING: We learned that in Italy, and we have been pushing to get the public schools opened rapidly in Germany. We were a little slow in getting the textbooks in Italy.

MR. CROWLEY: That is all I had.

MR. CLAYTON: I hate to suggest a change, but how about putting a period after eliminated and say, "Textbooks and curricula which are free from Nazism and military doctrines shall be provided as soon as possible?"

MR. CROWLEY: I can see where you couldn't use the German textbooks at all, but operate your schools in order to keep children off the streets. I don't mean use the German textbooks, but get the children off the streets.

MR. RIDDLEBERGER: You can have instruction without textbooks. Didn't they do that in Italy, General, reopen schools and forbid the use of certain texts?

GEN. HILLDRING: They did get four or five schools open, I think, without any textbooks.

MR. CLAYTON: How would this be, have a period after "eliminated," and then say, "Textbooks and curricula teaching Nazi and militaristic doctrines must not be used?"

MR. CROWLEY: I think that is all right.

MR. CLAYTON: "Textbooks free from such doctrines will be provided as soon as possible."
(General agreement.)

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MR. CLAYTON: You will recall, General, if you get anything out of the discussion here as to what the intent is, and instruct him accordingly.

GEN. HILLDRING: If it is a question like that, cables will be coming back in the weeks and months ahead when he gets down to it.

(Mr. Clayton continues reading to the bottom of page twelve.)

MR. CROWLEY: How far down do you go on that now?

MR. RIDDLEBERGER: They are the special party schools.

MR. CROWLEY: You are going to leave the primary schools open?

MR. RIDDLEBERGER: That follows next.

MR. CROWLEY: Pardon me.

MR. CLAYTON: "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 (Volksschulen), 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."

MR. CROWLEY: But you wouldn't keep your primary schools closed until you get all your new textbooks written. You wouldn't let those kids all roam the streets over there without some form of educational supervision.

MR. CLAYTON: That is a good point.

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MR. RIDDLEBERGER: Does that put an obligation on us to provide textbooks in that case?

GEN. HILLDRING: We are doing it now.

MR. RIDDLEBERGER: We are providing all the textbooks for all the German schools?

GEN. HILLDRING: No, we find we don't need to change the algebra book, but on others we do have to say--for instance on history books--"Here is a book now that you use to teach history," and then they print out a million copies.

MR. CROWLEY: The only way to get them is by free textbooks.

MR. CLAYTON: We are going to provide them.

GEN. HILLDRING: We are going to provide the basic texts. Now, whether we are in this country going to print them all, I don't know. We have printed a lot of them. We did print millions of textbooks for Italy, but that was simply because there weren't any facilities in Italy for doing it. I think if it came to a question of our providing them or not and the Germans couldn't, we would do it to get their educational program started.

MR. GLASSER: Mr. Clayton's suggestion is that it wouldn't be necessary to wait for textbooks. You simply say, "Textbooks and curricula which are not free from Nazi and militaristic doctrines are not to be used," and leave the provision of the textbooks to some other--

MR. CLAYTON: If that is satisfactory, we will change it and put a period after "eliminated," and then say, "Textbooks and curricula--"

MR. GLASSER: "...which are not free--"

MR. CLAYTON: "...which are not free from Nazi and militaristic doctrines should not be used."

MR. GLASSER: That leaves the question open.

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MR. CLAYTON: All right. That is a good point, Leo.

"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 to purging of personnel and curricula."

(Secretary re-enters the conference.)

H.W.JR: Could I have one second?

(Discussion off the record.)

H.W.JR: All right.

MR. CLAYTON: "15. Arts and Archives:

"Subject to the provisions of paragraph 6 above, you will make all reasonable efforts to preserve historical archives, museums, libraries and works of art."

(Mr. Bard leaves the conference.)

(Mr. Clayton continues reading, pages 14 and 15.)

MR. FOWLER: Mr. Clayton, there is one little point there in regard to instituting and maintaining a reporting

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system. That may have in some cases a fairly important relationship to your disarmament control, and I wonder if we couldn't include in seventeen, the third paragraph, the second line from the bottom, paragraph 19. Insert "19" just before "20."

MR. CLAYTON: I see no objection.

MR. COE: No, that is all right.

MR. CLAYTON: I think that is good.

MR. FOWLER: Nineteen and twenty hang together.

MR. CLAYTON: That is at the bottom of page fourteen.

MR. FOWLER: Yes.

MR. CLAYTON: "German Standard of Living:

"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."

I would like to say that this morning I made a report to the staff committee in the State Department on our work here. I read certain significant paragraphs, this being one of them, and it seemed to meet their complete approval. I just read certain ones.

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"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.

"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. You are authorized to direct the German authorities to maintain or re-establish such health services and facilities as may be available to them."

MR. BELL: Weren't there some other words in twenty-four yesterday, "wage, hour, and other controls?"

MR. CLAYTON: Yes.

MR. FOWLER: That was the way it was drafted.

MR. DESPRES: I am afraid I am guilty, not the official secretary.

MR. CLAYTON: I thought we agreed on "wage, hour, and other controls."

MR. DESPRES: I am afraid I missed that. I am sorry.

MR. CLAYTON: We are just putting that in. I am glad you brought that up, Dan.

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"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--" we had in there "Public lands" right after "estates"--"and public lands in a manner which will facilitate the accommodation and settlement of Germans and others or increase the acreage under cultivation."

MR. DESPRES: I think that may be wrong, "Acreage under cultivation," not to change the subject, but I think we said "Agricultural output."

MR. CLAYTON: That is right, we said, "Agricultural output," and I think, "Agricultural output" is perhaps better, Emile, because it involves not only acreage, but intensity of cultivation, or increased agricultural output.

"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 large 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."

H.M.JR: Excuse me just a minute. After "Control Council" in paragraph twenty-nine you said, "All large plants." Mine reads "All plants." It is line three.

MR. CLAYTON: Did I say large? It should be "all plants."

"30. In order to disarm Germany, the Control Council should:

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"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;

"b. abolish all those laboratories and related institutions whose work has been connected with the building of the

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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."

H.M.JR: Mr. Clayton, may I interrupt you a minute? Early this morning I asked whether there was a letter of transmittal to take over to the President. Couldn't one of the State Department gentlemen sort of go somewhere in a corner and draft such a letter so when you are through reading we will have it?

GEN. HILLDRING: Mr. Secretary, as the next step, I would like to suggest that before you take this to the President you give the Joint Chiefs of Staff an opportunity to comment on it from a military point of view so that we don't give to them something that bears the approval of the President and is, therefore, concrete. It certainly would make my life much easier.

H.M.JR: I am sorry I interrupted. Mr. Clayton will proceed, and then we will discuss this.

MR. CLAYTON: I don't know, Mr. Secretary, whether you want a letter or merely a short digest of what this document contains. I thought we might have a short digest, say, of

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not over three pages, one on military and political, one on economics, and one on finance, which would just give the salient and significant parts of the document so that we can read it to the President or hand it to him.

MR. CROWLEY: I thought yesterday we kind of agreed that there would be something given to him. As I see this thing, this is an occupational document that not only sets out the occupational philosophy, but rather the primary or educational philosophy of Germany over a long period of time, and I thought yesterday we talked in terms of a memo or letter of transmittal, whatever you want to call it, and that you are going to say that this is a draft that has been recommended, and, of course, it would be subject to change by whatever body he would determine to have the right to review this. I thought we were going to do that.

MR. CLAYTON: Well, that would be agreeable.

MR. CROWLEY: I think this is an excellent document, but you wouldn't want to say--go on record that it was final and complete, never to be changed.

MR. CLAYTON: No.

MR. CROWLEY: Or never to be reviewed. Put it that way.

MR. CLAYTON: I think we have to submit later when we get this a draft of a general clause. Have you got that, Emile, one that would cover those points?

MR. DESPRES: I have part of it. Perhaps I might best go in a corner and do that.

MR. CLAYTON: I think if I were you I would.

H.M.JR: You were down to thirty-two.

MR. CLAYTON: "32. Pending final Allied agreements on repatriation and on control or elimination of German industries that can be utilized for war production, the Control Council should:

(Mr. Despres leaves the conference temporarily.)

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"a. prohibit and prevent production of iron and steel, chemical, 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

"c. 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;"

I don't quite get that, "...for the purposes outlined in paragraphs 4 and 5 of this directive repairs to and restoration of essential transportation services and public utilities."

MR. FOWLER: I think what is meant is that you do everything that is necessary to get up to the level of repair of transportation equipment or of a public utility. It is

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necessary to take care of your purposes of occupation, which include the minimum standard of living, and so forth. But you don't, for example, rehabilitate or repair a power plant beyond--if twenty thousand kilowatts are enough to take care of those services, you don't try to restore it to fifty thousand or one hundred thousand kilowatts, and similar analogies. You do everything that is necessary to get up to the minimum, but you don't go past the minimum.

MR. CROWLEY: You did that in Italy, General?

GEN. HILLDRING: We haven't quite hit the minimum there, as a matter of fact, sir.

MR. CLAYTON: "b. emergency repair and construction of the minimum shelter required for the civilian population;" I can see that with regard to shelter, but transportation services--

MR. CROWLEY: Would the military have to have transportation for their own selfish reasons? Your objection is that word minimum in there?

MR. CLAYTON: Yes. It seems to put the emphasis in connection with the reconstruction of the transportation system on making it just as poor as you can.

MR. DOWNEY: Minimum is a bad word so far as it is applicable to reparations, and that is one of the objectives in four and five.

MR. CLAYTON: I think it would be a better document if you left minimum out.

MR. FOWLER: I think you ought to say "only to the extent."

MR. BELL: You have got to have only if you leave out minimum.

MR. FOWLER: The German transportation system, for example, before the war was just a huge and highly overdeveloped institution. They had a carrying capacity developed for

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military purposes, and you don't want to restore that.

MR. CLAYTON: I won't press the point; we will just leave it as it is.

(Mr. Clayton finishes reading the draft.)

MR. CLAYTON: Now, Mr. Secretary, would you like to take up the--

MR. FOWLER: I would like to raise one general question here and get the opinion of the group on it. It is not a matter of difference, just a question of interpretation. All through this directive we have this reference to paragraphs four and five, either that you shouldn't do anything, except to obtain those objectives, or that what you do is limited to the minimum necessary, for example, in thirty-four, "...to the minimum extent necessary for the purposes outlined in paragraphs 4 and 5 of this directive."

Now, looking back in paragraphs 4 and 5, the question I wanted to ask is--

GEN. HILLDRING: I think this bears on your problem: Would the commander in the field feel that he was authorized to report the essential transportation services necessary to keep the German standard--minimum standard of living in operation? The objectives we have listed in 4 and 5 are, one, to prevent Germany from ever again becoming a threat to the peace of the world, obtain and 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.

There is a reference down in paragraph 5 to the effect that you will use controls only to the extent that they are necessary to 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.

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But there is nowhere a statement as one of the objectives to give to the German people an opportunity to achieve a minimum subsistent standard of living. I don't know if that is properly stated as an objective, but with these broad references to paragraphs 4 and 5 all the way through, and with paragraphs 4 and 5 being blank on that point, I think it would be a matter of some confusion in the field if we were implementing, for example, this section that we just discussed, paragraph 34.

GEN. HILLDRING: I see your point. It seems to me that with the omission in paragraph 21 of these references--

MR. FOWLER: That is right, we have inadvertently, all through the drafting here--

MR. FRIEDMAN: Five covers it. The reason for putting five in here--in the discussion of the subject, you see, that wasn't technically an objective, but the same result is achieved by putting in five, and you are not going to say anything broader than what is in five, anyway.

MR. FOWLER: Let's read 5a. I think that was the object of the discussion, but I wonder--

GEN. HILLDRING: It refers to controls, primarily.

MR. FOWLER: I think if you added after that, "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--"

MR. FRIEDMAN: Where are you reading?

MR. FOWLER: Paragraph 5a.

MR. RIDDLERBERGER: It is stated in a backhand way.

MR. FOWLER: I think it is going to cause confusion.

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MR. GLASSER: May I suggest the language under 5 a, making a minimum change? "To achieve the objectives enumerated in 4 above and also as they may be essential to the accomplishment of your objective, 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 enganger these forces." Now, there you clearly state that this is an objective. It is not tied up with the controls. I think that would do it.

MR. COE: How would it be now?

MR. GLASSER: "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 accomplish the further objective of protecting the safety and meeting the needs of the occupying forces and assure the production and maintenance of goods and services required to prevent," and so forth. We are just inserting the words, "...to accomplish the further objective of," and that clearly specifies the objectives.

MR. FOWLER: Now I understand that if--

MR. CLAYTON: Does that meet your point?

MR. FOWLER: Well, I am looking now particularly at paragraphs 32 and 34. The intention was, I think, in both of those cases to prohibit, for example, "...the production of iron and steel...except for purposes stated in paragraphs 4 and 5 of this directive." And what we had in mind there, as I remember it, was to not prohibit completely, as we did in the case of synthetic oil and rubber, but in this period ahead to say that they can go ahead and produce iron and steel, but only to the extent necessary to achieve--

MR. COE: I think that is the way it reads. It is clearly covered, I think.

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MR. CLAYTON: That is the way it reads.

MR. FOWLER: Just as long as we are--I don't want the intent of this paragraph 32 to break down on some notion that it is a thoroughly impractical suggestion of not allowing the boys to make steel rails over there, as it might be necessary to restore the German transportation system to the extent that it is necessary. I am interested in protecting that provision so that it appears and is susceptible of practical operation.

If it is the opinion of General Hilldring that that is the way it will be understood, I think we are O.K.

GEN. HILLDRING: I have read that many times, and I think he will read into it the fact that he is to do these things and also to bring about this minimum standard. However, he does have to infer, I think--

MR. CROWLEY: We have got to get to work. I have got some food fellows to talk to. Are we through with this?

GEN. HILLDRING: With the exception of one paragraph which originated in your section, yes, sir.

MR. CROWLEY: That is the one the man is working on, but outside of that, we are all through with this. And don't let anyone open it up again. Let's close it up.

MR. CLAYTON: That is O.K. with me.

MR. CROWLEY: Joe, if you bring anything else up, you are going out that window. (Laughter)

MR. CLAYTON: All right.

MR. RIDDLERBERGER: We won't change this.

MR. FOWLER: I thoroughly second those sentiments.

MR. CLAYTON: It will be corrected accordingly.

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MR. CROWLEY: Now, what else have we got? We have got to wait for this gentleman here?

MR. CLAYTON: The General raised a point which seems to me to be very highly important, and I would think it wouldn't be very proper for us to write this document and have the approval of the document until the Joint Chiefs of Staff have had a chance to look at it.

MR. CROWLEY: Having been brought up in Madison politics, I think we have got that all fixed up. The General won't press that, I don't think, and I think if we get this to the President, he will do as he pleases with it after he gets it.

MR. CLAYTON: Perhaps it should be made clear to him that it has not been submitted to the Joint Chiefs of Staff, but General Hilldring has passed on it.

MR. COE: And the Navy.

MR. CLAYTON: Yes, yes.

H.M.JR: He can refer it to the Joint Chiefs of Staff for their pleasure.

GEN. HILLDRING: Mr. Crowley recited a formula, Mr. Secretary, which is quite agreeable to me, and--

MR. CROWLEY: I would think he would, after he gets through, send it to his Chiefs of Staff and have them look it over.

GEN. HILLDRING: There is no objection to submitting this document right now to the JCS. There is no objection to that, sir, is there?

H.M.JR: It would save time.

MR. RIDDLEBERGER: It comes out eventually from the Joint Chiefs of Staff.

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MR. CROWLEY: But tomorrow morning it will be nice to say they have looked it over.

GEN. HILLDRING: Of course, Mr. McCloy and I will go to work on General Marshall, and Ford will on Admiral King, but this a very important document, and General Marshall will want to put it in his briefcase and study it, and they are going to impose quite a burden on Eisenhower, but I don't think they will change it. They didn't change LOGV. They passed it just as it came out of the State Department, but they feel an obligation towards Eisenhower that they should have an opportunity to examine what it is that they are shoving over on him.

MR. CROWLEY: That is right.

GEN. HILLDRING: And until these five-star fellows have had a chance to read it, neither McCloy nor I are going to get General Marshall to vote on it until he is ready.

H.M.JR: That doesn't mean--we have got this appointment to walk across the street to see the President of the U.S. with this document, and I still think we should have a letter of transmittal from this committee saying that the committee has been sitting. We'll give this to him for his consideration and then explain to him a little bit what this group is. What I want to ask him is, does he want this group, as far as I am concerned, to continue next week on reparations? I would like to get a little directive, myself.

GEN. HILLDRING: That is quite all right, Mr. Secretary.

H.M.JR: That is the principal thing I am after, to go over and inform the new President of the U.S. what I am doing, and ask if it is agreeable to him, and ask if he wants me to continue to do this kind of work. That is why I am so anxious to get over there. He may say yes or no, but I would like to get an answer from him. I would like to work on the reparations thing, but I want him to say so. That doesn't hold you up?

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GEN. HILLDRING: No.

MR. BELL: You can say it has been approved by this committee, but not by the Chiefs of Staff.

GEN. HILLDRING: That is fine, Mr. Secretary.

MR. CLAYTON: I am sorry, but I didn't get the last part.

H.M.JR: I think the committee should walk in and call on him and inform him that all of the signatures are on it.

Now, I have worked with them twice. I would send him a written memo, address it to President Truman and say, "Do you like to work this way?" He does. He likes to have something to see.

MR. CLAYTON: Now, the letter, I take it, should give a digest of the document.

H.M.JR: Yes.

MR. CLAYTON: Do you think that it should go to the extent, say, of three double-spaced pages like this, that would be divided into three parts--three sections like the document is, first, military and political, second, economic, and third, finance?

MR. CROWLEY: I think you certainly ought to give him enough of a digest so he would get--maybe not tomorrow morning--but so he would get the gist of this whole thing.

H.M.JR: And with that letter should be a copy, a photostat copy of the March 23 draft so he will know that that was the springboard.

MR. CLAYTON: Send that with it.

H.M.JR: And I think we ought to put our signatures on it and then say, "Here it is. The Chiefs of Staff have not seen it, but--" and then ask him--I am going to ask him, anyway, if he wants me to continue.

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MR. CLAYTON: We will prepare a letter this afternoon, and I suppose the best we could do would be to meet here in the morning fairly early and go over it and sign it here.

H.M.JR: All right. Any time is all right.

MR. CLAYTON: Of course, if we take it over there, there wouldn't be any chance for a change. We would get it up the best way we can.

H.M.JR: What time do you think we ought to meet?

MR. CLAYTON: I would think nine o'clock if you are going over there at ten.

H.M.JR: I am not sleeping very well these nights, so nine o'clock is late.

MR. CLAYTON: I can do an hour's work in the office before I come.

H.M.JR: You win.

MR. CLAYTON: I think we ought to start by nine o'clock if that is agreeable.

Emile is out there. You might tell him we are waiting on him.

(Mr. Glasser leaves conference temporarily.)

MR. CROWLEY: Could we let him work on that with the fellows in the subcommittee? Maybe if they can agree on it, if the subcommittee agrees, why don't we let them put it in?

MR. CLAYTON: It is a very important paragraph. I think we would all like to read it before it is made absolutely final, and he may be nearly ready.

H.M.JR: General, will you deliver McCloy tomorrow morning?

GEN. HILLDRING: Yes, I will deliver him at nine o'clock, Mr. Secretary, or thereabouts.

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MR. CLAYTON: While we are waiting, would you like to hear the document on reparations? It is just about agreed on. Oh, here he is now.

(Mr. Despres and Mr. Glasser enter the conference.)

H.M.JR: I promised Mr. Lubin that if we went into that, I would phone him.

GEN. HILLDRING: Mr. McCloy, with respect to that, hasn't read it at all, and he would like a chance to look it over. Has the subcommittee passed on it?

MR. CLAYTON: The working committee has agreed--have you not agreed on the reparations document?

MR. DESPRES: I don't think you can quite say that now.

H.M.JR: But if you are going to go into that, shall we phone Lubin to come on over?

MR. CLAYTON: Is it your idea that along with this other document we should present the one on reparations to him? I think it might be taking a little more than we would be able to get through with.

H.M.JR: My thought was that without talking to anybody we would just do 1067 revised, because I haven't studied the reparations document.

MR. CLAYTON: Suppose we postpone until--tomorrow is Friday--postpone until one day next week the reparations document, and in the meantime have it mimeographed and circulated?

H.M.JR: If you want to start Tuesday, I will be glad to. Do you want to set a time?

MR. CLAYTON: Tuesday?

H.M.JR: How about ten-thirty?

MR. CLAYTON: All right, make it ten-thirty Tuesday on reparations.

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MR. COE: That is agreeable to me.

H.M.JR: That will mean that we will have to get McCloy back from San Francisco.

GEN. HILLDRING: I don't think he will be there very long, Mr. Secretary. I don't think Mr. Stimson will let him right now.

MR. FOWLER: If you have got a mandate to go ahead on the reparations document, you might go ahead.

MR. DESPRES: I have three separate items here. (Passes around copies of attachments C, D, and E.) This is the first one (indicating attachment C).

H.M.JR: Could you tell Lubin we are going to start that?

MR. DESPRES: I took the liberty of crossing out the word "interim" in the fifth line. And this proposal, as I understand it, is to go at the end of paragraph 1 as b. It would be the third paragraph I thought.

MR. COE: I should think it would be the second paragraph. It would go along with the rest of it, telling him what to do.

MR. CLAYTON: That is the second paragraph.

MR. DESPRES: That is better.

MR. CLAYTON: (Reading attachment C) "This directive sets forth policies relating to Germany in the initial post-defeat period. As such it is not intended to be an ultimate statement of policies of this Government concerning the treatment of Germany in the post-war world. It is therefore essential that during the period covered by this Directive you assure that surveys are constantly maintained of conditions within your zone and that the results of such surveys are made available through the Joint Chiefs of Staff."

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The facts thus disclosed will serve as a basis for determining changes in the measures of control set forth herein as well as for the progressive formulation and development of policies to promote the basic objectives of the United States. Supplemental directives will be issued to you by the Joint Chiefs of Staff as may be required."

GEN. HILLDRING: There is one suggestion I have there. It is attributable to my own draftsmen because--this is what that one said that I read on the way over here, but I don't think we are only interested in the surveys of conditions in our zone, but in the whole of Germany.

MR. FOWLER: That is right.

GEN. HILLDRING: And I think it should be amended to include the whole of Germany.

MR. COE: Conditions within Germany.

H.M.JR: What are you going to survey? You don't say.

MR. COE: Conditions.

MR. DESPRES: There is a more detailed paragraph on this survey matter later in the directive.

H.M.JR: Surveys of what?

MR. BELL: He has specific reference to it in the document in the general over-all--

MR. FOWLER: I would say, "...surveys are constantly maintained of conditions within your zone that may suggest amendments--changes, amendments, or new policy."

MR. CLAYTON: May I suggest, Joe--excuse me for interrupting--that we just say that "surveys as outlined in paragraph twenty below."

MR. FOWLER: If you will read paragraph twenty, I think you will find that. I am familiar with paragraph twenty, but

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I think what you are really after is something different from what you are asking in paragraph twenty. Your inventory--you are going to get that anyway. You are asking for something different in this paragraph, and that is surveys and reports in the judgment of a manner which would suggest a change in the document back here or that consideration be given to a change in the document.

In other words, I think you are really asking him to send back to you the information which may have a bearing on what you have told him to do before or haven't told him to do before, which requires change in policy or a new policy.

MR. CLAYTON: Isn't that pretty well covered in this sentence, "The facts thus disclosed will serve as a basis for determining changes in the measures of control set forth herein as well as for the progressive formulation and development of policies to promote the basic objectives of the United States?"

MR. CROWLEY: That is what I was getting at, just what he has there, that this is the recommendation we have in the light of information you have now, and as you study your problems, they will be subject to your review, and that is what it says.

MR. FOWLER: Instead of saying, "facts just disclosed," why don't you say, "These surveys should be developed in such a manner as to serve as a basis for determining"--this defines surveys a little bit.

MR. CLAYTON: "These surveys should be developed in such a manner--"

MR. FOWLER: "...as to serve as a basis--"

MR. CLAYTON: That is fine.

MR. FOWLER: Now, to take care of General Hilldring's point, in the preceding sentence couldn't we say after this, "...and that the results of such surveys and such other

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surveys as may be made in other zones, or under the direction of the Control Council?"

GEN. HILLDRING: Yes, so it becomes countrywide-- Germanwide.

MR. DESPREE: I think that finishes that.

MR. GLASSER: I have another suggestion on conditions. It seemed to me that we could spell it out by simply listing "economic, financial, industrial, social, and political conditions," in order that the surveys should be as broad as possible.

H.M.JR: I kind of like that.

MR. CROWLEY: There certainly would be no objection.

MR. RIDDLEBERGER: What have you got?

MR. GLASSER: "Economic, financial, industrial, social, and political."

GEN. HILLDRING: Before conditions?

MR. RIDDLEBERGER: "Economic--"

MR. GLASSER: "Economic, financial, industrial, social, and political."

MR. FOWLER: "...surveys in other zones under the direction of the Control Council"-- "made in other zones," or "of other zones made under the direction of the Control Council?"

MR. CLAYTON: Wouldn't you want any kind? Let's see if this doesn't meet it, "It is therefore essential that during the period covered by this Directive you are assured of surveys constantly maintained of economic, industrial, financial, social, and political conditions within your zone, and that the results of such surveys and such other surveys as may be made in other zones are made available through the Joint Chiefs of Staff. These surveys should be developed in such a manner as to serve as a basis of such--" is that agreeable all the way around?

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(General agreement)

MR. CLAYTON: This would be inserted before the last sentence of paragraph sixteen, so let's turn to that. The last sentence reads, "Except as may be necessary to carry out these objectives," and so forth. And just before that we would insert, "Such industrial disarmament is an essential security objective of the United States, and it is also just that Germany be required to make reparation for the losses which she has caused to Allied Nations. The measures required to fulfill these objectives will impose a heavy burden on the German people, but these measures rest upon considerations of security and justice, not oppression."

"Moreover, measures of industrial disarmament and reparation will be held within such limits as to allow the German people eventually to reconstruct a tolerable basis of livelihood."

H.M.JR: What is behind this?

MR. CLAYTON: This is carrying out the thought that was expressed yesterday when it was agreed we would try to formulate a paragraph to put in here. I think the thought was expressed by Mr. McCloy, wasn't it?

GEN. HILLDRING: Mr. Crowley.

MR. DESPREE: I don't know whether that meets the point.

H.M.JR: I don't get that. I thought Mr. Crowley and I were satisfied with that 4 a., that the Germans brought this stuff on themselves, and this is something different.

MR. CLAYTON: Well, this was just drafted in accordance with our understanding yesterday. If you don't like it, why we'll leave it out.

H.M.JR: I don't like it.

MR. CROWLEY: What do we say in 4 a., Joe?

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MR. FOWLER: "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."

MR. CLAYTON: I think that is really sufficient.

MR. CROWLEY: Sure.

H.M.JR: That insert before the last sentence--cut that out.

MR. DESPRES: This is to press Mr. Fowler's point about lasting controls, "You will study and make recommendations to your Governments through the Joint Chiefs of Staff on the most effective and economical methods of maintaining international controls to prevent future German rearmament which will be continued after military occupation of Germany has ended." It is premature at this stage.

MR. CLAYTON: That is to be added at the end of paragraph thirty. You might turn to that; it is on page eighteen.

MR. DESPRES: It is not English as it stands now.

MR. CLAYTON: That paragraph deals with the disarmament of Germany, "You will study and make recommendations to your Governments through the Joint Chiefs of Staff on the most effective and economical methods of maintaining international controls to prevent future German rearmament which will be continued after military occupation of Germany has ended."

MR. GLASSER: Isn't that really covered by our new first paragraph--the addition to the first paragraph where we require surveys to be made, and that we will then send out--

MR. FOWLER: I think with the adoption of the change yesterday in paragraph--this first introductory paragraph--if we had that, it would be satisfactory without this.

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MR. CLAYTON: Is that agreeable all the way around?

H.M.JR: Yes. May I go back to that first one where you said this directive set the policy relating to Germany? Where you say "...make such surveys available only to the Joint Chiefs of Staff," would you mind including the words, "...to your Government?"

MR. CLAYTON: No, I think that is all right.

GEN. HILLDRING: I have no objection.

MR. CLAYTON: That is in the first one that we make available to the Joint Chiefs of Staff and to your Government, "...to your Government and Joint Chiefs of Staff."

H.M.JR: How is that?

MR. CLAYTON: We salvaged one of the three. We will put that between paragraphs one and two. We salvaged the long one, and the two short ones don't go. That goes in the first clause of the document?

MR. DESPRES: After paragraph two.

MR. CLAYTON: Between one and two. I will concede to make it paragraph two.

MR. DESPRES: That is right.

H.M.JR: Mr. Clayton, is it the understanding that this very excellent working committee will do the drafting of the condensation of this thing and have it ready?

MR. CLAYTON: They will have to do it this afternoon.

H.M.JR: And they will have to have it ready by nine o'clock tomorrow morning.

MR. CLAYTON: Yes, in the form of a letter directed to the President, which the representative of each Department on this committee will sign, as I understand it.

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MR. RIDDLERBERGER: How about having a short memo plus a digest of the document?

MR. CLAYTON: I think that is better, don't you, Mr. Secretary, just a little short letter to the President saying, "We enclose documents and a digest?"

MR. RIDDLERBERGER: And a digest.

MR. CLAYTON: I think that is probably better.

MR. DESPRES: May I go back to this addition to paragraph one? Do we leave the words, "...within your zone" unchanged, or was that going to be, "...in Germany?"

MR. CLAYTON: Leave that unchanged and say here, "The results of such surveys and such other surveys as may be made in other zones--"

Now, what else is there to come before the committee?

(No response.)

MR. CLAYTON: No further business? We will adjourn until nine o'clock tomorrow morning.

We will have in the morning a fresh draft of this document with all corrections in it, and have them over in the morning so each of you can have the advantage of that.

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PART III
FINANCIAL

April 20, 1945

1. You will make full application in the financial field of the principles stated elsewhere in this directive and you will endeavor to have the Control Council adopt uniform financial policies necessary to carry out the purposes stated in paragraphs 4 and 5 of this directive. You will take no steps designed to maintain, strengthen or operate the German financial structure except insofar as may be necessary for the purposes specified in this directive.

2. The Control Council should regulate and control to the extent required for the purposes set forth in paragraphs 4 and 5 the issue and value of currency and the extension of credit in Germany and in accordance with the following principles:

- a. United States forces and other Allied forces will use Allied Military marks and Reichsmark currency or coins in their possession. Allied Military marks and Reichsmark currency and coin now in circulation in Germany will be legal tender without distinction and will be interchangeable at the rate of 1 Allied Military mark for 1 Reichsmark. Reichskreditkassenscheine and other German military currency will not be legal tender in Germany.
- b. The Reichsbank, the Rentenbank or any other bank or agency may be permitted or required to issue bank notes and currency which will be legal tender; without such authorization no German governmental or private bank or agency will be permitted to issue bank notes or currency.
- c. The German authorities may be required to make available Reichsmark currency or credits free of cost and in amounts sufficient to meet all the expenses of the forces of occupation, including the cost of Allied Military Government and including to the extent that compensation is made therefor, the cost of such private property as may be requisitioned, seized, or otherwise acquired, by Allied authorities for

reparations

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reparations or restitution purposes.

Pending agreement in the Control Council you will follow these policies in your own zone.

You will receive separate instructions relative to the currency which you will use in the event that for any reason adequate supplies of Allied Military marks and Reichsmarks are not available, or if the use of such currency is found undesirable.

You will not announce or establish in your zone, until receipt of further instructions, any general rate of exchange between the Reichsmark on the one hand and the U.S. dollar and other currencies on the other. However, a rate of exchange to be used exclusively for pay of troops and military accounting purposes in your zone will be communicated separately to you.

3. Subject to any agreed policies of the Control Council, you are authorized to take the following steps and to put into effect such further financial measures as you may deem necessary to accomplish the purposes of your occupation:

- a. To prohibit, or to prescribe regulations regarding, transfer or other dealings in private or public securities or real estate or other property.
- b. To close banks, but only for a period long enough for you to introduce satisfactory control, to remove Nazi and other undesirable personnel, and to issue instructions for the determination of accounts to be blocked under sub-paragraph 6d below.
- c. To close stock exchanges, insurance companies, and similar financial institutions for such periods as you deem appropriate.
- d. To establish a general or limited moratorium or moratoria only to the extent clearly necessary to carry out the objectives stated in paragraphs 4 and 5 of this directive.
4. Resumption of partial or complete service on the internal public debt at the earliest feasible date is deemed desirable. The Control Council should decide the time and manner of such resumption.
5. Subject to any agreed policies of the Control Council,
 - a. You will prohibit:
 - (1) the payment of all military pensions, or other

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- emoluments or benefits, except compensation for physical disability limiting the recipient's ability to work, at rates which are no higher than the lowest of those for comparable physical disability arising from non-military causes.
- (2) the payment of all public or private pensions or other emoluments or benefits granted or conferred:
- (i) by reason of membership in or services to the *Hitler Youth* party, its formations, affiliated associations or supervised organizations.
 - (ii) to any person who has been removed from an office or position in accordance with paragraph 6 of part 1 or paragraph 10 of this part, and
 - (iii) to any person arrested and detained in accordance with paragraph 8 of part 1 during the term of his arrest, or permanently, in case of his subsequent conviction.
3. You will take such action as may be necessary to insure that all laws and practices relating to taxation or other fields of finance, which discriminate for or against any persons because of race, nationality, creed or political opinion, will be amended, suspended, or abrogated to the extent necessary to eliminate such discrimination.
4. You will hold the German authorities responsible for taking such measures in the field of taxation and other fields of public finance, including restoration of the tax system and maintenance of tax revenues, as will further the accomplishment of the objectives stated in paragraphs 4 and 5.
4. You will exercise general supervision over German public expenditures in order to ensure that they conform to the interests and purposes of the occupying forces.

6.

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5. You will impound or block all gold, silver, currencies, securities, accounts in financial institutions, credits, valuable papers, and all other assets falling within the following categories:
- (1) Property owned or controlled directly or indirectly, in whole or in part, by any of the following:
 - (a) The German Reich, or any of the Lander, States or provinces, any Kreis, Municipality or other similar local subdivision; or any agency or instrumentality of any of them including all utilities, undertakings, public corporations or monopolies under the control of any of the above;
 - (b) Governments, nationals or residents of other nations, including those of territories occupied by them, at war with any of the United Nations at any time since 1 September 1939;
 - (c) The Nazi Party, its formations, affiliated associations and supervised organizations, its officials, leading members and supporters;
 - (d) All organizations, clubs or other associations prohibited or dissolved by military government;
 - (e) Absentee owners, of non-German nationality including United Nations and neutral governments and Germans outside of Germany;
 - (f) Any institution dedicated to public worship, charity, education or the arts and sciences which has been used by the Nazi Party to further its interests or to cloak its activities;
 - (g) Persons subject to arrest under provisions of paragraph 8, and all other persons specified by military government by inclusion in lists or otherwise.

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- (2) Property which has been the subject of transfer under duress or wrongful acts of confiscation, disposition or spoliation, whether pursuant to legislation or by procedure purporting to follow forms of law or otherwise.
- (3) Works of art or cultural material of value or importance, regardless of the ownership thereof.

You will take such action as will insure that any impounded or blocked assets will be dealt with only as permitted under licenses or other instructions which you may issue. In the case particularly of property blocked under (1)(a) above, you will proceed to adopt licensing measures which while maintaining such property under surveillance would permit its use in consonance with this Directive.

6. All foreign exchange transactions, including those arising out of exports and imports, shall be controlled with the aim of preventing Germany from developing a war potential and of achieving the other objectives set forth in this Directive. To effectuate these purposes the Control Council should

- (a) Seek out and reduce to the possession and control of a special agency all German (public and private) foreign exchange and external assets of every kind and description located within or outside Germany.
- (b) Prohibit, except as authorized by regulation or license, all dealings in gold, silver, foreign exchange, and all foreign exchange transactions of any kind. Make available any foreign exchange proceeds of exports for payment of imports directly necessary to the accomplishment of the objectives stated in paragraphs 4 and 5 of this Directive, and authorize no other outlay of foreign exchange assets except for purposes approved by the Control Council or ^{other} appropriate authority.

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- (c) Establish effective controls with respect to all foreign exchange transactions, including:
- (1) Transactions as to property between persons inside Germany and persons outside Germany;
 - (2) Transactions involving obligations owed by or to become due from any person in Germany to any person outside Germany; and
 - (3) Transactions involving the importation into or exportation from Germany of any foreign exchange asset or other form of property.

Pending agreement in the Control Council you will take in your zone the action indicated in subparagraphs (a), (b) and (c) above. Accordingly, you will in your zone reduce to the possession and control of a special agency established by you, within your Command, all German foreign exchange and external assets as provided in subparagraph (a). You will endeavor to have similar agencies for the same purpose established in the other zones of occupation and to have them merged as soon as practicable in one agency for the entire occupied territory. In addition you will provide full reports to your ~~own~~ government with respect to all German foreign exchange and external assets.

7. No extension of credit to Germany or Germans by any foreign person or Government shall be permitted except that the Control Council may in special emergencies grant permission for such extensions of credit.

8. It is not anticipated that, you will make credits available to the Reichsbank or any other bank, or to any public or private institution. If, in your opinion, such action becomes essential, you may take such emergency actions as you may deem proper, but in any event, you will report the facts to the Control Council.

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9. In addition to the provisions of paragraph 6e of this Directive, you will eliminate other undesirable personnel and influences from the Reich Ministry of Finance and from all public and private financial institutions, agencies and organizations.

10. You will maintain such accounts and records as may be necessary to reflect the financial operations of the military government in your zone and you will provide the Control Council with such information as it may require, including information in connection with the use of currency by your forces, any governmental settlements, occupation costs, and other expenditures arising out of operations or activities involving participation of your forces.

ADD NEW ⁷⁻² PARAGRAPH TO PARAGRAPH 1

This Directive sets forth policies relating to Germany in the initial post-defeat period. As such it is not intended to be an ultimate statement of policies of this Government concerning the treatment of Germany in the post-war world. It is therefore essential that during the interim period covered by this Directive you assure that surveys are constantly maintained of conditions within your zone and that the results of such surveys are made available through the Joint Chiefs of Staff. The facts thus disclosed will serve as a basis for determining changes in the measures of control set forth herein as well as for the progressive formulation and development of policies to promote the basic objectives of the United States. Supplemental directives will be issued to you by the Joint Chiefs of Staff as may be required.

before last sentence
Insert at end of Par. 16

Such industrial disarmament is an essential security objective of the United States, and it is also just that Germany be required to make reparation for the losses which she has caused to Allied Nations. The measures required to fulfill these objectives will impose a heavy burden on the German people, but these measures rest upon considerations of security and justice, not oppression.

Moreover, measures of industrial disarmament and reparation will be held within such limits as to allow the German people eventually to reconstruct a tolerable basis of livelihood.

Add at end of Par. 30

You will study and make recommendations to your Governments through the Joint Chiefs of Staff on the most effective and economical methods of maintaining international controls to prevent future German rearmament which will be continued after military occupation of Germany has ended.

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April 26
1945

I N D E X

1. Letter from Mr. Pauley of May 17 and memorandum from Jackson transmitted therewith.
2. Reparations document as cleared with the President. (See item 4 on pages 13 and 14)
3. Yalta Protocol (See item 2 on pages 1 and 2)
4. Directive on Germany (See item 3 on pages 51 and 52)
5. New Proposed Directive on the use of German prisoners of war as submitted by the State Department.

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COPY

THE WHITE HOUSE
WASHINGTON

May 17, 1945

The Honorable
Secretary of the Treasury

My dear Mr. Secretary:

I refer you to the report entitled
INFORMAL POLICY COMMITTEE ON GERMANY, INSTRUCTIONS
FOR THE UNITED STATES REPRESENTATIVES ON THE
REPARATIONS COMMISSION, Copy No. 30, and to Paragraph
4-D.

In accordance with our last meeting it
was agreed that I would discuss paragraph 4 in its
entirety with Justice Robert Jackson. I have
done this; likewise have discussed the matter with
Judge Sam Rosenman and I am attaching you copy of
a communication which I have received from Justice
Jackson and concurred in by Judge Rosenman.

I have suggested to William L. Clayton
that he might want to call a meeting to rediscuss
this in the light of Justice Jackson's memo before
my departure on Sunday.

Sincerely yours,
s/ Edwin W. Pauly
United States Representative
Allied Reparations Commission

Enclosure

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MEMORANDUM FOR EDWIN W. PAULEY, UNITED STATES
REPRESENTATIVE ON THE REPARATIONS COMMISSION.

Re: DRAFT OF INSTRUCTIONS.

A part of this draft affects the trial of war criminals.
Section 4 from this point of view is open to serious objections.

Section 4 g provides that "compulsory labor service should be
required only from war criminals and individuals definitely determined
by appropriate process to be members of the Gestapo, the S. S., the
Sicherheitsdienst der S. S., leaders of the S. A., or leading collabo-
rators, supporters of and participants in the Nazi party or administration."

This subjects persons to compulsory labor service for mere mem-
bership in these organizations. That would make it farcical to conduct
trials concerning the conspiratorial character of those organizations
or the guilt of their membership. The only purpose of a trial is to
determine whether these organizations are of such a structure and char-
acter that membership should warrant punishment. All of this is pre-
judged by the instrument in question. 4 g should not go farther than
to read substantially as follows:

"Compulsory labor should be required only from
convicted war criminals and that for the period and in
accordance with the conditions of their sentence."

Beyond this, it is not my business what may be done about repa-
ration through use of labor. But as I said to you, I think the plan
to impress great numbers of laborers into foreign service, which means
herding them into concentration camps, will largely destroy the moral
position of the United States in this war. As Harrison pointed out to
us, the treatment of this labor is bound to be "appalling" by American
standards. In a year or two, there will come drifting out of Russia
tales of oppressive treatment of this labor, which I fear will be all
too well-founded, and which in my judgment will arouse sharp condemna-
tion by American sentiment, with serious results to those who have
favored it. I feel sure that President Roosevelt's commitments at
Yalta did not contemplate the sort of thing that is now being considered.
What the world needs is not to turn one crowd out of concentration camps
and put another crowd in, but to end the concentration camp idea.

Respectfully submitted,
/s/ Robert H. Jackson

I concur - /s/ Samuel I. Rosenman

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COPY NO. 63

4 May 1945

Pages 10 to 18, Incl.

INFORMAL POLICY COMMITTEE ON GERMANY

INSTRUCTIONS FOR UNITED STATES REPRESENTATIVE
ON THE REPARATION COMMISSION

Reference: a. IPCOG 2

Note by the Secretaries

The enclosure, a revision of reference a as approved at the IPCOG meeting of 4 May 1945, is circulated for information and guidance.

CHARLES W. MCCARTHY
ALVIN F. RICHARDSON
RAYMOND E. COX
Secretariat

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ENCLOSURE

1. It was agreed at the Yalta Conference that Germany must pay in kind for the losses caused by her to the Allied Nations in the course of the war. The primary purpose of the Reparation Commission should be the formulation of a general program for the exaction of substantial reparation and the establishment of the policies under which this program is to be implemented.

2. It is and has been fundamental United States policy that Germany's war potential be destroyed, and its resurgence as far as possible be prevented, by removal or destruction of German plants, equipment and other property.

While cooperating with the other powers in implementing the basic purposes of the Yalta Agreement, the U.S. representative will bear in mind that whatever plan is formulated by the Reparation Commission (hereinafter referred to as the Reparation Plan) should be in conformity with the economic and security objectives of this country with respect to Germany. The position of the United States on the various issues involved in this respect is summarized in the following paragraphs.

3. In determining the size and character of reparation in accordance with points a and b of paragraph 2 of the Reparation Protocol and the allocation thereof among the various claimant nations the following principles are advocated by this Government:

a. The Reparation Plan should assist in the elimination of industrial capacity in Germany considered to be dangerous to the security of the United Nations.

b. The Reparation Plan should aid in strengthening and developing on a sound basis the industries and trade of the

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devastated non-enemy countries of Europe and of other United Nations, and in raising the living standards of these countries.

c. The reparation burden should be distributed in so far as practicable so as to impose equality of sacrifice upon, and result in an equal general standard of living for the German populations of each of the zones under the control of the respective occupying nations.

d. This Government opposes any reparation plan based upon the assumption that the United States or any other country will finance directly or indirectly any reconstruction in Germany or reparation by Germany.

e. The Reparation Plan should not maintain or foster dependence of other countries upon the German economy.

f. The Reparation Plan should not be of such a nature as to promote or require the building up of German economic capacity.

g. To the maximum extent possible, reparations should be taken from the national wealth of Germany existing at the time of collapse, with primary emphasis upon the removal of industrial machinery, equipment and plants, particularly the shipbuilding, metallurgical, machine tool producing, electrical machinery, and chemical industries (including all industries producing oil and oil products, synthetic nitrogen and synthetic rubber), ships, rolling stock, patents, copyrights, and German foreign exchange assets including investments abroad. Capacity for the production of component parts that enter into the production of the industries noted above should also be eligible for removal. Reparation in kind should not include arms, ammunition, and implements of war. (This Government favors the inclusion of

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German ocean-going merchant tonnage in the shipping pool until the end of the war against Japan and its division on some fair basis thereafter, and negotiations with other governments are in progress on this subject.)

h. To the extent that for political reasons it may become necessary in the negotiations to agree that reparations be collected in the form of deliveries of goods from current production over a period of years, such goods should be of such a nature and in such amounts as not to require the maintenance of the German war potential or the continued dependence of other countries on Germany after reparations cease. Accordingly, recurring reparations, over a period of years, should be:

- (1) As small as possible in relation to the reparations to be paid in the form of industrial plants and equipment; and
- (2) Primarily in the form of raw materials and natural resources, and to the smallest extent possible in the form of manufactured products.

i. The removal of plants and equipment shall take place regardless of the fact that they are owned in whole or in part, directly or indirectly, by United Nations nationals. Where plants or equipment which are owned in whole or in part by a United Nation national are to be so removed arrangements shall be made, if practicable and desired by the government of such national, for the owner to retain his interest in such plant and equipment after removal. If not practicable or so desired, Germany shall furnish to the government of such national adequate reparation to cover the interest of such national.

j. It will be inevitable that the German standard of living will be adversely affected by the carrying out of the

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Reparation Plan. However, the reparation exactions should be held within such limits as to leave the German people with sufficient means to provide a minimum subsistence standard of living without sustained outside relief; but under no condition should 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.

k. The Reparation Plan should not put the United States in a position where it will have to assume responsibility for sustained relief to the German people.

4. It was agreed at Yalta that reparation in kind is to be exacted from Germany, partly through the "use of German labor." In negotiations on labor reparation with the other powers in the Reparation Commission, the United States representatives will be guided by the following principles:

a. The United States will not accept reparation in the form of labor services.

b. Both compulsory and voluntary labor services furnished as reparation should be used outside of Germany only for reconstruction and repair of war damage and not for current production operations except for fuel and food.

c. This Government is strongly of the view that persons other than those specified in d below as deserving of punishment should not be called upon to perform compulsory labor service outside Germany.

d. Compulsory labor service should be required only from war criminals and individuals definitely determined by appropriate process to be members of the Gestapo, the S.S., the Sicherheitsdienst der S.S., leaders of the S.A., or leading collaborators, supporters of and participants in

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the Nazi party or administration.

e. Agreement should be sought along the following lines with regard to compulsory labor services:

(1) Except for persons tried for specific crimes, and convicted and sentenced to lifetime punishment, the period of compulsory labor service should be limited to a definite span of years.

(2) The Standard of living and conditions of employment should conform to humane standards.

(3) The Reparation Commission or Agency should periodically survey the living and working conditions of compulsory workers and the uses made of their services.

f. Apart from persons deserving of punishment as defined above, German labor for reparations should be recruited only on a voluntary basis.

g. The net value of the services of both types of labor shall be included as reparations.

5. The first charge on all approved exports for reparation or otherwise (other than removals of existing plant and equipment) shall be a sum necessary to pay for approved imports. Accordingly, to the extent necessary to pay for such minimum German imports as may be determined to be essential, recipient countries should be required to pay for German exports, except removals of existing plant and equipment. Imports for which payment will be sought shall include supplies imported by the occupying forces for displaced persons and German civilians.

6. Without the approval of an appropriate Allied body there shall be no re-export to third countries of goods received on reparation account.

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7. In order to prevent the treatment as war booty or as reimbursement for occupation costs of exports from Germany which should properly be considered as reparations deliveries, agreement should be sought on the scope of war booty and reimbursement for occupation costs. Agreement should also be sought on the scope of restitution in relation to reparation.

8. The governments participating in the Reparation Commission will retain control over the disposition of German property located within their respective borders. These nations will seek agreement with other countries in which German assets are located designed to eliminate continued German control of such assets and prevent their eventual return to Germans.

9. The United States will expect to assert a claim for reparations before the Reparation Commission in accordance with the principles of the Yalta Protocol in order to preserve its rights to its proper share of payment for losses caused to it by Germany in the course of the war. Pending the furnishing of a more exact claim at a later date the United States representative shall reserve the right to claim delivery of reparations in a total amount to be determined. The United States will desire to receive as much as feasible of its share of reparations in the form of foreign exchange assets including German investments abroad.

10. As an interim program, pending the formulation of more definitive arrangements, this Government would favor formulation of an immediate program by the Reparation Commission along the following lines:

a. During the initial period following the collapse of Germany each of the four occupying powers--Great Britain, Russia, France and the United States--may remove from its

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zone of occupation in Germany plants, equipment and materials (including current output) of such a nature and not in excess of such amounts as may be determined by the Reparation Commission. It shall be our policy to press for inclusion in such an initial removal schedule the categories of plant, equipment and materials (excluding ocean-going merchant tonnage) described in paragraphs 30, 31 and 32 of the "Directive to the Commander in Chief of the United States Forces of Occupation Regarding the Military Government of Germany" and in paragraph 3 g above.

b. The decision as to whether or not the removal of particular plants, equipment or materials out of a zone in Germany is consistent with the purposes of occupation would be made by the commander of such zone, subject to the following conditions:

(1) There would be constant consultation between zone commanders.

(2) In making a decision as to removal the zone commander would be responsible for carrying out any relevant agreed policies which may be formulated from time to time by the Control Council.

(3) The Control Council would have an opportunity to consider any particular removal and could veto it.

(4) Regular reports should be made to the Control Council of transfers for reparation account and the Control Council should keep appropriate Allied agencies currently informed.

c. During this initial period any one of the four occupying powers could allow, if it so desired, any other United Nation entitled to reparations in the form of removals from Germany to take out of its zone plants, equipment and

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materials of such a nature and not in excess of such amounts as may be determined by the Reparation Commission. Such removals would be subject to the policy and conditions specified in sub-paragraphs a and b above.

d. Records should be kept of all deliveries made on reparations account under such interim arrangements and such deliveries should be made without prejudice to the final allocation of reparation shares. The Reparation Commission should determine the principles for valuation of such deliveries.

11. The Reparation Plan should include provision for the early establishment of a reparation agency including representatives of such governments as have suffered devastation or substantial damage. This agency, after detailed study of Germany's capacity to pay and examination of claims to reparation by the various claimant nations, shall develop a long term plan for the delivery of reparations. This plan shall set forth a description of the reparations to be delivered and their physical allocation to the various claimant nations. It shall contain a time schedule indicating the rate at which deliveries are to be made to the several governments over a ^{stated} period of years. The reparation agency should be given continuing responsibility for drawing up at regular intervals detailed schedules of the amounts and kinds of reparations items to be delivered and should have authority to determine the allocation of specific items among claimant governments.

In lieu of the establishment of the reparations agency referred to above the Reparation Plan may provide that the Reparation Commission, appropriately expanded by the addition of representatives of other claimant governments, may be continued in existence and utilized for the same purpose.

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The occupation authorities should be responsible for the execution of the plan within Germany. In the execution of the plan, the Control Council should have the authority to withhold from transfer as reparations specific items the removal of which in its judgment would reduce the available economic means below the minimum required to meet the other purposes of the occupation. After review by the Control Council and in the absence of agreement, the zone commander if he believes that any specific item should be retained within his zone may with the specific determination of his government that such item is essential for the purposes of the occupation withhold the removal of such item. The zone commander may, of course, withhold the removal of such items pending such determination.

The long term plan referred to above should not be approved by the U.S. representatives on the Reparation Commission or Agency until it has been submitted to and approved by the United States Government.

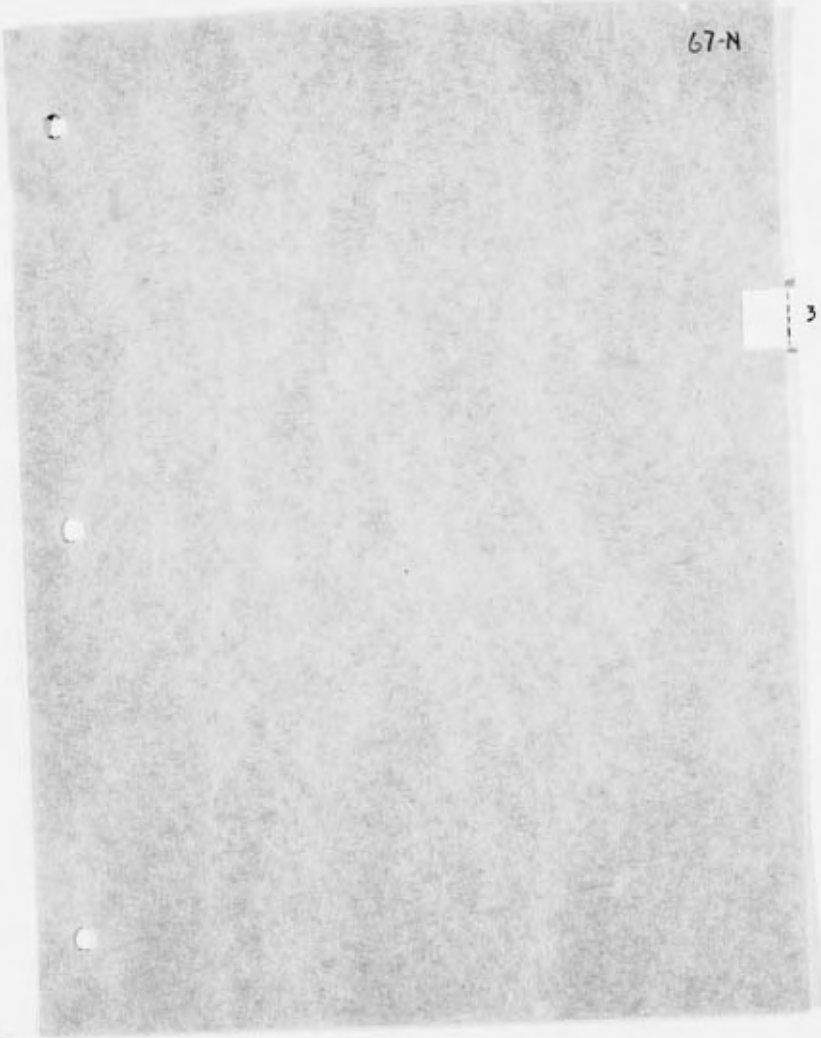
The Control Council should advise the Reparation Agency (or Commission) from time to time as deliveries are made. The Reparation Agency (or Commission) should keep a record of all such deliveries, and should place appropriate values on the respective amounts delivered.

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The Heads of the three governments agreed as follows:

1. Germany must pay in kind for the losses caused by her to the Allied nations in the course of the war. Reparations are to be received in the first instance by those countries which have borne the main burden of the war, have suffered the heaviest losses and have organized victory over the enemy.

2. Reparation in kind is to be exacted from Germany in three following forms:

a) Removals within 2 years from the surrender of Germany or the cessation of organized resistance from the national wealth of Germany located on the territory of Germany herself as well as outside her territory (equipment, machine-tools, ships, rolling stock, German investments abroad, shares of industrial, transport and other enterprises in Germany, etc.), these removals to be carried out chiefly for purpose of destroying the war potential of Germany.

b) Annual deliveries of goods from current production for a period to be fixed.

c) Use

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c) Use of German labor.

3. For the working out on the above principles of a detailed plan for exaction of reparations from Germany an Allied Reparation Commission will be set up in Moscow. It will consist of three representatives-- one from the Union of Soviet Socialist Republics, the United Kingdom, and the United States of America.

4. With regard to the fixing of the total sum of the reparations as well as the distribution of it among the countries which suffered from the German aggression the Soviet and American delegations agreed as follows:

"The Moscow Reparation Commission should take in its initial studies as a basis for discussion the suggestion of the Soviet Government that the total sum of the reparation in accordance with the points (a) and (b) of the paragraph 2 should be 20 billion dollars and that 50% of it should go to USSR."

The British delegation was of the opinion that pending consideration of the reparation question by the Moscow Reparation Commission no figures of reparation should be mentioned.

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The above Soviet-American proposal has been passed to the Moscow Reparation Commission as one of the proposals to be considered by the Commission.

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11 May 1945

Pages 42 to 72, Incl.

COPY NO. 32

INFORMAL POLICY COMMITTEE ON GERMANY

DIRECTIVE TO COMMANDER-IN-CHIEF OF U.S. FORCES OF OCCUPATION REGARDING THE MILITARY GOVERNMENT OF GERMANY

- References:
- a. JCS 1067 Series
 - b. SWNCC 2 Series
 - c. IPCOG 1 Series

Note by the Secretaries

The enclosure, a revision of IPCOG 1 as approved by the President on 11 May 1945, is circulated for information and guidance.

CHARLES W. MCCAUGHY
 ALVIN F. RICHARDSON
 RAYMOND E. COX
 Secretariat

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April 26, 1945

DIRECTIVE TO COMMANDER IN CHIEF OF U.S. FORCES OF OCCUPATION REGARDING THE MILITARY GOVERNMENT OF GERMANY

1. 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.

This directive sets forth policies relating to Germany in the initial post-defeat period. As such it is not intended to be an ultimate statement of policies of this Government concerning the treatment of Germany in the post-war world. It is therefore essential that, during the period covered by this directive, you assure that surveys are constantly maintained of economic, industrial, financial, social and political conditions within your zone and that the results of such surveys and such other surveys as may be made in other zones are made available to your Government, through the Joint Chiefs of Staff. These surveys should be developed in such manner as to serve as a basis for determining

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changes in the measures of control set forth herein as well as for the progressive formulation and development of policies to promote the basic objectives of the United States. 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 have 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 influences 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 would be brought home to the German people that the responsibility for the administration of such controls and for any breakdowns in these 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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zations, 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 8.

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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8. Suspected War Criminals and Security Arrests:

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 (Volksgerichtshof), 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, 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., Gehelmsstaatspolizei (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. Educations:

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 (Volksschulen), middle (Mittelschulen) and vocational (Berufsschulen) schools at the earliest possible date after Nazi personnel has been eliminated. Textbooks and curricula which are not free of Nazi and militaristic doctrine shall not be used. 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 6 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 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 insure 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 19, 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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German Standard of Living

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.

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 wage, hour and working conditions and the establishment of machinery for the settlement of industrial disputes. Collective bargaining shall be subject to such wage, hour and other controls, if any, as may be instituted or revived by your direction.

25. Subject to the provisions of paragraph 48 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 and public lands in a manner which will facilitate the accommodation and settlement of Germans and others or increase agricultural output.

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 except that, in your discretion, you may permit the production of synthetic rubber and oil, aluminum and magnesium, to the minimum extent necessary to meet the purposes stated in paragraphs 4 and 5 of the directive pending action by the Joint Chiefs of Staff upon such recommendation for postponement as you may make.

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

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organizations except those considered necessary to the protection of public health;

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

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c. 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 as soon as you have had an opportunity to review and determine production necessary for the purposes stated in paragraphs 4 and 5 of this directive.

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 (excluding goods specified in paragraphs 30 and 32 unless measures to facilitate production are specifically approved by this Government through the Joint Chiefs of Staff) required for the purposes outlined in paragraphs 4 and 5 of this directive.

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

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international distribution and the movement of goods and services essential to the purposes set forth in paragraphs 4 and 5 of this directive.

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 Wirtschaftsgruppen 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 or restraint of inflation.

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tion 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 reparation, demilitarization and industrial disarmament.

Power, Transportation and Communications

39. Both as member of the Control Council and as 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;

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c. exports to countries other than the United Nations are prohibited unless specifically authorized by the Allied governments.

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.

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PART III

FINANCIAL

44. You will make full application in the financial field of the principles stated elsewhere in this directive and you will endeavor to have the Control Council adopt uniform financial policies necessary to carry out the purposes stated in paragraphs 4 and 5 of this directive. You will take no steps designed to maintain, strengthen or operate the German financial structure except in so far as may be necessary for the purposes specified in this directive.

45. The Control Council should regulate and control to the extent required for the purposes set forth in paragraphs 4 and 5 the issue and volume of currency and the extension of credit in Germany and in accordance with the following principles:

a. United States forces and other Allied forces will use Allied Military marks and Reichsmark currency or coins in their possession. Allied Military marks and Reichsmark currency and coin now in circulation in Germany will be legal tender without distinction and will be interchangeable at the rate of 1 Allied Military mark for 1 Reichsmark. Reichskreditkassenscheine and other German military currency will not be legal tender in Germany.

b. The Reichsbank, the Rentenbank or any other bank or agency may be permitted or required to issue bank notes and currency which will be legal tender; without such authorization no German governmental or private bank or agency will be permitted to issue bank notes or currency.

c. The German authorities may be required to make available Reichsmark currency or credits free of cost and in amounts sufficient to meet all the expenses of the forces of

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occupation, including the cost of Allied Military Government and including to the extent that compensation is made therefor, the cost of such private property as may be requisitioned, seized, or otherwise acquired, by Allied authorities for reparations or restitution purposes.

Pending agreement in the Control Council you will follow these policies in your own zone.

You will receive separate instructions relative to the currency which you will use in the event that for any reason adequate supplies of Allied Military marks and Reichmarks are not available, or if the use of such currency is found undesirable.

You will not announce or establish in your zone, until receipt of further instructions, any general rate of exchange between the Reichsmark on the one hand and the U.S. dollar and other currencies on the other. However, a rate of exchange to be used exclusively for pay of troops and military accounting purposes in your zone will be communicated separately to you.

46. Subject to any agreed policies of the Control Council, you are authorized to take the following steps and to put into effect such further financial measures as you may deem necessary to accomplish the purposes of your occupation:

a. To prohibit, or to prescribe regulations regarding, transfer or other dealings in private or public securities or real estate or other property.

b. To close banks, but only for a period long enough for you to introduce satisfactory control, to remove Nazi and other undesirable personnel, and to issue instructions for the determination of accounts to be blocked under sub-paragraph 48 a below.

c. To close stock exchanges, insurance companies, and

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similar financial institutions for such periods as you deem appropriate.

d. To establish a general or limited moratorium or moratoria only to the extent clearly necessary to carry out the objectives stated in paragraphs 4 and 5 of this directive.

47. Resumption of partial or complete service on the internal public debt at the earliest feasible date is deemed desirable. The Control Council should decide the time and manner of such resumption.

48. Subject to any agreed policies of the Control Council,

a. You will prohibit:

(1) the payment of all military pensions, or other emoluments or benefits, except compensation for physical disability limiting the recipient's ability to work, at rates which are no higher than the lowest of those for comparable physical disability arising from non-military causes.

(2) the payment of all public or private pensions or other emoluments or benefits granted or conferred:

(a) by reason of membership in or services to the former Nazi party, its formations, affiliated associations or supervised organizations,

(b) to any person who has been removed from an office or position in accordance with paragraph 6, and

(c) to any person arrested and detained in accordance with paragraph 8 during the term of his arrest, or permanently, in case of his subsequent conviction.

b. You will take such action as may be necessary to insure that all laws and practices relating to taxation or other fields of finance, which discriminate for or against

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any persons because of race, nationality, creed or political opinion, will be amended, suspended, or abrogated to the extent necessary to eliminate such discrimination.

c. You will hold the German authorities responsible for taking such measures in the field of taxation and other fields of public finance, including restoration of the tax system and maintenance of tax revenues, as will further the accomplishment of the objectives stated in paragraphs 4 and 5.

d. You will exercise general supervision over German public expenditures in order to ensure that they are consistent with the objectives stated in paragraphs 4 and 5.

e. You will impound or block all gold, silver, currencies, securities, accounts in financial institutions, credits, valuable papers, and all other assets falling within the following categories:

(1) Property owned or controlled directly or indirectly, in whole or in part, by any of the following:

(a) The German Reich, or any of the Lander, Gau or provinces, any Kreis, Municipality or other similar local subdivision; or any agency or instrumentality of any of them including all utilities, undertakings, public corporations or monopolies under the control of any of the above;

(b) Governments, nationals or residents of other nations, including those of territories occupied by them, at war with any of the United Nations at any time since 1 September 1939;

(c) The Nazi Party, its formations, affiliated associations and supervised organizations, its officials, leading members and supporters;

(d) All organizations, clubs or other associations prohibited or dissolved by military government;

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(e) Absentee owners, of non-German nationality including United Nations and neutral governments and Germans outside of Germany;

(f) Any institution dedicated to public worship, charity, education or the arts and sciences which has been used by the Nazi Party to further its interests or to cloak its activities;

(g) Persons subject to arrest under provisions of paragraph 8, and all other persons specified by military government by inclusion in lists or otherwise.

(2) Property which has been the subject of transfer under duress or wrongful acts of confiscation, disposition or spoliation, whether pursuant to legislation or by procedure purporting to follow forms of law or otherwise.

(3) Works of art or cultural material of value or importance, regardless of the ownership thereof.

You will take such action as will insure that any impounded or blocked assets will be dealt with only as permitted under licenses or other instructions which you may issue. In the case particularly of property blocked under (1)(a) above, you will proceed to adopt licensing measures which while maintaining such property under surveillance would permit its use in consonance with this directive. In the case of property blocked under (2) above, you will institute measures for prompt restitution, in conformity with the objectives stated in paragraphs 4 and 5 and subject to appropriate safeguards to prevent the cloaking of Nazi and militaristic influence.

49. All foreign exchange transactions, including those arising out of exports and imports, shall be controlled with the aim of preventing Germany from developing a war potential and of

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achieving the other objectives set forth in this directive. To effectuate these purposes the Control Council should

a. Seek out and reduce to the possession and control of a special agency all German (Public and private) foreign exchange and external assets of every kind and description located within or outside Germany.

b. Prohibit, except as authorized by regulation or license, all dealings in gold, silver, foreign exchange, and all foreign exchange transactions of any kind. Make available any foreign exchange proceeds of exports for payment of imports directly necessary to the accomplishment of the objectives stated in paragraphs 4 and 5 of this directive, and authorize no other outlay of foreign exchange assets except for purposes approved by the Control Council or other appropriate authority.

c. Establish effective controls with respect to all foreign exchange transactions, including:

- (1) Transactions as to property between persons inside Germany and persons outside Germany;
- (2) Transactions involving obligations owned by or to become due from any person in Germany to any person outside Germany; and
- (3) Transactions involving the importation into or exportation from Germany of any foreign exchange asset or other form of property.

Pending agreement in the Control Council, you will take in your zone the action indicated in subparagraphs a, b, and c above. Accordingly, you will in your zone reduce to the possession and control of a special agency established by you, within your Command, all German foreign exchange and external assets as provided in subparagraph a. You will endeavor to have similar agencies

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for the same purpose established in the other zones of occupation and to have them merged as soon as practicable in one agency for the entire occupied territory. In addition you will provide full reports to your government with respect to all German foreign exchange and external assets.

50. No extension of credit to Germany or Germans by any foreign person or Government shall be permitted except that the Control Council may in special emergencies grant permission for such extension of credit.

51. It is not anticipated that you will make credits available to the Reichsbank or any other bank or to any public or private institution. If, in your opinion, such action becomes essential, you may take such emergency actions as you may deem proper, but in any event, you will report the facts to the Control Council.

52. You will maintain such accounts and records as may be necessary to reflect the financial operations of the military government in your zone and you will provide the Control Council with such information as it may require, including information in connection with the use of currency by your forces, any governmental settlements, occupation costs, and other expenditures arising out of operations or activities involving participation of your forces.

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COPY NO. 62

IPCOG 4

17 May 1946

Pages 1 to 8, Incl.

INFORMAL POLICY COMMITTEE ON GERMANY

PLANS FOR DISPOSAL OF GERMAN PRISONERS OF WAR
AND DISARMED FORCES

Reference: A. IPCOG 2/1

Note by the Secretaries

The enclosure, a proposed report to the Combined Chiefs of Staff by the Combined Administrative Committee, presented by the State Department member of IPCOG, is circulated for consideration of the recommendations contained therein by the Informal Policy Committee on Germany.

CHARLES W. McCARTHY

ALVIN F. RICHARDSON

RAYMOND E. COX

Secretariat

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ENCLOSURE

PLANS FOR DISPOSAL OF GERMAN PRISONERS OF WAR
AND DISARMED FORCES

Report by the
Combined Administrative Committee

THE PROBLEM

1. To consider SCAP 372 (Appendix "D"), a message from Supreme Headquarters, Allied Expeditionary Forces, and
 - A. To prepare an over-all plan for obtaining the information requested by General Eisenhower; and
 - B. To recommend action to give General Eisenhower immediate guidance on the most important points on which he requires advice.

FACTS BEARING ON THE PROBLEM

2. See appendix "C".

DISCUSSION

3. Demands which may be made by certain European United Nations which are not now within the SHAEF area of responsibility may raise political, rather than purely military, questions. Therefore, "Rehabilitation work outside Germany" should be interpreted as referring only to those countries of the United Nations which lie within the SHAEF area of responsibility, plus the United Kingdom.

4. As the question of reparations in kind will be decided ultimately on the Governmental level, either by the Governments concerned or by the Allied Reparation Commission in Moscow, it is not possible to go beyond the formulation of an interim decision at this time.

CONCLUSIONS

5. SHAEF should procure, through channels immediately available to it, the necessary data concerning the requirements of each of the United Nations within the SHAEF area of responsibility, plus the United Kingdom, for prisoner of war labor for

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Enclosure

Regraded Unclassified

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rehabilitation work outside Germany.

6. a. For the present, transfers should be limited to German prisoners of war and should be made only to those United Nations which are willing to accept and retain German prisoners in a prisoner of war status under the Geneva Convention.

b. These transfers should be on a temporary basis, pending possible future readjustments by the Governments concerned or by the Allied Reparation Commission.

c. War criminals, other categories of wanted personnel, or those persons retained on security grounds will not be transferred.

7. a. If United Nations total requests for prisoner of war labor fall short of the supply, SHAEF should be authorized to transfer such personnel to the United Nation concerned at such time as the user nation can accept delivery. However, should total requirements exceed the number of prisoners of war in custody, the pertinent data should be referred to the Combined Chiefs of Staff for decision.

b. United States and British needs, including those for the United Kingdom, should be given primary consideration when calculating the number of German prisoners available for transfer from their respective sources.

8. In the final analysis, the solution of this question rests with the governments concerned. Therefore, the interim measures taken should be reported to the Department of State and the British Foreign Office, respectively, for reference of the problem and the action taken to the Allied Reparation Commission in Moscow.

RECOMMENDATIONS

9. a. That the message in Appendix "A" be dispatched to SHAEF.

b. That the memorandum contained in Appendix "B" be dispatched through channels to the British Embassy, Washington, and the Department of State.

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Enclosure

TOP SECRETAPPENDIX "A"

MESSAGE TO SUPREME COMMANDER ALLIED EXPEDITIONARY FORCE:

This is in reply to SCAF 372. It is considered that in view of the agreement to establish an Allied Reparation Commission, which will consider reparation in kind as raised by your message, the final solution in connection with your inquiry rests with the governments concerned. However, as an interim measure, the following has been decided:

1. "Rehabilitation work outside of Germany" is interpreted to mean reconstruction within those European areas that lie within your present area of responsibility plus the United Kingdom.

2. United States and British needs including those for the United Kingdom will be given primary consideration when calculating number of German prisoners available for transfer from their respective sources.

3. All German personnel transferred to any of the United Nations concerned will be transferred under the condition that they remain in the status of prisoners of war under the Geneva Convention.

4. You should procure from each of the transferee nations an agreement to regard any allocations of such manpower as temporary, and without prejudice to future readjustment to meet subsequent needs and demands.

5. No prisoners of war or members of German disarmed forces who fall within the category of war criminals or other categories of wanted German personnel or whose retention is desired on security grounds, will be released to other United Nations or if inadvertently released they shall be returned upon demand.

It is desired that you procure from the interested United Nations, through those channels available to you, the information requested in your A, D, and E, and subject to the conditions outlined above, allocate German prisoners accordingly. Should the estimated demands for labor of this kind exceed the total German personnel available, you will report the pertinent data to the Combined Chiefs of Staff for decision.

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Appendix "A"

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TOP SECRETAPPENDIX "B"DRAFT

MEMORANDUM FOR THE SECRETARY OF STATE AND THE BRITISH AMBASSADOR:

1. There is inclosed for your information SCAF 372 and the interim action taken thereon by the Combined Chiefs of Staff regarding the requirements of the United Nations for German personnel to carry out rehabilitation work outside Germany.

2. The foregoing action was taken in view of the pressing need for early disposal of the vast numbers of prisoners of war and disarmed German forces now in Allied hands. However, it is considered that the final solution of this problem rests with the Governments concerned or the Reparation Commission. Accordingly, this reference is made for your information and for possible communication to the Allied Reparation Commission in Moscow.

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Appendix "B"

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TOP SECRETAPPENDIX "C"FACTS BEARING ON THE PROBLEM

1. a. In SCAF 372 General Eisenhower requests information regarding the requirements of the United Nations for German personnel to carry out rehabilitation work outside Germany.

b. Specifically, information is requested upon the following points:

(1) The numbers of Germans required for labor by each of the United Nations for rehabilitation work outside Germany.

(2) Their status during such employment, i.e. whether required as prisoners of war or civilian labor.

(3) The authority responsible for specifying the source or sources from which these demands are to be filled.

(4) The dates on which each user nation can accept deliveries of personnel increments and the size of such increments.

(5) Whether any of the United Nations holding prisoners of war are averse to the transfer of prisoners of war to another United Nation for use as prisoner of war labor.

g. Pending reply, SHAEF intends to release from prisoner of war camps those German personnel who may be discharged as part of the priority categories of labor mentioned in Eclipse Memorandum No. 17, together with such others as are urgently required for essential work.

2. g. Eclipse Memorandum No. 17, subject "Disbandment of German Armed Forces" provides that discharges of German personnel will be subject to the following priority calls upon such manpower:

One. Demands for such personnel to carry out essential labor for the Allied Forces in occupation.

Two. Demands from the Governments of Allied and liberated territories for labor for purposes of reconstruction.

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Appendix "C"

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b. Subject to the foregoing the following priority categories of labor are established:

- (1) Personnel for work in certain public utilities service.
- (2) Personnel for work in transportation services.
- (3) Personnel for work in certain classes of building trades.
- (4) Agricultural workers.
- (5) Such other specialist personnel as may be required by Zone Commanders.

3. Previous C.C.S. directives have authorized SHAEF to utilize certain German prisoners of war in agriculture, coal mining, and transportation (C.C.S. 844 Series).

a. The Combined Chiefs of Staff (C.C.S. 823 series) have also authorized the release from prisoner of war status and treatment as disarmed German Forces of those German prisoners in Allied custody who were not evacuated from Germany at the time of the cessation of hostilities.

b. The foregoing was subject to the proviso that the United Kingdom might require additional prisoners for labor outside Germany, that such personnel in the desired numbers might be declared British prisoners of war and therefore were not to be included in the category of disarmed troops.

4. It is not known to what extent German personnel will be desired or needed for rehabilitation work outside Germany by any of the other European United Nations concerned. However, it may be assumed that demands for substantial numbers of such personnel will be made.

5. An Allied Reparation Commission is to be established in Moscow. Its agenda includes, among others, questions of reparations in kind, such as the one under study.

6. Upon their being returned to Europe, German prisoners of war now held in the United States and in the various extra

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European holding countries of the British Commonwealth, will be available for such transfer to the interested European United Nations, if desired.

7. There will be a need for large numbers of German prisoner of war labor in the United Kingdom, and in support of the British and United States occupation forces on the continent, but the precise numbers to be so utilized are not yet firm.

8. SHAEF already has direct channels of communication with the competent authorities of the United Nations within its area of responsibility.

TOP SECRETAPPENDIX "D"

From: Supreme Headquarters, Allied Expeditionary Forces,
Main, Versailles, France.

To: War Department for Combined Chiefs of Staff.

Nr: S 87417 SCAF 372 8 May 1945

In order that plans may be completed for the early disposal of the vast numbers of prisoners of war and disarmed German forces in Allied hands, it is urgently necessary that information should reach this headquarters at an early date regarding the requirements of the United Nations for German personnel to carry out rehabilitation work outside Germany, as it is presumed that such demands will receive priority over discharge and/or repatriation of the German Wehrmacht.

Information upon the following specific points is therefore urgently requested:

- A. The numbers of Germans required for labor by each of the United Nations for rehabilitation work outside Germany.
- B. Their status during such employment, i.e., whether required as prisoners of war or civilian labor.
- C. The authority responsible for specifying the source or sources from which these demands are to be filled.
- D. The dates on which each user nation can accept deliveries of personnel increments and the size of such increments.
- E. Whether any of the United Nations holding prisoners of war are averse to the transfer of prisoners of war to another United Nation for use as prisoner of war labor.

In the meantime, it is intended that after the announcement of VE-Day, prisoners of war whose release from prisoner of war camps has been authorized by your FACB 207* shall be discharged as part of the priority categories of labor mentioned in "Eclipse" Memorandum no. 17, together with such others as are urgently required for essential work.

CM-IN-7643 (8 May 45) DTG 08/1630B da

* Quotation in C.C.S. 844/1; answer to SCAF 308 (Enclosure to C.C.S. 844).

April 26, 1945
10:25 a.m.

PRE PRESS

Present: Mr. O'Connell
Mr. Gamble
Mr. Shaeffer
Mr. Bernstein

MR. SHAEFFER: Here is a mimeographed case history report which expands on that progress report on black markets if you want to mention it to the fellows. (Hands Secretary memo entitled "Suppression of the Black Market in Distilled Spirits," copy attached.)

H.M.JR: There is really a lot of stuff which is accumulating. I don't know whether you men have read Charles Bell's report on his trip and really how badly we are doing--the increase of business. We are really making very few more cases than we had two or three years ago. Have you seen his report?

MR. O'CONNELL: No, I haven't.

H.M.JR: The story is very bad. I mean, the volume is about four times as many cases more in the different tax fields. It is about the number of arrests, and so forth.

MR. O'CONNELL: We have no more people working than we had three or four years ago, and we don't have as good men. We have over five hundred men working on this new project.

H.M.JR: I think I would rather wait until you say to me, "Look, we can talk about this now, these thousand-dollar bills, and what has happened." No one is pressing us yet that we are not doing our job. Incidentally, Ray Tucker wrote a good story on that. Who saw Ray?

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MR. SHAEFFER: Ray was in the office about a week ago and talked with several people. He talked with Mr. Irely, I believe. He was up in my office.

They are also going to ask you what you think of the Morgenthau Plan in view of these atrocities.

H.M.JR: "No comment" is still good. Don't you think so? I have never explained what the Morgenthau plan is.

(Mr. Gamble enters the conference.)

MR. GAMBLE: They stopped running the elevators over there.

H.M.JR: What did you do, run downstairs?

MR. GAMBLE: Well, partly.

Not Released

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Suppression of the Black Market
in Distilled Spirits.

The investigation of the black market in distilled spirits was undertaken on November 15, 1943, at the direction of Secretary Morgenthau with the Treasury Department assuming concurrent jurisdiction with the CFA in suppressing liquor price ceiling violations.

A whiskey shortage developed in 1943, caused by (1) a 35 percent reduction in sales by distillers during the year through a self-imposed industry rationing program (2) hoarding of whiskey stocks by distributors and consumers, and (3) an unusual demand brought about by increased purchasing power. Black market operations were the result of the existing shortage rather than the cause of it. The shortage originally developed early in 1943 in the Southern states and soon extended to the states employing the monopoly system of liquor control and by the latter part of the year it had spread to all parts of the country, with the result that only very limited quantities of whiskey were being offered for sale in package stores.

On receiving this assignment, the Bureau of Internal Revenue immediately took steps to set up investigative procedure with a view to criminal prosecution of black market operators, taking full advantage of the applicable provisions of the Emergency Price Control Act, the Federal Alcohol Administration Act, the Internal Revenue laws, and the Criminal Code. Drastic regulatory provisions were devised and promptly put into effect in order to suppress the traffic. Within 90 days after the program was instituted, the black market in distilled spirits was broken at and above the wholesale level, and thereafter very few large-scale transactions were made. After the distiller's holiday in August 1944, which resulted in an adequate supply of blended spirits, the black market at the retail level practically disappeared.

The large-scale black market transactions in distilled spirits were conducted almost wholly on a cash "side-money" basis. In attacking this problem originally, the strategy of the Bureau was to cut off the black market at its source by tracing the cash "side-money" paid in connection with these transactions to the ultimate recipient, namely, distillers, rectifiers, and wholesale liquor

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dealers. This procedure has been subsequently pursued in the investigation of these cases with a view (1) to the prosecution of the principals for price ceiling violations, and (2) the identification of these funds for income tax purposes.

These investigations reveal that millions of dollars in cash "side-money" was collected over and above ceiling prices, which funds for the most part were not recorded in the books of account of the seller and on which there was no intention to pay income taxes. The fact that practically all black market transactions in liquor were of the unrecorded cash "side-money" character, as distinguished from mere overcharges, leads to the conclusion that the primary objective was not merely to derive four or five times the normal profits on such transactions, but to evade income taxes on such profits in toto.

Civil suits in the nature of treble damage actions aggregating many millions of dollars have been instituted by the GFA as a result of the evidence secured by the Bureau in these cases.

The following statistics as of March 1, 1945, portray in a general way the accomplishments of the Bureau in suppressing the black market in distilled spirits:

Cases Submitted to U.S. Atty's.	Persons Recommended for Indictment	Indictments Returned (Cases)	Persons (or Corporations) Indicted
735	1,924	308	724
Persons (or Corporations) Convicted	Taxpaid Liquor Seized (Wine Gallons)	Value of Liquor Seized	Suspension Proceedings Instituted
404	57,381	4,721,883	132
	Permits Suspended or Revoked	Permits Surrendered	
	42	65	

The following cases have been selected for discussion for the purpose of portraying the scope of the major black market operations, the manner in which relatively large sums of money (currency) were transferred without record from one person to another, and the income tax fraud potentialities implicit in these black market transactions:

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CASE I

One of the major black market conspiracy cases under investigation by the Bureau involves criminal operations of a nation-wide syndicate which appears to have been mainly directed by the principal owner and directing head of a whiskey brokerage company, which we will identify as company "X", and a similar official in another brokerage company, "Y". The head of company "X" may be designated as defendant "A", and the head of company "Y" as defendant "B".

While the investigation of this case was originally predicated on black market OPA price ceiling violations, it has since developed into a major income tax fraud conspiracy involving the collection by these interests of an estimated \$2,000,000 in coverage and/or cash "side-money" which was not entered on the books of account of the taxpayers.

It appears that the conspiracy to defeat both the OPA and the income tax laws had its inception at the Kentucky Derby in the Spring of 1942, as the result of a discussion between "A" and a whiskey broker of Boston, Massachusetts. These men were aware that all distilleries were then or soon would be solely engaged in producing alcohol for war purposes; that this would cause a whiskey shortage and as a result prices would soar.

Taking advantage of this opportunity, several persons formed a pool or syndicate for the alleged purpose of expanding their individual and joint holdings and trading in whiskey and other beverage spirit securities and distillery properties. This joint operation was instituted in June 1942 and continued until June 1944.

During the life of this conspiracy, the conspirators controlled and directed the purchase and resale of thousands of barrels and hundreds of thousands of cases of whiskey and other distilled spirits into the black market.

While the complete picture of the syndicate's activities has not been unfolded to date, the following will briefly illustrate the methods employed and the magnitude of the operations:

Evidence has been developed through disclosures made by four wholesale liquor dealers located in Illinois, Kentucky, and Ohio that during the period March 16, 1943, to December 3, 1943, they were forced to pay cash "side-money" of \$817,326 to "A" and \$162,121, to "B" or a total of \$979,447, to obtain approximately 36,499 cases of whiskey, brandy, and rum and 1,787 barrels of bulk whiskey.

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The cash "side-money" required on case goods averaged \$16 to \$26 per case on whiskey (\$18.50 on "86 proof" and \$26 on "Bottled in Bond") and \$10 to \$12 on brandy and \$2 to \$5 on rum. Where the transaction involved bulk whiskey, the cash "side-money" was about four or five times the ceiling price for whiskey of the type and age. For example, "A" said to one of the wholesalers seeking to buy whiskey:

"You are a good fellow and I will let you have some bulk whiskey, but nobody is selling it at the ceiling price. The ceiling is \$1.31 a gallon. It will cost you \$6.50 per gallon. The difference of \$5.19 per gallon will have to be paid in cash when the merchandise is invoiced."

In most instances the purchaser was required to deliver the cash "side-money" to "A" or "B" before the merchandise was invoiced. The bulk whiskey and/or case goods would then be invoiced to the purchaser at or below the OPA ceiling. Shipment would then be made and the amount of the invoice collected either by check on open account or by sight draft. Where the transaction involved the sale of bulk whiskey, the spirits were subsequently bottled by the "A-B" controlled distilleries, and the purchaser would be billed for and would pay all taxes and bottling charges. The books and records of both vendor and vendee would thereby reflect what appeared to be a legitimate liquor transaction.

The above transactions are typical of other sales made by these interests to other wholesale liquor dealers, the cash "side-money" aspects of which have not been fully traced. One of these transactions involved 60,000 cases of whiskey and approximately a million dollars in cash "side-money."

All side-money payments were in currency which was usually wrapped in packages with the amounts written on the outside wrappers. On some occasions "A" counted the currency in the presence of the purchaser, but usually he would take the package into another room in his office without counting it.

Once when a salesman of one of the wholesalers was delivering a package of currency to "A" at his office, "A" took seven \$1,000 bills from a small safe and asked the salesman to take them to a certain bank teller and have them changed into currency of smaller denominations. During the investigation, an effort was made to identify the teller who had changed those \$1,000 bills. One of the tellers, when questioned, said he knew that he had seen the witness but could not recall whether he had changed any \$1,000 bills for him. He further remarked that "A" had sent so many men to him to change \$1,000 bills that it was impossible for him to remember all of them.

Employees of this same bank have stated that "A" habitually came in with packages of currency in \$1, \$5, and \$10 denominations in amounts

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of approximately \$10,000 to have the small bills changed into \$1,000 bills. Another teller recalled that on one or more occasions "A" brought twenty \$1,000 bills to his window to be changed into bills of smaller denominations.

Apparently it was "A's" intention, if any of these cash "side-money" transactions were detected, to arrange for the purchaser to pay the income tax on such profits. Thus if he ("A") could not avoid payment in toto, he would take advantage of the differential, inasmuch as these persons or firms were in lower income tax brackets. For example:

In the Spring of 1944, a Kentucky wholesaler who had paid "A" \$350,000 in side-money and two of his employees were indicted for violating the OPA laws. After the indictment, but before conviction of the defendants, "A" contacted the wholesaler and advised him to endeavor to compromise the case, and stated that he would pay all expenses incurred, such as fines, etc. "A" stated:

"That difference does it make whether it costs \$20,000 or more, I'll pay it."

"A" also advised the wholesaler to have one of the salesman who collected the overage money to take all the blame as charged in the indictment; further, that this salesman should immediately file an amended income tax return and pay the tax on the money involved. "A" explained that by doing this the defendants could not be charged with conspiracy, and that they could all get out on fines only, and could compromise the OPA overages. The salesman prepared an amended income tax return on this portion of the side-money, declaring additional taxes of \$2,039.53. "A" examined this return, furnished \$2,100 (four \$500 bills and one \$100 bill) for the salesman's use in paying the tax, and directed that the return be filed immediately and the tax paid, and that the salesman keep the difference for his trouble. This return was filed and the tax paid as directed. During the actual trial of the wholesaler's case, "A" and one of his attorneys gave the wholesaler \$1,500 in cash for use by the defendants in paying counsel for defending them.

In spite of this apparent conspiracy to obstruct justice, the defendant wholesaler and his employees were convicted, and subsequently made full disclosures. As a result of these and similar disclosures by the other Kentucky wholesaler, three indictments were returned against "A" and "B", charging them with OPA violations.

Subsequent to the return of the indictments and the publicity attending them, "A" again contacted the wholesale liquor dealer who had been convicted and asked him whether he had signed any papers or made any statement. The wholesaler replied:

"You saw what was in the papers, didn't you?"

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"A" then said:

"Whatever overage you said that you paid me you will have to pay an income tax on. You collected the overage and you'll have to pay it. "C", (another wholesaler) will have to pay on the \$500,000 and whatever you tell them you paid me, you will have to pay on."

To this the wholesaler replied:

"I don't know how they can make me pay it when I didn't get any of it. All that I collected went to you."

"A" replied:

"Well, you collected it for me and if you tell them that you will have to pay on every bit of it. * * * Regardless of what "C" says or what you boys say, I'm going to deny that I ever received a penny of overage from any of you. No matter what you say, I'll deny it, and that's what you boys should do. You have no proof that you paid me any money, and if "C" is the only one who says that he paid me, what the hell will it amount to? I've got more money than all of you fellows have and I'll fight this thing until I go broke, and I'll never compromise. They can't get anything on me. I've taken all my papers and ledgers to the bank and locked them in a vault."

Another method employed by the syndicate to channel whiskey into the black market was the use of so-called brokers, who contacted wholesale liquor dealers throughout the southeastern part of the United States in the alleged capacity of a finder for the purchaser when actually he was nothing more than a "go-between" for "A" and his associates. This broker quoted the wholesalers a case goods price on a specified number of cases of whiskey, the offer was accepted accordingly, and the case goods were subsequently received by the purchasers. Some shipments were made direct from the distillery where the case goods had been bottled. Other shipments were cleared through the records of other wholesalers or rectifiers, obviously for the purpose of concealing the transactions. Most of the whiskey was bottled at "A-S" controlled distilleries.

Payments for the liquor were made in one of two ways—either by payment of the full amount, including the overage, direct to the brokers or by payment of an amount equal to the taxes and bottling charges to the distillery and a separate payment of the balance due, which included not only the ceiling price for the bulk whiskey, but also the overage under the purchase agreement. It is believed that the go-between turned over to "A" all this "overage" money, except possibly a commission of \$1 or \$2

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a case, and that neither "A" nor the agent had any intention of paying income tax on this money unless the fraud was detected. This theory is supported by the following facts:

This agent was registered at the Plaza Hotel in New York from October 25 to November 2, 1944, and "A" at the Waldorf-astoria from October 26 to 30, 1944, inclusive. During "A's" stay at the Waldorf, he obtained a safety deposit box at the hotel on October 27, 1944, which was opened by him on October 28 and 29. On October 30, this agent walked into a New York bank and deposited \$60,200, with the request that the bank transfer that amount to his Dallas bank. These funds were transferred to his Dallas account on October 30, 1944. The records of the New York bank show that this deposit was in currency and that \$50,000 of it consisted of fifty \$1,000 Federal Reserve Notes. Twenty of these bills were in consecutive serial numbers. Sixteen of them, according to the records of the Federal Reserve Bank, were shipped to the First National Bank, Newport News, Virginia, on December 14, 1943.

It is believed that this \$60,200 in currency is a part of the cash "side-money" previously collected by the conspirators from black market operators in the Norfolk, Virginia, area; that this money represents a rebate of a small portion of the average collected by "A's" agent for the syndicate; and that it was intended to be used for paying income tax on part of the previously undeclared "off the record" income of "A".

On November 14, 1944, a Special Agent of the Intelligence Unit contacted "A's" agent at his office in Dallas, who refused to make any statement or discuss his sales of whiskey during 1943 with the Special Agent until he had consulted his local attorney. He promised to do this and to give the agent a definite answer within forty-eight hours. Instead of doing this, he proceeded to New York where he checked into the Waldorf-astoria Hotel on November 18, 1944, and remained until November 21. During this period, this man, and "A" and "B", along with other members of the syndicate, conferred with counsel and accountants in New York on further strategy to be followed in this case.

On November 24, the syndicate's "salesman" walked into a bank in Dallas with a paper-covered package under his arm and advised one of the officers that he had "some lettuce" to deposit and inquired whether the officer wanted to count "the confetti" in the package. One of the employees of the bank counted the currency and found it to total \$292,410. The currency was in denominations of \$50 and \$100 with the exception of one \$10 bill. This sum was deposited to the man's account, which, together with the \$60,200 deposited on October 30, 1944, made a total of \$352,610.

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On November 28, representatives of the Intelligence and the Alcohol Tax Units were able to locate and question this man, who stated, in part, as follows:

"I have just returned from New York City where I have conferred with my attorneys there. I also spent some time with my accountant, seeking advice which concerns the same matter you are asking me about. I know "A" very well and have done business with him for a long time. I sold a lot of "A's" liquor during 1943, and I collected a lot of money that you might call black market money. I make no bones about it,--I sold the liquor--I got the money--and I damn well kept it. Right in that safe there (pointing to a small office safe of the type ordinarily used to safeguard valuable books), I never gave "A" or any one else a penny of that money. He or his distillery never got a penny above the regular price.

"I first became aware in the latter part of 1942 that liquor was going to be scarce, but did not realize what it was going to lead to until customers began offering practically any amount of money for us to get them liquor.***

"As none could tell me how I stood as regard finder's fees, I did not know what to do with the money, and just cashed the checks and left the money in my safe until the other day, when I was advised that I could show it on my 1944 income tax. So I deposited the money last week. (He here exhibited the deposit slip covering the deposit on November 24, 1944, of the \$292,410.) In all, the money amounted to about \$352,000 - deposited some more the other day about \$60,000. I'm going to pay the tax on it just as soon as the accountant can get around to fixing up the return--probably in the next few days."

When asked if he had seen "A" recently, the salesman said:

"Yes, as a matter of fact, I happened to run into him in New York a week ago Saturday night."

He denied this meeting was by appointment.

On November 30, 1944, this man filed with the Collector of Internal Revenue, Dallas, Texas, amended declarations representing additional tax liability for himself and his wife of \$270,623.49 for the year 1944. The prior declarations and payments of the community property income were shown as only \$9,255. Two checks totaling \$270,623.49, dated November 30, 1944, were submitted to the Collector to cover the unpaid balance. These funds were all collected in 1943 and were not included on his income tax for that year.

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"A" and the syndicate used many other individuals, partnerships, and corporations for the purpose of concealing not only price ceiling violations, but also to cover up both legitimate and illegitimate profits derived from the liquor business in order to evade payment of income tax. For instance, "A" used his sister, brother-in-law, and their families as a means of purchasing and liquidating the assets of rectifiers and wholesalers holding large stocks of bulk whiskey, as well as case goods, all of which were ultimately sold into the black market.

These purchases and liquidations, it appears, were solely for the purpose of securing control of liquor stocks and bottling facilities and to conceal the fact that "A" was actually the owner. "A" used these relatives and other persons as a means of selling bulk spirits to himself, with a rebate of the net profit for himself. In all such dummy transactions "A" directed them to pay income tax on all taxable income of record.

The methods used in creating and controlling the liquor black market are typical of those used by racketeers. In this respect they did not hesitate to bring a legitimate industry into disrepute in order to fill their own pockets. These individuals no doubt have had the benefit of very excellent legal advice, as well as financial backing in these enterprises.

An attorney recently visited the Department of Justice and the Bureau apparently with the view of effecting a settlement of all criminal and civil liabilities incurred by the "A"- "B" interests whom he stated he represented. He said that his clients were tired of fighting the Government and wanted to make a complete disclosure. He concluded his remarks by saying, "All I want to know is—how to go about it, and how much." The attorney was informed that the Bureau would insist upon criminal prosecution in this case.

On January 8, 1945, a Federal Grand Jury returned four indictments charging a total of fifty-eight substantive counts of OPA price ceiling violations by "A"- "B" and others. These indictments were based solely on the overceiling sales to the two wholesalers previously referred to and are intended to supersede those returned on October 16, 1944.

Inasmuch as the statute of limitations had expired on all but a small fraction of the transactions involved before the price ceiling violations were detected, the OPA treble damage action in this case was restricted to a suit for \$420,000.

On January 15, 1945 "A" and his brother filed amended declarations of estimated tax (1944) in amounts of \$477,500 and \$80,000, respectively.

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CASE II

This is perhaps the most intricate black market investigation undertaken by the Bureau in that the principal defendants resorted to greater subterfuge in their efforts to conceal their illegal operations. The conspiracy was conceived by the principal officers of the "R" Company and its subsidiary, and had for its object the black marketing, in part, of the whiskey inventories acquired by purchase. The real purpose of the scheme, however, was to enable these officers to ultimately pocket the cash "side-money" derived from these transactions, thereby evading income taxes on these funds in toto.

In order to ostensibly divorce the "R" Company from the contemplated black market operations, a partnership was formed in April 1943 by the officers of the parent company to consummate the purchase deals after all preliminary arrangements. The creation of the partnership permitted both the black market and the legitimate profits from the whiskey acquired in connection with the deals to be channeled to these officials, thereby depriving the stockholders of "R" Company of their right to participate at least in the legitimate profits.

The black market transactions with wholesale liquor dealers located in practically every section of the country were carried out through the use of some 30-odd intermediaries or brokers, the principal ones of which were connected with the sales organization of a competitor. The chief intermediary and apparent contact man for the principals in this case was one "D", a super salesman and promoter, and widely known as a "play-boy."

In anticipation of the whiskey shortage, "D", president of "R" Company and the other officials canvassed the market for bulk whiskey. Large wholesale liquor dealers were contacted as early as February and March 1943, and their wants determined. It was apparent the wholesalers' needs were so great that they were willing to advance funds for the purchase of large quantities of whiskey. Large sums were collected from prospective purchasers and kept in escrow for months. Some were returned and collected again. Contracts were executed by purchasers who had advanced large deposits. Other wholesalers agreed to acquire their whiskey as a liquidating dividend on stock and advanced money for this purpose. The objective of all was to acquire whiskey in bottled form for the purpose of resale.

After extended negotiations, two concerns, one with an inventory of 110,000 barrels of whiskey, and one with 16,000 barrels, were purchased for, respectively, \$11,500,000 and \$2,000,000.

In preparation for the channeling of large stocks of whiskey in the black market, the "R" Company and its subsidiary reduced allocations to wholesale distributors and monopoly states, and in some instances entirely discontinued sales to regular customers. After receiving and using deposit

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money from contract purchasers, many of the orders were delayed, contracts were reduced, and refunds made. In some instances, wholesalers who were unable to get delivery on their advance payment contracts received immediate shipments of large quantities as soon as cash "side-money" payments were made to an intermediary.

The black market transactions were handled as follows: The "R" Company, or its affiliates, would ship only (1) on written order, (2) to an established wholesaler, (3) at ceiling prices, and (4) with sight draft bill of lading attached. This, to all ostensible purposes, would make the transaction appear to be lawful, and the records of all concerned would so show. However, as a corollary or adjunct to this, cash "side-money" of approximately \$15 a case (in some instances more or less) would have to be paid in advance before such order would be accepted. This "side-money" was always paid to an intermediary and channeled through other intermediaries (sometimes four or five), the principal of whom was "D". Approximately \$1,600,000 in cash "side-money" has been traced from the various intermediaries to "D", who passed on the major portion thereof for distribution among the actual, rather than the ostensible, partners.

While "D" received approximately \$1,600,000 in cash "side-money" during 1943, an examination of his income tax return for that year shows an income of only \$30,000. In an effort to secure an accounting of these funds, and to force "D" to surrender, a jeopardy assessment was secured in September 1944 against him in the amount of \$700,000.

Substantial additional amounts of "side-money" are involved in this case, the ultimate disposition of which has not been traced due to the refusal of some of the intermediaries to make disclosures.

The following incidents are typical of the manner in which the cash "side-money" was handled:

In the Kansas City area, an intermediary and former district sales manager for the "R" Company, was arrested as a collector of overceiling money. In the St. Louis area, another was likewise arrested. Both made disclosures to the effect that they had turned over the cash "side-money" in question to a third intermediary. Subsequently, No. 3 made a statement establishing that he had turned over to "D" the "side-money", less commissions, received, as well as money from other wholesalers and intermediaries. On two occasions, No. 3 was seen with a 22-inch Gladstone bag packed full of currency (allegedly of large denominations).

"D" suffered a spine injury and went to a hospital for an operation. While he was in the hospital, business went on as usual. Currency was brought to him while he was in bed. In order to consummate the transactions, he used the telephone, and shipments went forward. On one occasion, a nurse, upon entering "D's" room, saw the bed covered with currency (\$80,000).

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An intermediary had brought it and was counting it out for "D". The nurse thought there had been a robbery and notified the police. This currency was later placed in a safety deposit box in a local bank.

On another occasion, the owner of a liquor company in South Carolina, forwarded to "D" a series of packages containing \$286,000 in cash "side-money" collected on whiskey purchased from the "R" Company, or its subsidiaries.

So huge were the sums which "D" had been receiving that \$2,000 began to look like small change. Another intermediary set up an office in Baltimore, Maryland. In a few months he collected from other intermediaries over a quarter of a million dollars. After entering a plea of guilty, this man made an affidavit that he had passed on overceiling money (minus commissions) to still another intermediary, who subsequently testified that the money was passed on (minus commissions) to yet another intermediary. One time \$175,000 (in bills of small denominations) was involved. The two intermediaries spent considerable time counting this money and finally, wearying, advised the donor that they could not accept the money unless it was understood that the giver would assume the risk of any shortage upon its final count on delivery to "D". This was agreed upon and the money was carried to New York to "D". The latter hired a bank teller to count it. The teller announced that the fund was \$2,000 short. "D" thought a while, then shrugged his shoulders and said, "Oh, what the Hell."

Every indication points to "D" as the "big man" and "fall guy" for the principals in this case. Shortly after the grand jury investigation was undertaken in May 1943 "D" disappeared after having advised close associates that he had to leave "to protect other people." A United States Commissioner's warrant was issued for his arrest and subsequently an information was filed containing 43 separate counts charging violations of the Emergency Price Control Act. A Wanted Circular was issued and a nation-wide search made, including Mexico and Cuba. "D" was finally arrested on January 15, 1945, at a summer cottage in an isolated area, where he had been living for approximately six months. Investigation discloses that "D" during this period of time never left the immediate neighborhood where he was arrested; that he used an alias; and that he posed as a New York playwright in seclusion. On arrest, he was noncommittal except to remark that "he had served his purpose by hiding out."

Completion of the investigation awaits the reconvening of a grand jury. It is possible that if "D" is brought to trial prior to the grand jury's considering the indictment of other principals involved, his case may be regarded as an income tax fraud case, rather than an CPA case.

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Criminal informations have been filed against all intermediaries and brokers who have refused to make complete disclosures of their cash "side-money" transactions. On the basis of the evidence developed in this case, the OPA has filed a treble damage action aggregating \$5,300,000 against the "R" company, its affiliates, and the individuals involved in this case.

This case vividly portrays the investigative problem presented in major black market cases where intermediaries are used for the purpose of concealing the transmission of cash "side-money" to the principals. In fact, the evidence in the larger cases is almost entirely dependent on the development of a series of smaller cases, some of which may involve operations of considerable magnitude.

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CASE III

Company "Z", a large rectifier, like many other concerns, entered the black market in the early part of 1943. The corporation's tangible net worth is well over one-half million dollars, with current assets of \$752,000. Two of its officials have prior criminal records.

This concern, like many others, conducted its black market operations primarily through intermediaries, billed the merchandise at ceiling prices or below, and shipped sight draft bills of lading attached, the cash "side-money" on such transactions not being recorded in the books of account. Some \$600,000 in cash "side-money" has been traced to either the president or to the general manager and reputed principal owner. The black market dealings were with wholesale liquor dealers in Louisiana, Texas, South Carolina, Georgia, New Mexico, Arkansas, Florida, and Illinois.

One of the principal intermediaries in these transactions was "N", a qualified liquor importer and broker with a large clientele in the South. Early in 1943, "N", in an endeavor to supply his customers with distilled spirits, established an office in New York, operating as a free-lance broker and accepting the listings of other brokers who were acting as "go-betweens" in black market transactions.

After investigations were started in a number of cases in which "N" acted as an intermediary, "N" made a 60-page confession in which he outlined the details concerning all his cash "side-money" transactions. He kept voluminous records and, contrary to the usual rule, paid income tax on his commissions of \$1 a case. Consequently, his testimony was well documented.

It is believed that the conversations had by "N" with the manager of "Z" Company, at the time of his first contact with that concern, well illustrate the utter contempt of these black market operators for the income tax statutes.

It appears that during the first week in April 1943 "N", along with the importer and purchasing agent for a large hotel chain, visited "Z" Company relative to the purchase of Scotch for the hotel chain. After the usual preliminaries, and determining that Scotch was being sold from \$10 to \$12 over the ceiling, the manager of "Z" Company stated that he would be glad to sell Scotch to them, but asked, "Where is the currency?" "N" replied, "we are prepared to give you a deposit by check—but we understand you will bill us the full price of the Scotch."

The "Z" official then replied, "Listen, Mr. "N", I will bill the Scotch at my ceiling which is much lower than what I am selling it for—but the differential must be paid in cash." "N" then stated, "If I pay you the differential in cash, I will declare it in my income tax return and I assume that you will do the same." The executive:

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replied, "If you give me the money in currency, I will accept it, and if anything is said later on, and you declare that you gave it to me, I will say that you are a liar." This particular deal was never consummated for the reason that the customer, stated he represented a legitimate hotel chain which had no way of supplying currency on the side and handling transactions not recorded on the books of account, even though his hotels were urgently in need of Scotch. Subsequently "H" acted as "go-between" in transactions for "L" Company in connection with which more than \$400,000 in cash "side-money" was collected.

An extensive grand jury investigation was subsequently conducted in this case. The two principals subsequently pleaded guilty to an indictment in this case and were sentenced to serve two years and one year and a day in the Federal penitentiary and pay fines of \$25,000 and \$5,000, respectively on price ceiling violation charges.

As a result of the investigation conducted by the Bureau in this case, the OPA instituted a treble damage suit in the amount of \$572,641 on that part of the evidence not barred by the statute of limitations. It is understood that property of an approximate value of \$360,000 has been attached by the OPA to satisfy this claim.

Trial disposition of the character in this case will do much to suppress black market operations of all types.

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CASE IV

One of the largest black market operators was the "P" Company, a rectifier. This company, a partnership, was owned ostensibly by "F", an attorney, and "G", an accountant, neither of whom was ever active in the management of the business. There is every reason to believe that this company is actually owned by a large wholesale liquor dealer.

Prior to March 1, 1943, the "P" Company conducted a small rectifying business. On March 1, 1943, "F" and "G" entered into a contract with one "H", who had a criminal record, whereby "H" was installed as sales manager on a commission basis. Business was immediately expanded. The records of "P" show that between March 1 and December 31, 1943, "H" was paid commissions of \$140,000. Investigation reveals that during this period "P" Company shipped liquor to wholesalers in the South and the southwestern part of the United States on which "H" collected, either direct or through intermediaries, more than a million dollars in cash "side-money." The cash "side-money" payments of some of the wholesalers amounted to as much as \$300,000. As usual in this type of case, the "side-money" was not recorded in the books of account. The very character of other transactions about which the wholesalers have refused to make disclosures leads to the belief that such larger sums of cash "side-money" are involved in this case. Overceiling prices from \$5 to \$20 a case were charged, depending upon what the traffic would bear.

As the liquor shortage became more acute, the price increased and the quality decreased. A concoction composed of 5 per cent whiskey and 95 per cent imported molasses spirits was finally marketed by this concern in the State of Texas at overceiling prices. Because of the distances involved, and in order that the cash "side-money" might be in hand before the liquor was shipped, the intermediaries in some instances traveled between New York and points as distant as Texas and Georgia by airplane. The cash "side-money," as usual, was in both large and small denominations.

It is, of course, obvious from the above that "H" was hired as the "front man" and "fall guy" for the actual financial interests behind this concern.

Several witnesses (wholesale liquor dealers) testified that after the Alcohol Tax Unit had instituted its investigation in this case "H" refused to accept any further cash "side-money", but stated that the "P" Company would thereafter supply them with limited quantities of liquor.

While the investigation was under way, "G", one of the partners, was inducted in the military service. Thereafter a squib appeared in the camp newspaper to the effect that Private "G" had purchased

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a million dollars worth of War Bonds. When subsequently interviewed, "G" stated that his wife had actually subscribed for a million dollars worth of War Bonds with a brokerage house but that up to that time she had bought bonds worth about \$100,000. He stated that the funds used were derived from the business of the "F" Company. The income tax aspects of this case are under investigation by the Intelligence Unit.

"H" was indicted and subsequently convicted after a two weeks' trial. He was sentenced by the court to serve 18 months' imprisonment and to pay a fine of \$50,000. On conviction, "H" still refused to disclose the disposition made of the "side-money". The case against the other principals is still pending. As the result of evidence developed by the Bureau and submitted to the OPA (not barred by the statute of limitations), a suit for treble damages in the amount of \$577,000 was instituted against the "F" Company.

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CASE V

This was one of the first cases perfected under the Bureau's black market enforcement program.

When the liquor shortage developed, the "L" Company, the principal partners of which were "J" and "K", was engaged in the pinball and music box distribution business. There was no apparent reason why this concern should engage in black market operations, inasmuch as it had, according to "J", made a net profit of \$150,000 during 1942. It was not in the liquor business and, consequently, held no permit. The incentive, however, to make a lot of money was too great. The company's pinball and music box customers, who were primarily taverns, could not obtain a sufficient supply of distilled spirits.

Before the liquor shortage became acute, "J" acquired large quantities of whiskey. This group, in its attempts to conceal the movement of the liquor in the black market, used many schemes and devices, such as fictitious license tags on vehicles, convoys, and secret caches, reminiscent of the pre-Repeal era. "J" was a former light-weight fighter of considerable renown who had a prior criminal record. Some of this whiskey was shipped through regular distribution channels as coin boxes. Another scheme was to ship the liquor by truck under fictitious billing to State Liquor Commissions. This was necessary inasmuch as the states through which this liquor moved employed the monopoly system of liquor control. Consequently, a shipment not billed to the state was subject to seizure.

While the investigation established that overcelling prices were paid for this liquor, the investigators were unable to trace the cash "side-money" back to either "J" or "K". Consequently, a conspiracy indictment was secured charging a violation of the Internal Revenue laws and Section 204 of the Criminal Code.

Inasmuch as the Government could not trace the cash "side-money", counsel agreed that "J" would furnish the evidence to the Government on which to predicate criminal informations. The conspiracy indictment was dismissed on motion of the Government, and a criminal information was filed based on evidence furnished by the defendants.

On pleas of guilty to the OPA violations, the principal defendants were sentenced to serve 18 months and six months and to pay fines of \$7,500 and \$10,000, respectively. The court, in its extended remarks, stated "The hectic days of national Prohibition will descend on this country if liquor is handled by men who flaunt the laws and connive and conspire to defeat the regulations which the states have placed on the handling of liquor. Certainly the court cannot escape its responsibility in meting out sentences which will tend to restrain and discourage such beneficial activities."

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CASE VI

"I" Company operated a rectifying business. The president is also one of the principal owners of a wholesale grocery business. This concern shipped large quantities of liquor into the black market in Ohio, Texas, Mississippi, Minnesota, and other states. Some five intermediaries were utilized in handling the cash "side-money," \$210,000 of which was satisfactorily traced.

Considerable difficulty was encountered in perfecting this case due to the fact that some of the intermediaries, even after indictment and conviction, refused to cooperate. Finally one of the "go-betweens," who operated a whiskey brokerage business was convicted and after being sentenced to serve a year and a day in the penitentiary, made a confession which assisted materially in tracing the cash "side-money" in this and other cases. The brokers in this case were so brazen they did not hesitate to assure their customers that the cash "side-money" collected by them was being passed on to the officials of the company. One of the brokers in this case has since been convicted. He did business as a broker from his "hip-pocket." The following is illustrative of his method of operation:

A member of a law firm representing tavernkeepers, went to New York in search of sources of supply for them. He checked into an uptown hotel, and then visited a local restaurant (a rendezvous frequented by liquor brokers) where he made known his wants and indicated he had cash "side-money" for liquor. Being unable to readily contact the brokers there, he returned to his hotel where he found notes at the desk and under the door of his hotel room from liquor brokers requesting appointments. Before he could decide which one to meet first, the above mentioned broker rapped on his door and entered. As a result, he consummated a deal for "I" Company's whiskey, securing the cash "side-money" in advance.

Two officers of the corporation were convicted after a ten-day trial on a criminal information charging violations of the Emergency Price Control Act. After the jury had brought in its verdict, the Federal Judge dismissed the jury with the following remark:

"Your verdict (in this case) is the rightest thing that could have been done."

The imposition of sentence in this case was delayed pending the trial of other black market cases.

As a result of the investigation, a treble damage action in the amount of \$650,000 was instituted by the OPA covering such transactions as were not barred by the statute of limitations.

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CASE VII

In the early part of 1943 the State of Ohio, like other liquor monopoly states, was able to obtain from distillers only a fraction of the whiskey necessary to supply permit holders (taverns) and consumers. In order to meet this situation, the State permitted tavern owners to purchase whiskey from out-of-state dealers and import it into Ohio after payment of the State tax under what was designated the "consent system" in conformity with new regulations issued.

At that time the major defendant in this case, "M", a one-time public enemy, was the principal owner and operator of a brewing company. Associated with him as a "front man" was one "F", a disbarred attorney. When the tavern owners to whom the brewing company was supplying beer were unable to secure distilled spirits, "M" saw an opportunity to make a lot of money quickly. "M", operating primarily through his "front man," "F", immediately arranged to purchase large quantities of distilled spirits from wholesale liquor dealers. This liquor was transported and distributed to the brewer's preferred customers at prices up to \$20 a case over and above the ceiling price. Some of the cash "side-money" collected in connection with these transactions (the exact amount of which is not known) was passed on back to the wholesalers.

After the whiskey shortage became more acute and "M" and "F" were unable to secure further shipments of case goods, large quantities of bulk whiskey were purchased through the medium of warehouse receipts. Arrangements were effected with rectifiers for the bottling of this whiskey. It was then distributed to the same outlets at black market prices. On one of these deals (involving the bottling of 800 barrels of bulk whiskey) \$156,000 in cash "side-money" was collected.

As soon as the Bureau undertook the investigation of this case, "M" immediately discontinued his black market operations. At that time he owned warehouse receipts covering 457 barrels of whiskey (the ceiling price on which was \$29,000) which he disposed of to the chairman of a retail liquor association for \$182,000.

"M" and "F" subsequently pleaded guilty. Both defendants were sentenced to serve four months in jail and pay fines of \$5,000 each.

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CASE VIII

A certain Permit Holders association was typical of many tavernkeepers' associations which were formed throughout the country during the liquor shortage in 1943 in an effort to secure a source of supply through pooling their assets. This particular Association appointed a committee to make contact with distillers and brokers. Subsequent investigation disclosed that this Association purchased warehouse receipts covering 582 barrels (28,000 proof gallons) of bulk whiskey which was bottled later and delivered to its various members. This whiskey was purchased through a whiskey broker representing extensive undisclosed interests. The ceiling price covering the 582 barrels of bulk whiskey was approximately \$32,000. The Association, however, was required to pay \$199,400, or six times the ceiling price.

As a result of this investigation, fines totaling \$137,000 were assessed by the court against several defendants on their pleas of guilty.

CASE IX

This is a typical black market conspiracy case and involves the disposition of approximately 12,000 barrels of bulk whiskey which the conspirators processed and bottled, and of which it is estimated that approximately 90 per cent found its way into the black market, and on which it is estimated that more than \$1,000,000 was collected in overages or cash "side-money."

The directing heads of the syndicate were "G" and "S", representing two firms of wholesale liquor dealers.

In the spring of 1943 when the acute liquor shortage first developed, these two groups formed a combine, and on April 7, 1943, purchased a distillery, with its inventory of 4,896 barrels of bulk whiskey. On ascertaining that an additional 6,500 barrels of whiskey was owned by a partnership, arrangements were promptly consummated whereby one of the principal partners would act as agent in processing, bottling, and distributing this whiskey. Immediate arrangements were made for the bottling of this whiskey. The whiskey was bottled without regard to regular industry marketing practices, some of it representing recent production—not more than nine months old.

Originally it was the apparent purpose of the two groups to dispose of this whiskey in the black market through wholesale liquor establishments.

A Company was formed by the group for this purpose in order to divorce the distributors from these operations as far as possible. In the meantime, the shortage had become so acute and the demand so great that this whiskey was listed with brokers and disposed of through intermediaries on a strictly cash "side-money" basis. More than \$400,000 in cash "side-money" was traced to "G" in connection with these operations.

This investigation is continuing.

A treble damage suit in the amount of \$856,000 has been filed in this case by the GFA, involving such transactions as were not barred by the statute of limitations.

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CASE X

This case deals with the activities of "O" liquor importer and black market operator, who was indicted for price ceiling violations (cash "side-money" transactions) on seven counts. "O's" business was conducted primarily with wholesale liquor dealers in the South. His function was to pass on the cash "side-money," thereby making it unnecessary that there be a direct personal contact between the seller and the buyer.

While the case against "O" was of itself relatively unimportant, its implications were large because he was in a position to involve distillers and rectifiers who were undoubtedly the actual recipients of the cash "side-money." Vigorous prosecution was therefore essential if the actual principals in these cases were to be reached. "O" refused to make disclosures of the disposition of the cash "side-money" involved.

It might be added that this case is typical of many perfected against intermediaries who have refused to cooperate with the Government to the end that these "side-money" transactions could be traced to their ultimate disposition.

This case went to trial on January 19, 1945. After presentation of evidence, the jury required only 40 minutes to return a verdict of guilty.

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CASE XI

This concern operated a rectifying business and had a net worth of approximately \$500,000. Like many other rectifiers, the officials thereof could not resist the temptation of engaging in black market operations. Both bulk and case goods were sold in the black market. Cash "side-money" transactions have not been fully traced, as the business was carried on through intermediaries who have refused to make disclosures. The principal intermediary used was one "H", a liquor broker who maintained offices in New York City, and who acted as "go-between" for several concerns in the East engaged in black market operations.

The following transaction is illustrative of those conducted by this concern, and typical of the methods used by black market operators in making sure that they were not being double-crossed by the intermediary. The affidavit of a representative of a liquor dealers association describes graphically one of the transactions had with "H" and the sales manager for the company, as follows:

" * * * I registered at a hotel in New York * * * I met "H" in his office and told him I had the money. He picked me up the following morning and we drove to Newark * * * we went into a hotel and "H" took us up to a room * * * when "H" knocked on the door of the room it was opened by the sales manager. "H" then introduced the manager to me and then asked him if he would not step into the adjoining private bathroom, saying, 'we have some business to discuss.' Thereupon, the sales manager stepped into the bathroom and while he was there I gave the cash amounting to \$36,111 to "H". "H" then called his associate back into the room and said to him, 'Give Bill the certificates.' I was then handed the warehouse certificates representing 150 barrels of Bourbon whiskey."

Previous to the payment of the cash "side-money", the association representative described above, had given "H" a check for \$9,986 payable to the company, for 150 barrels of bulk whiskey at the ceiling price.

This case is still pending.

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CASE XII

In the early part of 1943, the "U" Company, operated as a large wholesale liquor dealer. One of the principal owners, "S" had a long criminal record. When the critical liquor shortage developed, this company seized the opportunity of making exorbitant profits by entering the black market. It catered particularly to retail outlets which had contacts with known liquor runners operating in the dry States of Oklahoma and Kansas, where the demand for liquor was so great that it commanded almost any price. At the same time, the company almost entirely ignored the plea for whiskey from its regular customers, and in at least one area which it supplied, it sold as high as 98 per cent of the liquor allocated to that territory to one customer, namely, a retail liquor dealer. A number of the regular customers of this company who were desperately trying to secure liquor for resale to their trade, and who were unable to get merchandise elsewhere, were compelled to pay this retailer from \$60 to \$70 a case for brands of whiskey having established ceiling prices of from \$25 to \$30 a case.

A typical example of the way in which this concern sought to sidetrack its regular customers in order to supply the black market is shown by negotiations had with the owner of a large chain of retail liquor stores, who states:

"I have known "U" for the past 35 years and since repeal my company has been one of "U" Company's largest accounts, purchases in recent years running to an annual volume of from \$350,000 to \$400,000; but since the black market in liquor our volume of whiskey business with "U" Company shrunk to a negligible amount. Early in 1943 I could see what "U" was doing. On one occasion "S" and an associate were in my place and I remonstrated with them about it. I asked them then why they wanted to enter the black market liquor business when they already had more money than they could ever spend. Thereafter I received a telephone call from the sales manager of "U" Company, at which time I was informed that I could purchase \$75,000 worth of merchandise consisting mostly of cordials and wines which included only 100 cases of whiskey. I refused to go through with the deal, reminded the sales manager that he had pulled two similar deals on me resulting in my buying about \$150,000 worth of merchandise in order to get a couple of hundred cases of whiskey. I then told him I would never set foot in "U's" premises again."

One of the principal intermediaries used by "U" Company in contacting black market outlets was a former state manager for a distilling company.

after considerable preliminary work on this case, a complaint was filed, charging four of the group with conspiracy to violate the Internal Revenue laws and the Emergency Price Control Act. The defendants were arrested and held in bail. This complaint was based primarily on falsification of records, which had been resorted to in order to conceal the black market transactions. As far as price ceiling violations were concerned, the evidence was limited to cash "side-money" paid to salesmen of the "U" Company.

CASE XIII

At the time the whiskey shortage developed in the spring of 1943, "X-Y" Company had a thriving import and wholesale liquor business in the New York area. The company employed 36 salesmen and had more than 5,000 customers. Gradually the allotments to their retail liquor accounts in New York City were reduced and larger quantities of liquor channeled through intermediaries to wholesale liquor dealers in the South and Southwest and into private outlets in the monopoly states. Cash "side-money" ranging from \$10 to \$15 a case was collected in connection with these transactions. The allocation to retail outlets in New York City finally became so limited that the salesmen of the company, who were working on a commission basis, were unable to make a living. The matter was then taken up with the salesmen's labor union, which in turn exerted pressure on "Y", the principal partner to allocate more liquor to the metropolitan area.

This concern, like several other large black market operators, resorted to the subterfuge of paying small commissions to intermediaries so their books would reflect a consideration for the sale of liquor and make the transactions appear legitimate. These commissions, however, had to be "kicked-back." For example, the head of a retail liquor association who functioned as an intermediary between "Y" and members of the Association, and who passed on some \$200,000 in cash "side-money", was paid a commission of 25 cents a case by the "X-Y" Company with the express understanding that he would cash the commission checks and return the money to "Y". This was done.

More than \$400,000 in cash "side-money" was traced direct to "Y". This amount probably does not represent more than 50 per cent of the "side-money" actually collected.

On September 20, 1944, "Y" pleaded guilty to a criminal information charging fifty separate violations of the Emergency Price Control Act. On recommendation of the United States attorney, the court sentenced him to serve 30 days in jail and to pay a fine of \$100,000.

About February 14, 1945, one "K", who operated a wholesale liquor business, and who acted as an intermediary in collecting approximately \$70,000 in cash "side-money" on liquor shipped to wholesalers in Texas by the "X-Y" Company, was convicted after a jury trial. "K" had refused to disclose the disposition of the cash "side-money" involved. After conviction the Federal Judge in sentencing him stated in substance, "I can find very little to say in your behalf." The court thereupon sentenced "K" to serve a year in jail and fined him \$25,000.

As a result of the evidence developed in this case, the OPA filed a treble damage action in the amount of \$600,000 covering the transactions not barred by the statute of limitations. A similar action in the amount of \$280,000 was filed against "K" and his company.

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CASE XIV

"J" and "J" were employed as liquor salesmen. On March 15, 1943, they filed income tax returns for the calendar year 1942 on a net taxable income of \$1,700 and \$2,700, respectively. In June 1943 they formed "A-B" Company, with capital of \$5,000, and installed an accountant, "K", as "front man" and president of the corporation. During the remainder of the calendar year 1943 some 70,000 cases of whiskey were sold in the black market by "A-B" Company, principally in the State of Ohio (at an average price of more than \$20 per case above the established ceiling), on which the corporation made a net profit of \$27,000, as shown on its books, and on which "J" and "J", the intermediaries, and their sub-agents collected an estimated \$1,000,000 in cash "side-money." The cash "side-money" was not reflected in the corporate records or included in the income tax returns of "J" and "J".

The most profitable enterprise was started at a time when whiskey, because of the shortage, was virtually unobtainable. The source of supply was the "J" syndicate, whose black market operations have already been discussed. Inasmuch as "A-B" Company had virtually no resources, it is obvious that it was formed for no other purpose than to act as a cloak for channeling the "J" whiskey into the black market.

Shortly after the company was formed and in order to have a suitable place to meet customers and to employ agents and intermediaries, "J" established himself in a suite in Chicago under an alias. Similar quarters were obtained in Cleveland, by "J" under an alias. Some 10 or 12 intermediaries were utilized who, in turn, hired sub-agents who actually sold the whiskey to the retailers and collected the cash "side-money."

One of the intermediaries who made full disclosures during the investigation, in discussing his employment, made some significant observations:

" * * * I had numerous conversations with "J" * * * ; he explained on one occasion that he and "J" were shipping liquor into Ohio in excess of ceiling prices and that a man, "K", * * * was being 'carried' as President of "A-B" Company, and that * * * and if any trouble arose in regard to the whiskey transactions that "K" was the man that would have to take the 'rep.' * * * I asked "J" if I was going to get into any trouble handling this whiskey and he said: 'The only violation is the OPA law--there are no teeth in the OPA law anyway--everybody in the country is violating OPA laws * * * you have nothing to fear.' "

In further discussions with "J" concerning the handling of the currency involved in these cash "side-money" deals, this witness says:

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" * * * "J" at that time stated to me that I was lucky that I was dealing with a man like him; that some concerns would no doubt 'go South with the money' and leave me holding the bag. * * * "J" then explained they were no longer shipping whiskey into Ohio because things were getting 'too hot to handle' and that the State of Ohio was demanding from the permit holders an affidavit showing that they were paid only the ceiling price * * * ."

"J", as I recall, returned to me * * * \$6,000, representing payment for merchandise undelivered. This money was taken from a suitcase that "J" had with him. This suitcase was full of currency. In counting out the money to me, I saw that "J" had bundles of new \$20 bills. He stated that he did not want to handle big bills because they (I suppose he meant the banks or the Government) were keeping track of the large bills. These \$20 bills were new * * * and still had the bank wrapping around them. They were in consecutive serial numbers and "J" stated that he did not want to give me consecutive serial numbers because the banks were watching * * * . In counting out the money, he would take bills from each of numerous packages and by so doing mixed up the serial numbers so that they would not be consecutive. He stated that in this manner they would be least apt to be noticed by the bank."

At the time the above-described funds were returned to the witness, "J" was believed to have been on one of his trips for the purpose of turning over the cash "side-money" to the "K" interests supplying him with whiskey, which accounts for the bag full of currency.

A law firm had an experience with "J" which is interesting. These attorneys represented retail liquor dealers who were interested in importing liquor into the State of Ohio under the "consent system." On determining that liquor was commanding almost any price, these men decided to function as brokers rather than as attorneys in these transactions. Large sums of money were collected from retail liquor dealers and carried to New York City, Philadelphia, and Chicago in the hope of finding sources of supply. No difficulty was encountered in securing merchandise once they made it known that they had the cash to pay "side-money." For their services, these lawyers charged a commission of \$4 for each case of liquor purchased. Substantial quantities of liquor were purchased from "A-B" Company, on which large sums in cash "side-money" were paid to "J". After the investigation had been instituted by the Alcohol Tax Unit and these attorneys had made full disclosures of their participation in these transactions, "J" came to Cleveland and recontacted with them, stating, "If you were going to talk to the Government, why did you enter into these deals?" Whereupon one of the lawyers, using the proper epithet, responded, "You didn't think that we were going to pay income tax on the 'side-money' you got, did you?"

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As a result of the evidence furnished the OPA, a treble damage suit in the amount of \$1,900,000 has been instituted against "A-S" Company.

"J" and "K" subsequently made a statement as to the cash "side-money" paid to the "X" syndicate. They admit collecting \$600,000 in "side-money" exclusive of that retained by intermediaries and sub-agents, \$450,000 of which they allege was passed on to the "A" syndicate. Evidence in the possession of the Bureau indicates that the admissions do not constitute a full disclosure. The developments in this case will assist materially in determining the income tax liability of the "X" interests.

-000-

April 26, 1945 00
10:27 A. M.

HMJr: Hello.

Operator: The Postmaster General.

HMJr: Hello.

Mr. Frank Walker: Hello, Henry?

HMJr: Speaking.

W: I hope I didn't cause you any inconvenience this morning.

HMJr: Only the lack of the pleasure of your company.

W: Well, that's very nice of you. I tell you - I did it for your own good. It may have been just a fruitless engagement....

HMJr: Oh? What happened?

W: Well, I don't -- I'm standing by -- the boss asked me to stand by and have a talk with him. So I thought I'd rather see him before I saw you, don't you see?

HMJr: You mean the President?

W: Yeah.

HMJr: I can't get used to it. There's only one boss for you and me.

W: Well, he's the boss now, Henry.

HMJr: That's true. Oh, I see, something's happened or something?

W: Huh?

HMJr: Something's come up?

W: Well, I -- he and I have had quite a few discussions about it, you know.

HMJr: I see.

W: Well, they are not -- there's no finality to it yet.

HMJr: Well, whether you go or you don't go, let's have a ball together next week anyway.

- 2 - 100

W: Sure. Well, then, let's.....

HMJr: I'm going up to see my old man. He's 89 today.

W: Oh, say, could I get him on the phone, do you think?

HMJr: Oh, he'd love it.

W: All right. I sure will call --- what's the number?

HMJr: Sacramento 2 -

W: Sacramento?

HMJr: 2 7 1 8 2.

W: Sacramento 2 -

HMJr: 7 1 8 2.

W: -7 1 8 2. I sure will -- he's 89 today, isn't he?

HMJr: That's right.

W: I sure call him right away.

HMJr: Well, let me know, Frank, how....

W: Well, that's the only reason I didn't know because there would be no sense having a lot of discussion...

HMJr: Well, let me know how it turns out.

W: I'll do that, Henry.

HMJr: I thank you.

W: All right.

April 26, 1945 ✓
2:22 P. M.

101

HMJr: Hello.

Operator: William Green. Go ahead.

HMJr: Hello.

Mr. William
S. Green: Hello.

HMJr: Henry Morgenthau.

G: Yes, Mr. Secretary.

HMJr: How are you?

G: Pretty well, thanks. How are you?

HMJr: Oh, I can't complain.

G: That's good.

HMJr: Mr. Green, you remember some time ago I called you
up and said how useful it would be if you could
testify in the interest of Bretton Woods...

G: Yeah.

HMJr: And Chairman Spence, of Banking and Currency, also
is very much interested in having you come up, and
he said it would be a great service.

G: Yeah. Well, I'm scheduled to go in the morning at
ten o'clock.

HMJr: Tomorrow morning?

G: Yeah.

HMJr: Oh, that's wonderful.

G: I've made the engagement, and I'm prepared to go in
the morning at 10 o'clock.

HMJr: I'm delighted. Thank you so much.

G: All right, sir. Thank you.

HMJr: Goodbye.

G: Goodbye.

April 26, 1945 ✓
2:26 P. M.

102

Congressman
Spence: Mr. Secretary?

HMJr: How are you?

S: How is your good wife?

HMJr: She's getting along pretty well, thank you.

S: That's fine.

HMJr: I just spoke to William Green..

S: Yes.

HMJr: And he is going to testify before your committee
at 10 o'clock tomorrow morning.

S: 10:30.

HMJr: 10:30?

S: Yes.

HMJr: Oh, you've got the word.

S: Yeah.

HMJr: Well, I didn't know.

S: Yeah, 10 - I called and told them it would be 10:30.

HMJr: Oh.

S: I guess I'd better call them up and tell them it's
10:30, hadn't I?

HMJr: Well, I may have misunderstood, but....

S: Well, I'll tell them down there to tell him to come
up at 10:30 - fine. And I'm going to have him test-
ify whatever happens to this bill because we want
to get him before he goes out there.

HMJr: Good.

S: The Chicago Tribune says that I am very unfair.

HMJr: They do.

S: That I haven't let the other side testify and I'm
determined to record the bill.

HMJr: Oh, ay.

S: It would embarrass me very much if the Chicago Tribune said anything good about me because I'd have to apologize to all the constituents that elected me.

HMJr: That's right.

S: So I think it is a very good thing all around.

HMJr: Doesn't the Tribune get down into Kentucky?

S: No, (Laughs) but I don't they carry any weight wherever they go.

HMJr: I see. (laughs)

S: They are just opposed to us.

HMJr: (Laughs)

S: All right, Mr. Secretary, thank you.

HMJr: Bye.

S: All right, bye.

12"

Revised copy of
Suggested Radio Remarks
for Secretary Morgenthau for Phase 2, VE Day Program
4/22/45

With the end of major military operations in Europe, one of our two wars is officially over. We and our Allies have fashioned an overwhelming victory out of what once seemed to many the ashes of defeat, and have destroyed forever the Nazi threat to our democratic institutions and our way of life.

Our job now is to mobilize our strength for the defeat of Japan with the same singlemindedness of purpose, the same concentration of ~~energy~~ ^{effort}, the same overwhelming power, that we employed to crush Hitler Germany.

We're going to crush Japan, but it's going to take time, ~~heroic~~ ^{and} backbreaking effort, ^{and} overpowering equipment. We'll need more of everything...ships...tanks...trucks...a whole new air force. And that's going to cost money -- ^{to the same extent as the national inflation and other war disabilities} ~~plants of money.~~ ^{and to see men discharged as they fulfil the duties for which they have been called}

Up to now Americans on the home front have done a magnificent job in financing this war the voluntary way. In so doing they have acted with extraordinary good common sense. Over 85 million Americans have purchased War Bonds. Over 26 million working men and women buy them month-in,

month-out on the payroll savings plan.

Through the purchase of War Bonds we have been able to contribute greatly to the stabilization of our economy. We have siphoned off the dangerous dollars that ~~would~~ ^{would} otherwise have produced inflation.

If ~~we~~ ^{we} fail to win the peace as well as the war, the cost of living must be kept ~~down~~ ^{down} and the purchasing power of money preserved. A reckless inflation ~~that would necessarily~~ ^{that would} be followed by the catastrophe of deflation -- with its unemployment, bankruptcies, misery and heartache -- must be prevented at all cost. Let's make no mistake -- a dangerous period lies ahead. ^{But} The American people have nothing to fear, ~~however,~~ if they show in the future the same common sense they have shown in the past, and continue to put every penny over rock-bottom expenses into the purchase of more and more War Bonds.

We still have a long, bitter road to travel before final victory is ours. Each ~~and every~~ ^{that appears} one of us should dedicate himself anew to ~~the task of doing all in his power~~ ^{to bring this war to complete and absolute victory.} One thing that all of us can and must do is rally to the support of the Seventh War Loan with ~~all we've got.~~ ^{everything we have.} I know of no

more ^{vital} ~~important~~ way in which Americans can give concrete expression and force to their determination to back up our fighting men than by buying ^{more} ~~bigger~~ extra bonds in this war loan drive. Putting the Seventh War Loan over-the-quota, is the ~~biggest~~ ^{most} most important job we on the home front have to do.

The Seventh War Loan is the ^{the most important} greatest war financing operation we've ever undertaken. The 7 billion dollar individual quota is the highest yet, and the 4 billion dollar E bond quota a terrific, hard-to-make 60 per cent increase over the last drive.

Let's each and everyone of us promise that ^{the} ~~partial~~ victory shall not breed the kind of ^{weakening} ~~weakening~~ over-confidence which can rob us of complete victory ... ~~that~~ ^{our thinking, our money, our time will stay in this war to} the finish ... that this war shall be fought through to a finish with all that we have and all that we are ... that we, the people, will dig into our pockets, purses, and savings to make the success of the 7th War Loan a symbol of our determination.

Suggested Radio Remarks
for Secretary Morgenthau for Phase 2

With the end of major military operations in Europe, one of our two wars is officially over. We and our Allies have fashioned an overwhelming victory out of what once seemed to many the ashes of defeat, and have destroyed forever the Nazi threat to our democratic institutions and our way of life.

Our job now is to mobilize our strength for the defeat of Japan with the same singleness of purpose, the same concentration of energies, the same overwhelming power, that we employed to crush Hitler Germany.

We're going to crush Japan, but it's going to take time, heroic and backbreaking effort, overpowering equipment. We'll need more of everything...ships...tanks...trucks...a whole new air force. And that's going to cost money -- plenty of money.

Up to now Americans on the home front have done a magnificent job in financing this war the voluntary way. In so doing they have acted with extraordinary good common sense. Over 85 million Americans have purchased War Bonds. Over 26 million working men and women buy them month-in,

D-2

- 2 -

month-out on the payroll savings plan.

Through the purchase of War Bonds we have been able to contribute greatly to the stabilization of our economy. We have siphoned off the dangerous dollars that would otherwise have produced inflation.

If we're to win the peace as well as the war, the cost of living must be kept down and the purchasing power of money preserved. A reckless inflation that would necessarily be followed by the catastrophe of deflation -- with its unemployment, bankruptcies, misery and heartache -- must be prevented at all cost. Let's make no mistake -- a dangerous period lies ahead. The American people have nothing to fear, however, if they show in the future the same common sense they have shown in the past, and continue to put every penny over rock-bottom expenses into the purchase of more and more War Bonds.

We still have a long, bitter road to travel before final victory is ours. Each and every one of us should dedicate himself anew to the task of doing all in his power to bring this war to complete and absolute victory. One thing that all of us can and must do is rally to the support of the Seventh War Loan with all we've got. I know of no

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more important way in which Americans can give concrete expression and force to their determination to back up our fighting men than by buying bigger extra bonds in this war loan drive. Putting the Seventh War Loan over-the-quota, is the biggest and most important job we on the home front have to do.

The Seventh War Loan is the greatest war financing operation we've ever undertaken. The 7 billion dollar individual quota is the highest yet, and the 4 billion dollar E bond quota a terrific, hard-to-make 60 per cent increase over the last drive.

Let's each and everyone of us promise that partial victory shall not breed the kind of weakening overconfidence which can rob us of complete victory ... that our thinking, our money, our time will stay in this war to the finish ... that this war shall be fought through to a finish with all that we have and all that we are ... that we, the people, will dig into our pockets, purses, and savings to make the success of the 7th War Loan a symbol of our determination.

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Revision of Suggested Radio Remarks

for Secretary Morgenthau for Phase 2, VE Day Program

(Revised April 26 on basis of Secretary's comment)

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We're going to crush Japan, but it's going to take time, backbreaking effort and overpowering equipment. We'll need more of everything...ships...tanks...trucks...a whole new air force. And our national obligation to the wounded and otherwise disabled, and to men discharged as they fulfill the duties for which they have been called, will continue to grow.

Up to now Americans on the home front have done a magnificent job in financing this war the voluntary way.

- 2 -

In so doing they have acted with extraordinary good common sense. Over 85 million Americans have purchased War Bonds. Over 26 million working men and women buy them month-in, month-out on the payroll savings plan.

Through the purchase of War Bonds we have been able to contribute greatly to the stabilization of our economy. We have siphoned off the dangerous dollars that otherwise would have produced inflation.

If we are to win the peace as well as the war, the cost of living must be kept stable and the purchasing power of money preserved. A reckless inflation followed by the catastrophe of deflation -- with its unemployment, bankruptcies, misery and heartache -- must be prevented at all cost. Let's make no mistake -- a dangerous period lies ahead. But the American people have nothing to fear if they show in the future the same common sense they have shown in the past, and continue to put every penny over rock-bottom expenses into the purchase of more and more War Bonds.

We still have a long, bitter road to travel before final victory is ours. Each of us should dedicate himself anew to that objective. One thing that all of us can and must do

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is rally to the support of the Seventh War Loan with everything we have. I know of no more vital way in which Americans can give concrete expression and force to their determination to back up our fighting men than by buying more extra bonds in this war loan drive. Putting the Seventh War Loan over-the-quota, is the most important immediate job we on the home front have to do.

The Seventh War Loan is in many respects the greatest war financing operation we have ever undertaken. The 7 billion dollar individual quota is the highest yet, and the 4 billion dollar E bond quota a terrific, hard-to-make 60 per cent increase over the last drive.

Let's each and everyone of us promise that the victory of our men in Germany shall not breed the kind of weakening over-confidence which can rob us of complete victory...that this war shall be fought through to a finish with all that we have and all that we are...that we, the people, will dig into our pockets, purses, and savings to make the success of the Seventh War Loan a symbol of our determination.

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4/24/45 ✓

Revision of Suggested Radio Remarks
for Secretary Morgenthau for Phase 2, VE Day Program
(Revised April 26 on basis of Secretary's comment)

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In so doing they have acted with extraordinary good common sense. Over 85 million Americans have purchased War Bonds. Over 26 million working men and women buy them month-in, month-out on the payroll savings plan.

Through the purchase of War Bonds we have been able to contribute greatly to the stabilization of our economy. We have siphoned off the dangerous dollars that otherwise would have produced inflation.

If we are to win the peace as well as the war, the cost of living must be kept stable and the purchasing power of money preserved. A reckless inflation followed by the catastrophe of deflation -- with its unemployment, bankruptcies, misery and heartache -- must be prevented at all cost. Let's make no mistake -- a dangerous period lies ahead. But the American people have nothing to fear if they show in the future the same common sense they have shown in the past, and continue to put every penny over rock-bottom expenses into the purchase of more and more War Bonds.

We still have a long, bitter road to travel before final victory is ours. Each of us should dedicate himself anew to that objective. One thing that all of us can and must do

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is rally to the support of the Seventh War Loan with everything we have. I know of no more vital way in which Americans can give concrete expression and force to their determination to back up our fighting men than by buying more extra bonds in this war loan drive. Putting the Seventh War Loan over-the-quota, is the most important immediate job we on the home front have to do.

The Seventh War Loan is in many respects the greatest war financing operation we have ever undertaken. The 7 billion dollar individual quota is the highest yet, and the 4 billion dollar E bond quota a terrific, hard-to-make 60 per cent increase over the last drive.

Let's each and everyone of us promise that the victory of our men in Germany shall not breed the kind of weakening over-confidence which can rob us of complete victory...that this war shall be fought through to a finish with all that we have and all that we are...that we, the people, will dig into our pockets, purses, and savings to make the success of the Seventh War Loan a symbol of our determination.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

April 20, 1946

TO Secretary Magenthau

FROM Mr. DeLois

Attached are three articles which Loh has prepared for publication in the following order:

- (1) A Path to Peace -- This includes a combination of material from Chapter II of the Book, dealing with the removal of heavy industry, and Chapter III, dealing with the point that a strong Germany is not necessary for a strong Europe.
- (2) 20,000,000 Germans Won't Starve -- This combines material in Chapter IV of the Book on the same subject and Chapter V.
- (3) Democratic Means can Cloak War Plans -- This is the same as Chapter I of the Book.

After reading these three articles, I am inclined to the view that perhaps the first article which is published should be Chapter VIII of the Book, dealing with the point that Germany has the will to try it again. It seems to me that it is important that the public first be convinced on this point before a drastic program for taking away Germany's means is discussed. Although there has been a lot which has been written on this question, I don't believe there has been enough. And what there has been has not been nearly as effective as I believe Chapter VIII would be, particularly if we added to it good references to the recent evidence of the character of the Germans. Loh is in New York and I have noticed an opportunity to discuss this point with him.

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 Joe

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THE MORGENTHAU PLANI. A PATH TO PEACE

The first thing to do with a homicidal maniac who has run amok is to take away his revolver and search him for concealed weapons. Then comes the problem of what to do with him. If he is one of the most expert gunsmiths the town has ever known, that would not be regarded as an extenuating circumstance. Even the mildest, most sympathetic community would balk at the idea of setting him up in a well equipped metal-working shop while his relatives and neighbors see whether it is possible to cure him. Suspicion, perhaps even anger would be roused by any suggestion from some fellow over in the next county that the loss of such a highly skilled murderer's talents and strength would be just too much to bear. If by any chance the local authorities were so bewildered or imbecile as to yield to the suggestion, every man in town would probably arm himself against the chance of meeting the gunsmith some dark night. Before long there would be an epidemic of nervous shooting.

The application of the rather obvious little rules of common sense to international problems is often wonderfully effective. Suppose the test of the individual homicidal maniac were to be tried with Germany, who twice in a generation has run amok in the world to precipitate mass murders which have cost several times more lives than all the previous wars of recorded history put together.

First of all, she would be stripped of guns and tanks and planes, submarines and fortifications and bombs, all the actual

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weapons of war. Then the power to make new ones would be completely eliminated. The community of nations would not, if they were using as sensible standards as those of a parole officer recommending treatment for a maniac, take any chances that Germany could rearm for another try at world conquest. Like the neighbors of the gunsmith, the community of nations might hope that a cure for war madness would be possible. But they would not give Germany a chance to run amok again with anything more deadly than her bare hands.

Once that simple decision is made, the execution of it becomes a little more complicated than the treatment of any individual maniac. But not out of proportion to the size of the task.

Any country's war potential these days can be measured by its heavy industries much more accurately than by the size of its army, navy and air force at any given moment. In four years the peacetime industrial machine of the United States was converted into a weapon that dwarfed Germany's once famous Luftwaffe, Wehrmacht and the rest. That only lends point and emphasis to the equally pertinent fact that Germany's industrial machine in not much more time was converted into a weapon that crushed the proud French army theoretically safe behind its Maginot Line. Soldiers understand this very well. For every big air raid on a fortress or an army camp that we have read about in the newspapers, we saw accounts of hundreds directed against important industrial centers. The Allied high command knew where Germany's real strength lay, and pounded the factories accordingly.

That being so, it would seem rather obvious that to disarm Germany in any real sense of the word is to remove the industries

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that would make rearmament possible. It is all very well to confiscate guns, planes, tanks, submarines, military installations and so on. That is like taking away the revolver the homicidal maniac was brandishing. The next step is to destroy or confiscate the German plants where new and more horrifying weapons of war could be forged. That is like keeping the homicidal gunsmith out of a metal-working shop.

Germany's real armament is a triple threat of metallurgical, chemical and electrical industries. The pre-war Reich dominated Europe in these fields. Therefore, she dominated Europe militarily as well, until she challenged even greater industrial powers. Without these factories, the Germans could not have indulged their lust for conquest in 1914 or 1939. Without these factories, they could not do it again. The specific factories which will always be a threat to peace in German hands are:

1. The Metals Group. Blast furnaces, electric furnaces, rolling mills -- all the plants used in turning iron ore into finished primary iron and steel products -- operate exactly the same for war as for peace. To carry through disarmament of Germany in this area, she would have to be deprived not only of these basic establishments but also of all factories capable of making machine tools, airplane engines, airplanes, locomotives and other heavy railroad equipment, Diesel engines, steel rails, heavy tractors, automobiles.

2. The Chemical Group. These plants are the source of Germany's explosives, rubber, gasoline. They were so important a weapon that their development and operation were largely supervised by the Army.

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In removing all heavy chemical factories from the Reich, it would be necessary to see that she was deprived of her position in international cartels in this field. The production of such items as pharmaceuticals might be permitted as it can be carried on in small units which could not become a danger. However, the items permitted must be carefully selected, bearing in mind that a perfume factory, for example, can turn to the manufacture of poison gas without any conversion problem at all.

3. The Electrical Group. It is more than a coincidence that "power" has become a synonym for electricity. Of that kind of power Germany should be permitted to retain only so much as she needs for her household and reduced industrial needs. The tremendous loads that served to produce aluminum and magnesium would be unnecessary for her, since she would not be permitted to retain any machinery to make the light metals which can so easily be fabricated into planes. Nor would she be allowed plants for the manufacture of dynamos, turbines, communications devices or electronic equipment. Factories incapable of producing electrical goods were deadly than toasters, vacuum cleaners and hair curlers would be left.

The factories taken from Germany would be rebuilt in other parts of Europe. They would constitute some reparation for damage done, but they would also help balance Europe better industrially so that the Continent need never again be overshadowed by the machine power of a single nation. Devastated countries should have priority in claiming what is left of Germany's heavy industrial equipment, the mechanics of

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allocating it to be worked out by agreement among the Allies. Delay would be the chief danger. Each claimant country, therefore, should be given no more than six months to dismantle and remove what it wants from Germany. Any heavy industry anywhere in the Reich that remains after that should be destroyed immediately.

There have been transfers of industry quite as spectacular and as difficult as this. Germany herself moved a whole group of war industries from her western borders into Silesia and behind the Sudeten mountains in an effort to escape air raids. German war plants in Austria and Moravia have operated with heavy machinery looted from France and Poland. Her has the ability to move heavy industry over the landscape been a German monopoly. Russia took many plants apart in the face of advancing German armies and put them together again hundreds of miles away in places whose people had hardly known what a factory looked like. America has shipped whole factories overseas as Lend-Lease. China moved hundreds of establishments into the interior on the backs of men, women and children.

Just as the end of German heavy industry will relieve the world of an intolerable fear of renewed aggression, so it will relieve all Europe of the iron bonds which were made in Germany to confine the industries of the rest of the Continent within small, unnatural limits. Once set free from German chains, which have barred its expansion, European industry in general will soon far more than replace the production taken from the Reich. The net result will be more steel, chemicals and electrical equipment, as well as a rising standard of living for all the people in Europe, not just 80 million Germans.

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The notion that German heavy industry is essential to the well being of Europe is a myth sedulously nurtured by German propaganda over many years.

But examined in the light of pre-war facts and postwar probabilities, the theory breaks down at every point. In its place are the realities, which prove:

1. That Germany filled a relatively small proportion of Europe's real heavy industry needs.
2. That these needs could readily be supplied by other nations.
3. That if efficiency and common sense had been the only factors, other nations would have been supplying these needs long since, but were prevented by ruthless German trade practices.
4. That Germany absorbed a relatively small amount of Europe's (and the world's) exports.
5. That her suppliers all find ever larger markets when the industry of the Continent is better balanced than it can be under German domination.
6. That Germany herself can achieve a fair level of prosperity without heavy industry.
7. That removal of German heavy industry will help develop the industries of other nations and result in a higher standard of living for Europe, making her a better market for and neighbor to all the rest of the world.

The advocates of a Germany strong in heavy industry usually assert that such a menacing colossus is necessary to "European economy" or at least to the maintenance of "economic equilibrium in Europe." Actually there is no "European economy," certainly not in the sense that there is a United States economy. Some thirty countries in Europe have their separate economies, and a great variety of them, too. They are interrelated as all countries are related, but not isolated within their own continental boundary. For there is no European economic border which can be marked out for any such separate consideration as the backers of a strong Germany indicate.

As for "economic equilibrium in Europe," it has been upset a great deal more than it has been stabilized by German industry and its overlords.

In point of fact, Germany never did supply Europe with very much iron and steel, metallurgical products, chemicals or electrical equipment -- the chief industries to be forbidden her. In her best years of exports, 1929 and 1937, she sold \$775 million worth of these products to all the countries of Europe, except Russia, put together.

And even Germany's small percentage of the European market was only achieved by lavish use of trade practices which the world hopes to abolish in the interest of peace and prosperity. Germany gave government subsidies of fantastic size to stimulate exports. Clearing arrangements, multiple currency manoeuvres and foreign exchange discrimination were used as part of a system to force other countries to buy in Germany or give up the German market for their own products.

Under any kind of fair competition, Germany would be lucky after the war, and even if her factories could be rebuilt and reconverted quickly, to reach much more than half her pre-war sales in the heavy industries. Perhaps \$400 million worth could be disposed of without violent artificial aids. In the proportion of exports in Germany's most successful years this would be divided:

Iron, steel and other metal products	\$ 72 million
Machinery (except electrical)	100
Electrical equipment	48
Chemicals	48
Automobiles	32

The idea that these amounts could not be supplied by plants which will be established outside Germany and by existing industries in Europe is fantastic. But even if it were true, the British and

Americans, who have greatly increased their plant capacity during the war, could easily serve this additional market, and probably just as cheaply as Germany. The whole amount is about 4% of the minimum estimates of postwar United States exports under full production.

It is impossible to measure statistically just how much German oppression prevented the normal, natural industrialization of other European countries. But we know it was cruelly effective. Cartels, export subsidies, special kinds of currencies and clearing agreements were the chief weapons.

Clearing agreements were bilateral arrangements ostensibly designed to prevent exchange fluctuations. They did it by carrying on trade between the two countries at an agreed rate of exchange without either using the currency of the other. Each set up a clearing office. Exporters paid to this clearing office in their own currency. Importers were paid by the clearing office, also in their own currency. In the long run the amounts had to balance as between imports and exports and as between the two countries. A typical transaction between Germany and Poland would work out like this:

A Pole sells a German a trainload of timber. The Polish clearing office pays its citizen in slotys; the German timber buyer pays his clearing office in marks. In order to get its money back, the Polish clearing office has to be sure a Pole buys something in Germany of the same value as the timber -- automobiles perhaps. When the Polish dealer buys German cars, he pays slotys into his own clearing office; the German clearing office pays the German car manufacturer off in marks. It sounds like good business until one of two things

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happens -- maybe both. Germany fears Poland may be building up her own industries with German steel or the Polish dealer may prefer to buy American cars because they stand up better under Polish road conditions. In either case, Germany weakens Poland, and usually in a vital industrial point. Berlin insists that Poland take harmonicas and Christmas tree decorations instead of building up her industry and Poland yields because she has the money standing to her credit in Germany and cannot use it any other way. Or Poland forces the Polish dealer to buy German instead of American cars either by a discriminatory tariff, import quotas or exchange controls.

Multiple marks achieved the same ends through a different device. Germany would make payments to foreign creditors only in special kinds of marks. There was a travel mark quoted at 25 cents, good only for tourist travel in Germany. But there was a foreign trade mark valued by the Germans at 35 cents, good for the purchase of German goods by foreigners who had made special arrangements. This in effect made the German products cheaper. Foreign holders of these marks were tempted strongly to get machinery from the Reich instead of from their own manufacturers or from another country which did not offer this bribe of bargain-basement currencies.

Export subsidies achieved the identical purpose. Part of a special tax placed on all German industries was used to subsidize exporters, who could then undersell any local manufacturer in Europe in his own market. The German could

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either drive competitors out of business or force them into agreements to restrict their output. In either case, European industry in general was stunted in its natural growth.

But the really big thing was the international cartel. Germany even forced as powerful industries as the United States electrical, aluminum, optical goods and chemical giants to accept restrictions on volume, territories and prices. If they could do that to General Electric and Standard Oil, what they could do to a struggling industry in a country like Yugoslavia or Greece or Belgium was literally a shame.

German dominance of cartels was not based upon superior wisdom or strength or wealth, but upon a difference in aim. German members, who virtually had their government as a silent senior partner, were mainly bent on carrying out that government's aggressive policies. Other nationalities joined the cartels for strictly business reasons. The German was linked with his government in a campaign of economic conquest. The American, on the other extreme, was frequently defying his government and in any case concerned solely with the cartel as a means of making money or consolidating industrial power. Therefore the German had a clear field for deploying industry as an auxiliary of the army. Their colleagues in other countries were usually satisfied with profits, freedom from competition at home and at most a share of foreign markets on a comfortably arranged basis to keep prices up.

The word "cartel" is used rather indiscriminately, often merely as a term of abuse. Strictly speaking, it is an organization by which producers in a given line combine to carry out a common policy of production, prices or sales. It is frequently meant to apply only

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to an arrangement by which producers restrict their output. In either case, the members retain individual identity although they set production quotas and prices, divide exclusive territories and sometimes even operate branch plants and sales offices jointly.

For the most part, cartel agreements are illegal in the United States. In Germany they are not only legal but compulsory. They are rigidly controlled and supervised by a special administrative agency and by the Ministry of Economic Affairs, so the government really directs their policies. Between the world wars, some two or three thousand cartels were organized in Germany. More than 100 of them operated on an international scale. These are the ones that carried on Germany's pre-war economic hostilities.

They were a menace and worse in more ways than one, but nowhere as much as in keeping other countries from a natural, healthy industrial growth. They did it by restrictive agreements within the cartels, by selling at a loss to prevent a new competitor from getting started, by control of patents -- often the patents of Americans -- and by simple boycott. The result was always a swollen German and a shrunken European industry. Germany never made as much as the others lost. Actual examples are the best illustration of how cartels helped Germany weaken or prevent the birth of neighboring industry.

In 1926 an international steel cartel was organized. At the time, Germany produced only about 2 1/2% more pig iron than France. The cartel agreement fixed the quota of each member, and each was to pay into a common pool \$1 for every ton it produced. But for every ton produced over the quota, the producer had to pay by way of a fine an extra \$4 a ton. The French very thriftily kept within their quota and even cut production a bit now and then to save the

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dollar a ton. For, as any Frenchman would have told you, a dollar was 25 francs. The Germans on the other hand seemed to have gone on a spree. They regularly exceeded their quota and cheerfully paid the fine. In one year it amounted to about \$10 million for 2,500,000 tons excess production. But it turned out that the Germans knew what they were doing. After a few years they argued plausibly that their increased capacity was so great that it entitled them to a bigger quota. Their increased capacity -- second only to that of the United States by then -- gave them the power to beat their European rivals over the head to get what they wanted. Their pig iron quota was raised, and by 1933 German steel production was 163% bigger than that of France.

Without the cartel deal, the two countries would normally have developed along about the proportions of 1926. As it was, France sold her iron ore to Germany in greater volume, contented herself with an inadequate steel capacity and relinquished to Germany markets she might easily have kept or gained for herself. Germany could get away with it in part because German cartel members were part owners of all the important steel and chemical companies in Europe.

It was the same steel cartel that showed how an industry can be strangled at birth in a little European country. Shortly before the outbreak of the war, Greece was planning to build steel mills of her own. Germany not only refused to supply any equipment after having gained a predominant place in the Greek economy, but used her influence to keep other members of the cartel from doing so. In a letter from the German Steel Cartel to the international body, Attorney General Francis Biddle found this paragraph:

"We have left no stone unturned in order by all means to prevent the establishment of an iron industry in Greece."

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German cartellists prevented the growth of French dye industries and blocked the establishment of a French synthetic oil industry. French industrialists were permitted to make money, but their country was fatally weakened both in the useful crafts of peace and the grim necessities of war.

Multiplied through all the hundred international cartels in which German industry took part, these practices broke down the strength of Europe. The weakening process came first in the economic field and of course was reflected in military impotence later on.

Through all the growth of German power -- achieved because the German government joined the German cartellists in an unequal economic battle against foreign industries -- there grew up a legend that Germany was a huge and essential and irreplaceable market for the raw materials of Europe. Yet the figures show she was even less of a factor as a buyer than as a supplier. Almost no one will miss her heavy industries as a market.

The year 1937 marked Germany's biggest purchases of industrial raw materials and semi-manufactures since the peak of the 1929 boom. The enormous iron and steel, metallurgical, electrical and chemical industries among them bought from all Europe, except Russia, a grand total of \$160 million worth. This is less than the total of raw materials and semi-manufactures imported that year by a single United States industry -- automobiles.

For were these German purchases a matter of life and death for any single country. Sweden was tops -- \$60 million of the \$160 million total. Eight other European countries shared in it to the extent of more than \$5 million each. Eleven others had a small, sometimes a negligible portion.

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Nearly half of the \$160 million was in iron ore. There can be little doubt that a properly balanced European distribution of industry would easily absorb this iron and more, as well as all the other items formerly sold to Germany. Some will be used at home in new industries and to improve local standards of living. Others will be purchased by European countries which are permitted to develop or expand their industries according to the dictates of free competition.

The loss of heavy industry would decrease German imports of agricultural products, and in value this was always more important to Europe than the buying of German heavy industry. But the net amount of food for Europeans to eat will be bigger than ever. Many of Germany's displaced industrial workers will go on the land and improve the notoriously inefficient and archaic German farming methods.

The 1937 imports of these products were unusually high for Germany and reached a total of \$360 million -- the equivalent of about 1% of the American people's food bill that year. Whether Germany keeps heavy industry or not, this standard could not be maintained after the war and would not be reached for a great many years. For one thing, a good deal of the imports of food were taken as part of a campaign for making other countries dependent on the Reich, not because the food was needed in Germany. For another thing, Germany will be unable to exchange products of heavy industry for so much food unless the Allies are prepared not only to give up reparations but actually to grant Germany a priority for machinery and materials ahead of the needs of liberated nations. Under any circumstances, Germany will have little food except what she can raise for herself.

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This does not mean that the other countries of Europe will not sell food. They will sell more than ever before. The big suppliers of Germany in 1937 were Denmark to the extent of \$50 million; the Netherlands, Italy and Rumania with more than \$40 million each; Yugoslavia and Hungary, about \$35 million each. This accounted for more than two-thirds of Germany's agricultural imports. Yet all of these countries except perhaps Denmark and Holland need food for their own people far more than they need exports. Increased industrialization, which they might be able to achieve when freed from German bondage, would permit Yugoslavs, Rumanians, Hungarians and Italians to eat better. They would find a market for real surplus crops in the factory towns of other countries. Denmark and Holland, particularly the latter, would also have bigger home markets and would find buyers in such countries as France, England, and Czechoslovakia.

Actually, even if Germany ceased to be a purchaser of anything at all, an entirely different group of countries from those who sold most to her would have to make the bigger readjustments. They are countries that are going to face pretty staggering readjustments anyway. In 1937, five Eastern European countries did rely upon Germany for a very large part of their exports, both food and other materials. Bulgaria sold 43% of her total exports to the Reich; Turkey, 36%; Latvia, 35%; Greece, 31%; Estonia, 30%. The percentages were high; the actual amounts relatively small. A very few industries in these countries would enable them to absorb locally all they sold to Germany. A few more industries in other neighboring countries would enable them to expand their exports over the 1937 figure.

The end of heavy industry in Germany will permit transfer of factories to the very places where they would have been located

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in the first place if access to raw materials, markets, labor and power had been the really decisive factors in European development. The shift will be all the easier because so many German heavy industrial plants will have been destroyed in the war. It will be quite as reasonable to rebuild them outside the Reich's borders as within. Holland, for example, will make electrical equipment and metal products instead of being merely a port through which German exports were routed. France will make steel herself from her own iron ore, using German coke as she always has. Britain may find a reviving market for her coal. Chemical industries will spring up all over Europe. The banite of Southeastern Europe and Danube power gives the clue to the location of the future aluminum plants. Norway, Holland and other maritime states will easily fill the gap left by the German shipyards -- and not with submarines either.

One other loophole for German heavy industry and future German aggression would remain. That is the German-controlled factory abroad, linked to the network of German foreign trade. Steel mills in Sweden, machine tool plants in Switzerland, a chemical industry in Argentina might serve a new set of German war lords almost as well as the Krupp Works at Essen. This is no fanciful fear conjured out of a fevered imagination. It is a very real threat and one which the Germans brought into reality with deadly effect in the past. The United States Senate's Kilgore Committee, after a careful study of this whole problem reported that after the war:

"... the firm of Carl Zeiss, by creating a manufacturing subsidiary in Holland, was able to evade the prohibition on the

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manufacture of military optical instruments, such as range-finders and periscopes. The firm of Friedrich Krupp nullified a restriction on the manufacture of armaments by gaining control of Bofors, a Swedish armament firm."

The same pattern has been developing for many months, as the Nazis recognized the inevitable. Enough evidence was brought before the Kilgore Committee to inspire the charge:

"The German aggressors have begun to pursue a strategy which they found successful a quarter century ago; they are already deploying their economic reserves throughout the world in preparation for a third attempt at world domination. They plan to resume the old commercial pattern which served them so well. We must insure that in the defeat of Germany the economic forces of aggression will be forever eliminated along with the military forces."

A practical program for carrying out this Senatorial recommendation would have to include:

1. Confiscation of German assets abroad.
2. Prohibition of German investment in foreign industries.
3. Strict United Nations control of all German credits obtained by exports, by inheritance or in any other way.
4. Similar control over all German foreign exchange operations.
5. Prohibition of German participation in international cartels. (If cartels themselves are abolished, it would be all to the good, but that is another problem.)
6. Elimination of German ownership of property in neutral countries.

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Under the Nazis, German business assets abroad never were considered as the private property of their owners but as a weapon of economic aggression, political intervention or military preparation for the German State. The State decided just what business its citizen might keep abroad. Then the State told him what to do with it. One group would be kept operating at enormous loss (not by domestic subsidies) to draw a foreign nation's economy or part of it under German influence. Another would be commanded to use its funds for propaganda, espionage, sabotage, bribery or some other form of political penetration. Still another would be the medium for stockpiling materials needed in the coming war -- oil, rubber, nickel, tungsten, etc.

The effect of this was so obviously dangerous that six months before Pearl Harbor, the United States had to "freeze" all German assets in this country. Most of the other American republics followed our example for their own protection from the Nazis. If these Germans could create so much disturbance in a more powerful country an ocean away from the center of Nazi infection, it is plain with what devastating effect their trading ethics and assets could be used upon relatively helpless nations within easy bomber range.

As it is not enough to destroy German war industry without making sure it cannot be rebuilt, so the possible renewal of German economic aggression must be locked at the source after the current assets are confiscated. Outright ownership could be replaced by the control of a dominant trader which would permit the Reich to attempt once more the purchase of military supplies and of men's consciences.

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One preventive measure is Allied control over all German foreign exchange transactions. The Germans perfected the use of such control as an instrument for war. Funds for foreign purchases were allocated to items that would help the German war effort -- a shipment of butter or a foreign politician. The same controls may be used to make Germany's foreign trade an instrument for peace. It would at least enable the Allies to be certain that a tractor ostensibly meant for farm use does not have a motor powerful enough to haul a field gun.

Exclusion of Germany from cartels is an obvious lesson of experience. As one specific example, the production of magnesium in the United States was limited by cartel agreements so that even under the spur of the defense emergency, Thurman Arnold testified before the TREC in 1940, our output had gone up from 4,000 tons to only 6,000 while the Germans were turning out 60,000 to 70,000 tons. It was this sort of thing which prompted the Kilgore Committee to declare:

"Almost immediately, as a consequence of this unholy alliance between Hitler and the cartelists, Germany's plans for economic warfare, aimed at ultimate world domination, were expanded. The German Government became a silent partner in the multitude of cartel agreements among German, American, British, French and other concerns with which German industry had established cartel relations.

"Under cover of cartel agreements, Germany penetrated the economy of other nations, including the United States. Using their cartel affiliates or subsidiaries, German industrialists

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built up a network which impaired the production of other nations, obtained sources of foreign exchange for Germany, gathered economic intelligence and spread Nazi propaganda."

The argument against attempting to control another nation's economy down to the last detail is that even with whole armies of inspectors and technicians it is almost impossible, as the Nazis found in the countries they occupied. Applied to the internal economy of Germany, this is a sound argument. But foreign trade is another matter. It can be controlled by a few key people in a few key places. The two problems are as different as collecting a nation's internal revenue and collecting the customs. The United States needs _____ persons for the first task; the second is efficiently performed by _____.

* * *

The elimination of German heavy industry is no hate campaign. The world has seen enough of hatred, and the United Nations have no need to adopt the policy of their enemies. Nor is the program a panacea for peace. It is, however, an essential preliminary to peace, to realization of the ideals for which the United States has been fighting, to the security of all nations (even including Germany), and to that better world which the sacrifices of all peoples have entitled them to expect.

What to do with Germany is the first of the big postwar questions the United Nations must answer. The right answer will give us a tremendous lift toward the attainment of our other aims, --

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toward what Woodrow Wilson called a "community of power" to replace the balance of power and keep the peace, toward the increasing exchange of goods and ideas among nations, toward the continuance of full production and full employment at home.

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April 26, 1945

Dear Walter:

Thank you for your letter of April 16, with its heartfelt expression of grief in the death of President Roosevelt. I know that to you this has been a personal tragedy and I know that you too realize what a great loss it is to our country and to the whole world.

We shall both have many memories of our contacts during these past years and I appreciate your comment upon my own part in his Administration. I join with you in hoping that the peace for which he gave his life may come and quickly.

Mrs. Morgenthau has been ill and is away from Washington, but I know if she were here she would wish me to add her thanks for your greetings.

Sincerely,

(Signed) *WFD*

Mr. Walter F. Dillingham
P. O. Box 3288
Honolulu 1, T. H.

WALTER F. DILLINGHAM

HONOLULU, T. H.

TABLE ADDRESS "MELBA"
P. O. Box 3988, Annex 1

April 16, 1945

PERSONAL

Honorable Henry Morgenthau
Treasury Department
Washington, District of Columbia

Dear Henry Morgenthau:

The tragic news which broke over the world last week was so great that it is hard for me to express my feelings. As you know, my personal relations and friendship with Franklin Roosevelt goes back to the time when he was Assistant Secretary of the Navy and he and I struggled over an intricate Pearl Harbor problem in 1917 and 18. From that time until now I have had the greatest regard and aloha for him. We exchanged letters when he was elected Governor of New York, and from time to time since then we have had little catch visits in Washington, and twice more than the prescribed ten minute visits here in Honolulu. It was through him, you may remember, that I had the pleasure of meeting you and Mrs. Morgenthau when you came here for a period of rest.

Knowing from the President and from you of the very close and devoted friendship which was yours I realize what his going means to you. It should be and I know it will be a source of comfort to you to hold the thought of how loyally and ably you have supported him in the great task which he assigned to you. As has been many times expressed, the death of the President is tragic and irreparable to our Country. I know from his own lips his feeling that his job was to carry on and see a lasting peace in the world established. For him I regret that he was denied even this immediate reward for the work which he accomplished.

With greetings and aloha to Mrs. Morgenthau and to you,

Sincerely,



WALTER F. DILLINGHAM

25

April 26, 1945.

Gentlemen:

The letter which you both signed, expressing your grief in the death of President Roosevelt, has just reached me, and I want to thank you for your courtesy in writing as you did. This has been, as you say, a terrific loss, not only for our own country but for all the countries of the world. Your expression of grief on behalf of others in your organization and in your country is very warmly appreciated.

Sincerely,

(Signed) H. Morgenthau, Jr.

Messrs. L. Minardi, Governor,
N. Lisciani, General Manager,
Rome d'Italia,
Rome, Italy.

GSD/cha

Banca d'Italia

Capitale versato L. 300.000.000

AMMINISTRAZIONE CENTRALE

Rome, 14 April 1945

Dear Mr. Secretary :

It is with the deepest grief that we have received the news of President Roosevelt's death.

All the world is moved for the departure of the Man who was feeling, talking and acting as the true champion of humanity.

Italy is especially grieved with the loss of a precious friend that understood and assisted her during the most difficult period of her history.

We beg you to accept, dear Mr. Secretary, the most profound regret of ourselves personally and of our Bank.

With best regards, believe us,

Yours very truly,

F. Introna
F. Introna
General Manager

L. Einaudi
L. Einaudi
Governor

Mr. HENRY MORGENTHAU Jr.
Secretary of the U.S.A. Treasury
Washington, D.C.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 26, 1945

TO Mr. Fitzgerald
FROM Ted H. Gamble

The Secretary asked me for a memo that he might want to use for telling the President about our payroll operation. I think the attached answers his request.

Attachment

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE April 26, 1945

TO Secretary Morgenthau
FROM Ted E. Gamble

I thought perhaps you might want to call the attention of the President to the very important home front activity currently being carried forward by the War Finance Division of the Treasury.

Naturally, everyone who is aware of the present high income of the people as related to the scarcity of the goods available is gravely concerned with the situation which faces us now and in the months immediately ahead.

With this in mind, we have set in the 7th War Loan an all-time high goal of \$7 billion for sales to individuals, and \$4 billions of which will be raised in E Bonds. This \$4 billion E Bond goal represents a 33% increase over the objective set for any previous Drive.

Obviously it is desirable to draw as much of this money as possible out of current income. Therefore, particular emphasis is being laid on securing maximum subscriptions from the 30 million men and women workers on the payrolls of the country, and \$2.5 billion of the E Bond goal is being charged to the Payroll Savings phase of the over-all 7th War Loan activity.

There are now 27 million workers buying Bonds through the regular Payroll Plan at the rate of over \$500 million each month, but as this will not be sufficient to reach the staggering goals set for them, it will be necessary to sell these same workers additional Bonds during the 7th War Loan.

To give these men and women an opportunity to make maximum subscriptions over and above their present regular monthly allotments now going into Bonds, we started an advance 7th War Loan Payroll Drive on April 9th at the plants. In this way the extra allotments will be accumulated so that the actual purchase of the 7th War Loan Bonds will be made during the accounting period of the Loan.

To meet this great challenge our office in Washington and workers and volunteers in the field have had a tremendous organization job on their hands. After consultation with our field forces, we set a plan of campaign, the ultimate

Secretary Morgenthau - 2 - April 26, 1945

objective of which is to see that each man and woman worker in the plants, shipyards, factories and mines of the country is personally solicited and given an opportunity to participate in the 7th War Loan drive by buying extra Bonds in an amount commensurate with his or her ability to pay.

Booklets, posters, Bond envelopes and a special War Bond movie for the plants were written, produced and made ready for distribution.

Early in February there were a series of regional meetings held to present our plans and materials to our State committees.

Starting March 1st over 150 meetings with the top executives and labor leaders of concerns employing nearly 17 million people were held. At these meetings the urgency and needs for this money was explained and the support of these leaders enlisted.

Almost without exception the larger companies of the country and thousands of smaller firms have accepted a quota for 7th War Loan sales to employees. These quotas based on the average wage scale of the company followed a formula developed by the Treasury's Division of Research & Statistics.

In the plants themselves over 20,000 labor-management committees have jointly planned their individual company drives. Generally speaking, after a rally, the actual selling is done by a man or woman worker designated as a captain or Minute Man, who is charged with soliciting from 10 to 20 of his fellow workers.

In addition to the use of the Treasury material, hundreds of firms have developed elaborate plans of their own as additional stimuli of War Bond sales at their plants.

Though the drive is just two weeks old, the reports from all over the country are most encouraging, and a number of the country's bigger employers have already announced that their quotas have been oversubscribed.



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UNITED KINGDOM DELEGATION
SAN FRANCISCO CONFERENCE

26th April, 1945.

My dear Mr. Morgenthau,

Your letter of the 17th April has been sent on to me here, and I am having your reply to the Chancellor of the Exchequer forwarded to him by fast bag.

Events in Europe are moving at a fantastic pace! I wish we were doing the same here!

Yours very sincerely,

Halifax

The Hon. Henry Morgenthau, Jr.,
Secretary of the Treasury.



THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

April 26, 1945.

MEMORANDUM TO THE SECRETARY:

Yesterday I called Al Williams, President of the Federal Reserve Bank in Philadelphia, and told him you were looking for a man to head the Financial Section of the American organization to control the German zone assigned to the American Army and that you would like to talk to him about the matter with a view to his appointment to that position, and I told him you would like to talk to him on Friday of this week if it was at all possible for him to accept such an offer. In this first telephone conversation he said it sounded like a real challenge and an opportunity to render some real service. He was interested, he said, but he would have to think it over and look over his own position there with the bank before he gave a definite reply.

He called back this morning and said he had had time to think the matter over and appraise his own situation, and he regretted to have to advise that he just couldn't accept it. He said Mr. McCabe, who is Chairman of his Board, is going to be absent for the next three or four months in connection with the sale of surplus property abroad. Mr. Driscoll, First Vice President, has been sick for the past three months and is able to come to the office only an hour or so a day. Mr. Sienkiewicz is tied up with the Colmer Committee in Congress and Mr. Ropp, who is next to Mr. Sienkiewicz, is working for the Board, largely on Bretton Woods and related matters, so he says his staff is pretty well shot for the next several months, and it would be rather dangerous for him to commit himself to leave the Bank for the time that would be required to handle this German job. Furthermore, he said he had gotten to the age where he didn't work so well under pressure and is afraid if he had to do that again his old back trouble would return and he would be in for a long spell of sickness.

I asked him if he had any suggestions as to any individual who might do the job and he gave me the name of Mr. Ralph A. Young, who was a Professor of the Wharton School of Finance and is in charge of financial studies for the National Bureau of Economic Research. There wasn't any doubt in his mind but what Mr. Young had the qualifications and that he would do an excellent job. On the other hand, he realized that he was not very well known and that in seeking a person for this place you were also seeking a name. I told him I would send Mr. Young's name to you.



sub

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE April 26, 1945

TO Mrs. McLaughlin
FROM W. C. C.

The Secretary agreed to furnish stenotype notes of this meeting to the military secretary of the GSEC committee which gets these documents out. I will talk with you about this later.

DEPARTMENT OF STATE
WASHINGTON

SECRET

April 26, 1945

MEMORANDUM FOR THE PRESIDENT

The Informal Policy Committee on Germany is presenting to you, for your approval, a revised directive for the military government of Germany prepared on the basis of the policy memorandum of March 23, which was approved by President Roosevelt. The memorandum of March 23 has been introduced into the European Advisory Commission by Ambassador Winant for negotiation as a protocol of agreement with the U.K., the U.S.S.R. and France. Copies of the memorandum of March 23 and the revised directive are attached.

In the opinion of the committee the revised directive embodies policies and measures which faithfully carry out the principles set forth in the memorandum of March 23. The committee believes that this directive furnishes the basis for effective initial action to prevent Germany from again becoming a threat to world peace.

The revised directive is being submitted to the Joint Chiefs of Staff for consideration from the military point of view. Thereafter it will be transmitted to General Eisenhower as the basic instrument for the initial post-defeat period in Germany. The directive is designed to serve a dual purpose in that it will give him this Government's policy as formulated to date for his guidance as American member of the Control Council in Germany and will likewise guide him in the administration of the U.S. zone.

If you approve, the Informal Policy Committee on Germany will continue, under your direction, to develop basic policies of this Government for the treatment of Germany, including the pending matter of reparation.

Joseph P. Gurnea

Acting Secretary.

William L. Clayton *Henry M. Whiting Jr.*
James W. Dand

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COPY NO. 99

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26 April 1945

Pages 1 to 30 Incl.

INFORMAL POLICY COMMITTEE ON GERMANY

DIRECTIVE TO COMMANDER-IN-CHIEF OF U.S. FORCES OF OCCUPATION REGARDING THE MILITARY GOVERNMENT OF GERMANY

References: A. JCS 1067
B. SWNOC 2 Series

Note by the Secretaries

The attached directive has been approved by the Informal Policy Committee on Germany.

CHARLES W. MCCARTHY
ALVIN F. RICHARDSON
RAYMOND E. COX
Secretariat

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April 26, 1945

DIRECTIVE TO COMMANDER IN CHIEF OF U.S. FORCES OF OCCUPATION REGARDING THE MILITARY GOVERNMENT OF GERMANY

1. 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.

This directive sets forth policies relating to Germany in the initial post-defeat period. As such it is not intended to be an ultimate statement of policies of this Government concerning the treatment of Germany in the post-war world. It is therefore essential that, during the period covered by this directive, you assure that surveys are constantly maintained of economic, industrial, financial, social and political conditions within your zone and that the results of such surveys and such other surveys as may be made in other zones are made available to your Government, through the Joint Chiefs of Staff. These surveys should be developed in such manner as to serve as a basis for determining

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changes in the measures of control set forth herein as well as for the progressive formulation and development of policies to promote the basic objectives of the United States. 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 have 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-zone 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 influences 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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zations, 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 municipal 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 8.

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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B. Suspected War Criminals and Security Arrests:

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 (Volksgerichtshof), 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, 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., Geheime Staatspolizei (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 Ordensburgs, 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. Textbooks and curricula which are not free of Nazi and militaristic doctrine shall not be used. 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 6 above, you will make all reasonable efforts to preserve historical archives, museums, libraries and works of art.

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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 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 demilitarization 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 19, 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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German Standard of Living

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.

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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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

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g. 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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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 Wirtschaftsrunde 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 or restraint of inflation shall not constitute an additional ground for the importation of supplies, nor shall it constitute an additional ground

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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.

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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.

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PART III

FINANCIAL

44. You will make full application in the financial field of the principles stated elsewhere in this directive and you will endeavor to have the Control Council adopt uniform financial policies necessary to carry out the purposes stated in paragraphs 4 and 5 of this directive. You will take no steps designed to maintain, strengthen or operate the German financial structure except in so far as may be necessary for the purposes specified in this directive.

45. The Control Council should regulate and control to the extent required for the purposes set forth in paragraphs 4 and 5 the issue and volume of currency and the extension of credit in Germany and in accordance with the following principles:

a. United States forces and other Allied forces will use Allied Military marks and Reichsmark currency or coins in their possession. Allied Military marks and Reichsmark currency and coin now in circulation in Germany will be legal tender without distinction and will be interchangeable at the rate of 1 Allied Military mark for 1 Reichsmark. Reichskreditkassenscheine and other German military currency will not be legal tender in Germany.

b. The Reichsbank, the Rentenbank or any other bank or agency may be permitted or required to issue bank notes and currency which will be legal tender; without such authorization no German governmental or private bank or agency will be permitted to issue bank notes or currency.

c. The German authorities may be required to make available Reichsmark currency or credits free of cost and in amounts sufficient to meet all the expenses of the forces of

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occupation, including the cost of Allied Military Government and including to the extent that compensation is made therefor, the cost of such private property as may be requisitioned, seized, or otherwise acquired, by Allied authorities for reparations or restitution purposes.

Pending agreement in the Control Council you will follow these policies in your own zone.

You will receive separate instructions relative to the currency which you will use in the event that for any reason adequate supplies of Allied Military marks and Reichsmarks are not available, or if the use of such currency is found undesirable.

You will not announce or establish in your zone, until receipt of further instructions, any general rate of exchange between the Reichsmark on the one hand and the U.S. dollar and other currencies on the other. However, a rate of exchange to be used exclusively for pay of troops and military accounting purposes in your zone will be communicated separately to you.

46. Subject to any agreed policies of the Control Council, you are authorized to take the following steps and to put into effect such further financial measures as you may deem necessary to accomplish the purposes of your occupation:

a. To prohibit, or to prescribe regulations regarding, transfer or other dealings in private or public securities or real estate or other property.

b. To close banks, but only for a period long enough for you to introduce satisfactory control, to remove Nazi and other undesirable personnel, and to issue instructions for the determination of accounts to be blocked under sub-paragraph 48 g below.

c. To close stock exchanges, insurance companies, and similar financial institutions for such periods as you deem

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appropriate.

d. To establish a general or limited moratorium or moratoria only to the extent clearly necessary to carry out the objectives stated in paragraphs 4 and 5 of this directive.

47. Resumption of partial or complete service on the internal public debt at the earliest feasible date is deemed desirable. The Control Council should decide the time and manner of such resumption.

48. Subject to any agreed policies of the Control Council,

g. You will prohibit:

(1) the payment of all military pensions, or other emoluments or benefits, except compensation for physical disability limiting the recipient's ability to work, at rates which are no higher than the lowest of those for comparable physical disability arising from non-military causes.

(2) the payment of all public or private pensions or other emoluments or benefits granted or conferred:

(a) by reason of membership in or services to the former Nazi party, its formations, affiliated associations or supervised organizations,

(b) to any person who has been removed from an office or position in accordance with paragraph 6 ~~and~~ ~~and~~, and

(c) to any person arrested and detained in accordance with paragraph 8 during the term of his arrest, or permanently, in case of his subsequent conviction.

h. You will take such action as may be necessary to insure that all laws and practices relating to taxation or other fields of finance, which discriminate for or against

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any persons because of race, nationality, creed or political opinion, will be amended, suspended, or abrogated to the extent necessary to eliminate such discrimination.

g. You will hold the German authorities responsible for taking such measures in the field of taxation and other fields of public finance, including restoration of the tax system and maintenance of tax revenues, as will further the accomplishment of the objectives stated in paragraphs 4 and 5.

d. You will exercise general supervision over German public expenditures in order to ensure that they are consistent with the objectives stated in paragraphs 4 and 5.

g. You will impound or block all gold, silver, currencies, securities, accounts in financial institutions, credits, valuable papers, and all other assets falling within the following categories:

(1) Property owned or controlled directly or indirectly, in whole or in part, by any of the following:

(a) The German Reich, or any of the Lander, Gaue or provinces, any Kreis, municipality or other similar local subdivision; or any agency or instrumentality of any of them including all utilities, undertakings, public corporations or monopolies under the control of any of the above;

(b) Governments, nationals or residents of other nations, including those of territories occupied by them, at war with any of the United Nations at any time since 1 September 1939;

(c) The Nazi Party, its formations, affiliated associations and supervised organizations, its officials, leading members and supporters;

(d) All organizations, clubs or other associations prohibited or dissolved by military government;

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(e) Absentee owners, of non-German nationality including United Nations and neutral governments and Germans outside of Germany;

(f) Any institution dedicated to public worship, charity, education or the arts and sciences which has been used by the Nazi Party to further its interests or to cloak its activities;

(g) Persons subject to arrest under provisions of paragraph 8, and all other persons specified by military government by inclusion in lists or otherwise.

(2) Property which has been the subject of transfer under duress or wrongful acts of confiscation, disposition or spoliation, whether pursuant to legislation or by procedure purporting to follow forms of law or otherwise.

(3) Works of art or cultural material of value or importance, regardless of the ownership thereof.

You will take such action as will insure that any impounded or blocked assets will be dealt with only as permitted under licenses or other instructions which you may issue. In the case particularly of property blocked under (1)(a) above, you will proceed to adopt licensing measures which while maintaining such property under surveillance would permit its use in consonance with this directive. In the case of property blocked under (2) above, you will institute measures for prompt restitution, in conformity with the objectives stated in paragraphs 4 and 5 and subject to appropriate safeguards to prevent the cloaking of Nazi and militaristic influence.

49. All foreign exchange transactions, including those arising out of exports and imports, shall be controlled with the aim of preventing Germany from developing a war potential and of

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achieving the other objectives set forth in this directive. To effectuate these purposes the Control Council should

a. Seek out and reduce to the possession and control of a special agency all German (public and private) foreign exchange and external assets of every kind and description located within or outside Germany.

b. Prohibit, except as authorized by regulation or license, all dealings in gold, silver, foreign exchange, and all foreign exchange transactions of any kind. Make available any foreign exchange proceeds of exports for payment of imports directly necessary to the accomplishment of the objectives stated in paragraphs 4 and 5 of this directive, and authorize no other outlay of foreign exchange assets except for purposes approved by the Control Council or other appropriate authority.

c. Establish effective controls with respect to all foreign exchange transactions, including:

(1) Transactions as to property between persons inside Germany and persons outside Germany;

(2) Transactions involving obligations owed by or to become due from any person in Germany to any person outside Germany; and

(3) Transactions involving the importation into or exportation from Germany of any foreign exchange asset or other form of property.

Pending agreement in the Control Council, you will take in your zone the action indicated in subparagraphs a, b and c above. Accordingly, you will in your zone reduce to the possession and control of a special agency established by you, within your Command, all German foreign exchange and external assets as provided in subparagraph a. You will endeavor to have similar agencies

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for the same purpose established in the other zones of occupation and to have them merged as soon as practicable in one agency for the entire occupied territory. In addition you will provide full reports to your government with respect to all German foreign exchange and external assets.

50. No extension of credit to Germany or Germans by any foreign person or Government shall be permitted except that the Control Council may in special emergencies grant permission for such extensions of credit.

51. It is not anticipated that you will make credits available to the Reichsbank or any other bank or to any public or private institution. If, in your opinion, such action becomes essential, you may take such emergency actions as you may deem proper, but in any event, you will report the facts to the Control Council.

52. You will maintain such accounts and records as may be necessary to reflect the financial operations of the military government in your zone and you will provide the Control Council with such information as it may require, including information in connection with the use of currency by your forces, any governmental settlements, occupation costs, and other expenditures arising out of operations or activities involving participation of your forces.

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COPY NO. 99

27 April 1945

INFORMAL POLICY COMMITTEE ON GERMANYCORRIGENDUM

TO

IPCOG 1DIRECTIVE TO COMMANDER-IN-CHIEF OF U.S. FORCES OF OCCUPATION REGARDING THE MILITARY GOVERNMENT OF GERMANYNote by the Secretaries

All holders of IPCOG 1 are requested to make the following change therein:

Page 26, paragraph 48 a (2) (b), second and third lines:

Delete "or paragraph 52".

CHARLES W. MCCARTHY
ALVIN F. RICHARDSON
RAYMOND E. COX
Secretariat

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SECRET
28 March 1945

#14

The following is a summary of U.S. policy relating to Germany in the initial post-defeat period. As such it will be introduced into the European Advisory Commission, and will be used as the basis for directives to be issued to the U. S. Commanding General in Germany.

The authority of the Control Council to formulate policy with respect to matters affecting Germany as a whole shall be paramount, and its agreed policies shall be carried out in each zone by the zone commander. In the absence of such agreed policies, and in matters exclusively affecting his own zone, the zone commander will exercise his authority in accordance with directives received from his own government.

The administration of affairs in Germany should be directed toward the decentralization of the political structure and the development of local responsibility. The German economy shall also be decentralized, except that to the minimum extent required for carrying out the purposes set forth herein, the Control Council may permit 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. There shall be equitable distribution of such commodities between the several zones.

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Controls may be imposed upon the German economy only as may be necessary (a) to carry out programs of industrial disarmament and demilitarization, reparations, and of relief for liberated areas as prescribed by appropriate higher authority and (b) to assure the production and maintenance of goods and services required to meet the needs of the occupying forces and displaced persons in Germany, and essential to prevent starvation or such disease or civil unrest as would endanger the occupying forces. No action shall be taken, in execution of the reparations program or otherwise, which would tend to support basic living standards in Germany on a higher level than that existing in any one of the neighboring United Nations. All economic and financial international transactions, including exports and imports, shall be controlled with the aim of preventing Germany from developing a war potential and of achieving the other objectives named herein. The first charge on all exports for reparations or otherwise shall be a sum necessary to pay for imports. No extension of credit to Germany or Germans by any foreign person or Government shall be permitted, except that the Control Council may in special emergencies grant such permission. Recurrent reparations should not, by their form or amount, require the rehabilitation or development of German heavy industry and should not foster the dependence of other countries upon the German economy.

In the imposition and maintenance of economic controls, 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.

The Nazi party and its affiliated and supervised organizations and all Nazi public institutions shall be dissolved and their revival prevented. Nazi and militaristic activity or propaganda in any form shall be prevented.

There shall be established a coordinated system of control over German education designed completely to eliminate Nazi and militarist doctrines and to make possible the development of democratic ideas.

Nazi laws which provide the basis of the Hitler regime or which establish discrimination on grounds of race, creed or political opinion, shall be abolished.

All members of the Nazi party who have been more than nominal participants in its activities, and all other persons hostile to Allied purposes will be removed from public office and from positions of responsibility in private enterprise.

War criminals and those who have participated in planning or carrying out Nazi enterprises involving or resulting in atrocities or war crimes, shall be arrested, brought to trial and punished. Nazi leaders and influential Nazi supporters and any other persons dangerous to the occupation or its objectives, shall be arrested and interned.

A suitable program for the restitution of property looted by Germans shall be carried out promptly.

The German armed forces, including the General Staff, and all para-military organizations, shall be promptly demobilized and disbanded in such a manner as permanently to prevent their revival or reorganization.

The German war potential shall be destroyed. As part of the program to attain this objective, all implements of war and all specialized facilities for the production of armaments shall be seized or destroyed. The maintenance and production of all aircraft and implements of war shall be prevented.

APR 26 1945

Dear Mr. Johnson:

I am glad to be able to express wholehearted agreement with the principles embodied in the joint declaration of the Mexican Bankers Association and the Bankers Association for Foreign Trade which you sent to the Treasury Department on April 13th.

I wish to thank you for forwarding the text of the declaration to me. The issuance of such a declaration is a heartening expression of the same desire for international cooperation that led this government and the governments of the other United Nations to participate in the Bretton Woods Conference. I feel that adoption of the agreements reached at Bretton Woods will be the best guarantee that we will realize the principles held and the objectives hoped for by the Bankers Association for Foreign Trade and the Mexican Bankers Association.

Sincerely,

(Signed) H. W. Carpenter, Jr.

Mr. A. W. Johnson, Secretary,
Bankers Association for Foreign Trade,
c/o National Shumett Bank of Boston,
Boston, Massachusetts.

HL:Dr1 -4/26/45

MS-1691

PLAIN

Paris

Dated April 26, 1945

Rec'd 9:10 p.m.

Secretary of State,

Washington.

2116, Twenty-sixth

FOR HOBBS LEAVITT FROM JOSEPH SCHWARTZ

"Have received following from Filderman.

~~Consideration~~
~~Consideration~~ Jacobson very desirable, but he accepts on condition certain right continue Room work. Assuming emigration continues suspended and since correspondence now well organized he will be able to devote all time necessary. Surprised no response shipment antityphus medicaments promised long time ago.

Message ends.

Despite many drawbacks this proposed arrangement, believe it should be accepted especially view Filderman's recommendation and urgency our having American representative there. If you agree, would appreciate your undertaking necessary steps with Room New York. Expect visit Saly Meyer, Laura Margolis, Harold Linder and Harold Trobe before my return."

CAP:JST

WTD

PLAIN

Fern

Dated April 26, 1945

Rec'd 11:05 p.m.

Secretary of State,

Washington.

2455, Twenty-sixth

FOR WBS FROM MCCLELLAND

Kindly deliver following message to Arieh Tartakower of World Jewish Congress from Gerhart Siegmund and Dragutin Rosenberg.

"According report received from Intercessa Belgrade delegate, there are in liberated Yugoslavia about 4,000 Jewish survivors of whom some 1500, including 283 children mostly orphans, are in Belgrade; about 720 in Macedonia and Serbia; about 750 in Vukodina; and approximately 1000 in Croatia and Dalmatia. Dr. Pope in Belgrade is directing the relief work. Situation there is extremely precarious through lack of food, clothing and medicines. Funds can be transmitted through Intercessa via Bucharest. Please examine also possibility shipping clothing directly from South American via Bari". 1625

HARRISON

JMS

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CABLE TO AMERICAN LEGATION, BEIRUT, FOR SOCIALIZED, FROM THE MAY REPUBLIC BOARD

Please deliver the following message to Saly Mayer, St. Gall, from M. A. Leavitt of American Jewish Joint Distribution Committee:

QUOTE PLEASE ASK FILLISMAN GIVE ALL POSSIBLE ASSISTANCE JOSEF FORBASH 128 CAUSA MOSILO: RICHARDST AND SEND US REPORT. UNQUOTE

THIS IS THE NEW CASE NO. 512

10:20 a.m.
April 26, 1945

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CABLE TO AMERICAN EMBASSY, PARIS, FROM THE MAY REPUBLIC BOARD

Please deliver the following message to Joseph Schwartz from M. A. Leavitt of American Jewish Joint Distribution Committee:

QUOTE APPROVE TENTATIVE GRANT FIFTYTHOUSAND POUNDS STERLING FOR CLOTHING LAUNDRY THROUGH FRIENDS ADVISE PARTICIPATION SOUTHAFRICA EGYPTIAN COMMODITIES WHICH UNDERSTAND WILL COVER HANOI PORTION COSTS. UNQUOTE

10:20 a.m.
April 26, 1945

CABLE TO AMERICAN EMBASSY, PARIS, FROM THE WAR REFUGEE BOARD

Please deliver the following message to Joseph Schwartz from
H. A. Leavitt of American Jewish Joint Distribution Committee:

100% REFUGEE PURCHASES PALESTINE ADVISE TOTAL COST
30,000 PAIR SHOES DESTINED CZECHOSLOVAKIA TATARIAN ALSO
COST PER PAIR. REFUGEE PLACING ORDER ADDITIONAL 70,000
FOR HUNGARY ALLEGED WOULD BECOME RECEIVED COMPARATIVE
ESTIMATE FROM SOUTH AFRICA. COST \$560,000 APPEARS HIGH
APPEARING AS PER PAIR. ADVISE WHAT PART COVERED COST
PRICE PER PAIR EXCLUSIVE FREIGHT INSURANCE ETC. EMANATE
AS ACCURATE REPORT POSSIBLE DO NOTED THAT SUBSTANTIAL
AMOUNT INVOLVED ONE COMPANY. UNQUOTE

10:20 a.m.
April 26, 1945

SECRETOPTEL NO. 133

Information received up to 10 a.m. 26th April 1945.

NAVAL

1. Mediterranean. 23rd/24th. Allied coastal forces sank 7 enemy coastal craft Gulf of Genoa. 24th. 3 enemy craft sunk during unsuccessful attack on Leghorn while 3 other small craft sent to carry out sabotage surrendered in Gulf of Genoa.
2. Anti-submarine Operations. 24th. One H.M. Destroyer probably sank U-boat off Farn Island. 25th. Liberator made promising attack in S.W. approaches.
3. Enemy Attack on Shipping. 23rd. (6825) Norwegian Tanker torpedoed off Cape Hatteras.

MILITARY

4. Western Front. Southern Sector. First French Army captured Biberach and now 10 miles to East. Enemy pocket south Stuttgart which previously encircled by junction, First French and Seventh U.S. Armies being steadily reduced. Seventh U.S. Army is in Ulm and now 18 miles to south while further east bridgehead at Dillingen expanded to width 10 miles and depth 12 miles. On sector between these 2 towns rapid advances have brought forward troops within 6 miles River Danube. Central Sector: Third U.S. Army made general advances from 10 to 20 miles while thrust to S.E. has entered Cham and Bogen while armoured column reported within 15 miles Passau on Austrian border. Northern Sector: Stubborn resistance continues on whole Second British Army front with eastern outskirts Bremen penetrated up to 3 miles on east bank of Weser while attack from south has reached outskirts of city to west of river.
5. Eastern Front. Northern Sector: Pillau on Baltic coast captured. Central Sector: Russian forces have linked up N.W. Potsdam thus completing encirclement Berlin. Reduction German pocket south east of Berlin continued from direction Frankfurt-on-Oder and from direction Kottbus. Still further south River Elbe reported crossed 35 miles N.W. Dresden. Southern Sector: Fighting reported in outskirts Brno.
6. Italy. Eighth Army Sector: River Po reached along almost all this front though some pockets resistance still remain to south while bridgehead won on north bank in area Ficarole. Fifth Army Sector: U.S. and South African troops have crossed River Po on wide front towards Nogara and Mantua with latter having one brigade across river in area of latter town. Landing elements are reported 9 miles S.W. Verona. Further west Reggio captured while other forces advancing to north of Parma. On west coast sector further progress made N.E. Spezia.
7. Burma. Central Sector: British troops on eastern bank of Irrawaddy now within 10 miles Salin while other troops having crossed to west bank of river at point 7 miles S.E. this place where no opposition so far encountered. Further S.E. armoured column fighting in outskirts Pyu.

AIR

3. Western Front. 25th. Bomber Command escorted aircraft 787 (missing 9) attacked in clear weather targets at Berchtesgaden (1248 tons) and gun emplacements on Wangerooge (2153 tons) in Frisian Islands. At Berchtesgaden the chalet hit and considerable damage caused U.S. barracks. U.S. escorted heavy bombers 573 (outstanding bombers 14 and fighters 8) dropped 1204 tons targets South Germany West Austria and Czechoslovakia including Skoda Works, Pilsen (469 tons) and 3 railway centres (478 tons) with mainly good results. SHAEF (Air). Medium bombers dropped 160 tons Bremen and 474 tons on flak positions and Ordnance Depot Munich-Salzberg Area, with good results while fighter bombers and fighters 2116 (missing 11) operated battle areas destroying or damaging 2,200 road and rail vehicles and inflicting enemy air casualties 12:311 in combat and 62:091 on ground.
9. Mediterranean. 23rd/24th. Liberators dropped 163 tons on railway bridges near Verona. 24th. Heavy bombers 702 (Missing 3) bombed bridges and supplies along Brenner Road in North Italy and Austria. Tactical Aircraft 1266 (missing 6) attacked enemy communications and concentrations North Italy destroying or damaging 1343 road and rail vehicles.
10. French Indo-China. 22nd and 23rd. Liberators dropped 100 tons Naval Base Saigon when one large ship sunk and two others damaged.

April 27, 1945
9:00 a.m.

1067-REVISED--MEMO FOR THE PRESIDENT

Present: Mr. D. W. Bell
Mr. Crowley
Mr. Downey
Col. McCarthy
Mr. Coe
Mr. Friedman
Mr. Glasser
Commander Richardson
Mr. Fowler
Mr. Clayton
Mr. Despres
Mr. Riddleberger
Mr. McCloy
Lieutenant Bancroft
Mr. Bard

MR. CLAYTON: Could we have a return of the documents that were used yesterday and which were corrected? They have been replaced by a final and correct document and we would like to have the old ones returned to the Secretariat.

MR. FOWLER: We returned one and Mr. Crowley has the other one.

MR. CLAYTON: Now, Mr. Secretary, as we agreed yesterday, we have prepared a memo to the President. The working group decided after considerable thought on the matter that a digest was not called for because the memo of March 23rd was the best digest that could be made, because it gives in general outline the principles and policies we had governing us in writing this detailed directive.

(Lieutenant Bancroft enters the conference.)

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MR. CLAYTON: I believe they spoke to you about that matter and you are in agreement--

H.M.JR: What?

MR. CLAYTON: ...that we shouldn't attempt to prepare a digest of this detailed directive because the memo of March 23rd was deemed to be the best digest that could be prepared, and it is only four pages long, full spaced, and sets out fully the principles and the policies that have governed us in drafting this detailed directive, so that we thought we would just make that statement to the President.

H.M.JR: Do we have a copy of the March 23rd memo?

MR. CLAYTON: Yes, sir. We are sending this to him along with the document we finished yesterday. This memo which we have prepared for him, which has already been signed by Acting Secretary Grew, and which I believe that the rest of the Committee would sign reads as follows:

"Memorandum for the President. The Informal Policy Committee on Germany is presenting to you, for your approval, a revised directive for the military government of Germany prepared on the basis of the policy memorandum of March 23, which was approved by President Roosevelt. The memorandum of March 23 has been introduced into the European Advisory Commission by Ambassador Winant for negotiation as a protocol of agreement with the U.K., the U.S.S.R. and France. Copies of the memorandum of March 23 and the revised directive are attached.

"In the opinion of the committee the revised directive embodies policies and measures which faithfully carry out the principles set forth in the memorandum of March 23. The committee believes that this directive furnishes the basis for effective initial action to prevent Germany from again becoming a threat to world peace.

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"The revised directive is being submitted to the Joint Chiefs of Staff for consideration from the military point of view. Thereafter it will be transmitted to General Eisenhower as the basic instrument for the initial post-defeat period in Germany. The directive is designed to serve a dual purpose in that it will give him this Government's policy as formulated to date for his guidance as American member of the Control Council in Germany and will likewise guide him in the administration of the U.S. zone.

"If you approve, the Informal Policy Committee on Germany will continue, under your direction, to develop basic policies of this Government for the treatment of Germany, including the pending matter of reparation."

H.M.JR: I think it is very good, except it doesn't do what Mr. Crowley and I wanted it to do. I don't know why that part was dropped out, what Crowley thought. That was that four-A business to point out to the President that this, so to speak, would determine that they brought this thing on their own heads, and that was what--I mean, I just want to point out that I thought that was going to be a sort of preamble, "whereas, the Germans so and so and so and so; therefore," and the rest would follow.

MR. CLAYTON: I didn't realize that we were to incorporate that in the memo.

H.M.JR: I am correct, Mr. Crowley, am I not?

MR. CROWLEY: Yes. I am sorry I didn't see that. I was reading something else.

MR. CLAYTON: Of course, that is in this March 23rd memo which we substituted for the digest which we discussed, and we would expect to say to the President verbally that we think that if he shouldn't have time to read the whole detailed memo that he would find that this March 23rd document is a faithful digest of what is in the other.

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MR. McCLOY: He has that document.

MR. CLAYTON: I know.

MR. McCLOY: It won't do any harm.

MR. CLAYTON: It would make the file complete by sending it.

H.M.JR: While Mr. Crowley is reading it, on page two at the top of the page where it says, "The revised directive is being submitted to the Joint Chiefs of Staff for consideration from the military point of view," somehow or other if you could get in before the next sentence, "Thereafter it will be transferred," meaning it will only be transferred to General Eisenhower if the President approves--

MR. CLAYTON: In the first part we say, "The Informal Policy Committee on Germany is presenting to you, for your approval--" say, the very first line, and if he shouldn't approve, of course--

H.M.JR: Yes.

MR. BELL: Isn't it the one at the end?

MR. CROWLEY: Well, as I see this thing, in order to get any thought like that in it will have to be rewritten.

MR. CLAYTON: You would have to rewrite it.

MR. CROWLEY: The thing I had back in my mind, maybe you can just carry it out in your analysis and things like that. But I think the one concern I have is that these Germans brought this on themselves and now, for instance, they are fighting in Berlin and they are going to have wholesale destruction of Berlin. Now, this program that you have here is rather something to try to untangle or rehabilitate something that they did themselves, Jack. Now, of course, you do bring that out in 4a there.

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MR. McCLOY: It would do no harm, would it, Will, to just stick in somewhere in this thing that we have proceeded on the basis of that and put in the 4s language?

MR. CLAYTON: We can do it without rewriting the memo.

MR. McCLOY: Suppose you just add a paragraph.

MR. CLAYTON: It has already been signed by Mr. Grew.

MR. McCLOY: I didn't realize that.

MR. CROWLEY: Well, I withdraw that, then. The only thing I feel is that this committee ought to very definitely get themselves on record in this whole country that this isn't anything we did.

MR. McCLOY: It should be a part of our propaganda that the Germans brought this on themselves.

MR. CLAYTON: I can see that there may be some advantage in saying that to the President, but of course it is all through the document.

H.M.JR: What Mr. Crowley said about Wisconsin politics-- but if he's satisfied, I am.

MR. CROWLEY: At least that qualifies Wisconsin politics, doesn't it?

H.M.Jr: That does it pretty good.

"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."

MR. CLAYTON: That's in the March 23rd document, and it is copied verbatim in the document we finished and approved yesterday.

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MR. BELL: As a part of this document.

H.M.JR: If Mr. Crowley is satisfied, I am.

MR. CROWLEY: It's all right with me.

MR. CLAYTON: I would like the steno in your office to add "Acting Secretary" under Mr. Grew's name.

MR. CROWLEY: Does that take care of everything, Will?

MR. McCLOY: We have copies of that, don't we?

H.M.JR: I'll have that photostated while we wait.

MR. CLAYTON: Don't you want us all to sign it? We should sign it as a Committee. I didn't know if you wanted the title of each one or not. I have no opinion one way or another.

H.M.JR: No. The other one we did, the March 23rd one, we just signed.

MR. CLAYTON: That's right, no titles of any kind.

H.M.JR: We just signed it.

MR. CROWLEY: Will thinks we go along very peacefully this morning.

Joe has given me a memo here. I don't know very much about it. It might start an argument. (Laughter)

MR. FOWLER: You sign this first, Mr. Crowley. (Laughter)

MR. CROWLEY: I won't go into it in regard--

MR. FOWLER: We are not going to have any arguments this morning. I can see that we don't intend to, but Mr. Crowley is certainly going to sign the memo, but in signing this transmittal memo I thought it only fair and appropriate

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that the members of the Committee understand our position on the March 23rd memo, which we think is fine so far as it goes, but we think it could be usefully supplemented particularly spelling out the last paragraph in a little more detail. Now, this memo is not for action by the Committee this morning but it is to place on the agenda of the Committee for its deliberation at your convenience, Mr. Clayton, a proposal to bear out, not the memo itself, but by an interpretive supplement, some of the points I think we have taken care of in this military directive, but which the SAC might miss out on if it is going to negotiate the document as a protocol, and I just wanted to get that on the agenda of the Committee for its meeting next week.

H.M.JR: Let's sign this and get it photostated.

This has to do with what?

MR. FOWLER: The business next week.

MR. McCLOY: I can't get my name under you fellows; you have been too modest.

MR. CLAYTON: We will discuss this when we meet Tuesday morning.

H.M.JR: Somebody has to sign for Navy.

MR. DOWNEY: Mr. Bard will be here in a very few minutes, Mr. Secretary.

MR. CLAYTON: Do you think we should sign the big document?

H.M.JR: No.

MR. CLAYTON: I don't know anything about protocol.

MR. BELL: The Joint Chiefs of Staff document, isn't it?

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MR. CLAYTON: The Navy has to sign this.

(Mr. Bard enters the conference.)

MR. McCLOY: You shouldn't sign the Joint Chiefs of Staff document.

MR. CLAYTON: No.

H.M.JR: How many copies would State like? I'll have a photostat made and have as many copies as you want. A couple of dozen?

MR. CLAYTON: Yes. I would like to send one to each member of the Staff Committee, about six or seven. We better have a dozen.

MR. CROWLEY: How many do we want, Joe?

MR. FOWLER: Three or four.

MR. McCLOY: Half a dozen.

H.M.JR: Navy?

LT. BANCROFT: About three or four, I think.

(The Secretary leaves the conference temporarily.)

H.M.JR: I just got a message. I don't know what it is. It will just take a split second. Mr. Gutt of Belgium says he isn't satisfied. Does that effect all of you? They are interested aren't they?

MR. GLASSER: State is interested, too.

MR. COE: Troop pay?

H.M.JR: Could we take two minutes now? Do you mind? Go ahead, what's the trouble with Gutt?

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MR. COE: The trouble is we are not paying enough money. We have an arrangement under troop pay under which the Army has gotten from the Belgians a good many billions of francs, a good many million dollars worth of francs, one hundred and thirty-eight million dollars worth of francs.

MR. BELL: One hundred and thirty-eight million dollars in francs.

MR. COE: On the other hand, we pay out to the Belgians in dollars for francs on the basis of certifications from the War Department of how much our troops have actually spent. The figures are somewhat delayed in coming to us. The result has been that after a good deal of discussion with the Army and consideration of how much we could possibly pay the Belgians, when Mr. Gutt kicked we upped the kitty from three million dollars to five million dollars, but that's against the Army having received for various purposes one hundred and thirty-eight million dollars. The amount which they have turned over to the troops is apparently thirty-eight million dollars. Now, Mr. Gutt says the discrepancy is too large and he thinks that more ought to be paid over to him. In the end it is envisaged that it will be settled one way or another according to exact figures as to how much the troops have actually spent, but there is a problem of estimating in here. The Army estimates it fairly low. Mr. Gutt has another sort of arrangement with the British whereby the British pay him for all the money that they receive for troop expenditures, and it is expected under that arrangement that Belgium will later return the money to the British.

What they have paid them is much greater than what we have paid them. If we decide to meet him in principle, the principle he alleges being that no matter how much they have actually spent he should receive approximately what it is intended that they spend, what is disbursed to them, to the troops. I am sorry if this is complicated, but it is. If we meet them in principle, it would involve paying him about forty million dollars.

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We have understood that the Army won't accept anything like that sum. We also have similar arrangements as with the Belgians with about six other countries including France and Italy, all on the same arrangements, and we have told them we are reluctant to change the method of estimates and method of payment. It's the last business he has here, and he has been seeing us, trying to get it upped.

H.M.Jk: He tried to see me, too. I think he saw you.

MR. McCLOY: Yes, he saw me and I told Richardson that the figures he gave me were rather on the conservative side and we would take another look at it and try to up it some, but we wouldn't abandon the principles we have been following with other countries. It's a matter of exchange. That places a very high value on the franc, and soldiers just don't spend the money. They get the paper and they come back with it, and we give it back to them in terms of their own paper.

MR. BELL: You have paid them thirty-eight million dollars worth. You figure a large percentage of it will come right back into your hands?

MR. McCLOY: Yes, so why go through all that? It gives us the advantageous position, but it seems to me we have the advantageous position, and fundamentally it's the rate of exchange. They have pressed for it. However, maybe we can raise a little bit beyond where we are now, but I don't think we ought to go to the principle.

H.M.Jk: You're talking about three million--

MR. COE: He won't be satisfied with that. I believe you can raise it, and the Army people are working and expect to have a new basis of estimates slightly changed under which they would--

H.M.Jk: Do we--under that arrangement do we have the pleasure of telling them yes or no? Is that the way it is?

MR. COE: Yes.

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H.M.JR: The Treasury does it in consultation with the Army.

MR. McCLOY: Yes.

MR. BELL: What we are doing is spending or turning over War Department money in a sense. They have paid us for all of the francs we have taken over and we have set aside the money in a special account, and the arrangement we have and which has been cleared with the Comptroller General is to turn over the money to the Belgians based on certification of the War Department that that money has actually been spent. The certification so far only amounts to seven million dollars, whereas you have over one hundred million dollars of francs.

MR. McCLOY: We overestimated the amount we asked for first.

MR. BELL: The other thing is he has put, so he says, the bulk of francs he has issued to us and the British in a bank statement which looks very bad. He has no dollars or exchange on the other side to offset it, so it makes it look bad from a public standpoint. The British are paid, as I understand, something like eighty million dollars under similar arrangements.

MR. McCLOY: There will have to be reimbursement back from the Belgians to the British on that.

MR. COE: That's right, and they have an agreement to that effect.

MR. McCLOY: They want to do the same thing. Our position is much more advantageous.

H.M.JR: Suppose we sit tight?

MR. COE: It will just disappoint him in the end. It's a question of whether we advance more. Initially, it's a question of whether we owe them or they owe us.

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MR. McCLOY: Why don't they owe us in light of the fact that we have net them on the exchange.

MR. CLAYTON: Is it as simple as that, Frank? Can't you make some estimate from your experience up until now as to approximately how much the soldiers would turn back?

MR. COE: They do. There's where the trouble comes in.

MR. BELL: It's somewhere between seven million and thirty-eight million.

MR. CLAYTON: I was wondering if perhaps you wouldn't know from your experiences that they spent at least half of it.

MR. McCLOY: The figure we are paying them is the result of our experience, we say.

MR. CLAYTON: Is it? (Laughter)

MR. McCLOY: However, it's amazing how little they spend.

MR. COE: I think it's only ten percent.

MR. McCLOY: The rate is so damn tough.

MR. CLAYTON: Why do they take the francs in the first place?

MR. McCLOY: I think they overestimated the amount. Why can't we turn over some francs?

MR. BELL: We asked you to do that, and you are going to turn over nine hundred million francs which isn't much money.

MR. GLASSER: The finance officers in the field are too conservative and that's really causing the trouble. If we had only taken three billion francs into Belgium, it wouldn't have been serious.

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MR. McCLOY: I told Richardson to get after it to see if he couldn't cut it off on both ends.

MR. BELL: That would be the way. But it on both ends more drastically than you have with respect to returning of francs. If you can get down to three billion--

H.M.JR: Will you see him?

MR. BELL: I have seen him. We have upped it from three to five, but he isn't satisfied with that. I'll be glad to see him again.

MR. McCLOY: Tell him we are continuing with it.

MR. BELL: He can go on home.

MR. McCLOY: He's a nice fellow, isn't he?

H.M.JR: I am sorry, but I just wanted to use this time because he said he has got to go home.

MR. CLAYTON: Would you like to take a few minutes to discuss some organization matters of the Committee's work?

H.M.JR: Yes, if I may be excused at twenty minutes of to get prepared for the twenty minutes I have over there. I am seeing him ten minutes ahead. I don't know whether you appreciate it, but I had half an hour and he gave twenty minutes of my time to you fellows.

Go ahead, Mr. Clayton.

MR. CLAYTON: would it be the pleasure of the Committee that we continue in force the same working group that we have had and which group did such excellent service in the preparation of this document? They will have, presumably pretty soon, a lot of work to do, probably telegrams and cables coming in and daily matters that may arise in connection with interpreted and suggested changes, and so forth, in the document and I would suggest that we

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continue with that same group.

MR. McCLOY: Where does that fit in with the arrangements we had with the secretariat?

MR. CLAYTON: I should have mentioned that first, Jack. It was agreed, Mr. Secretary, some time ago that in order to avoid any overlapping or duplication of the work between this Committee and the SWNC Committee, State, War, Navy Coordinating Committee, that the SWNC Committee's secretariat would be the secretariat for this committee, and that I assume there will be no objection.

H.M.JR: Swing, swing--

MR. CLAYTON: SWNCC.

H.M.JR: What does SWNCC do? Treasury is not on that.

MR. McCLOY: Treasury is not in on that. That's one of the few things Treasury is not in on. That's a political, military group that--

H.M.JR: I'll let that one pass.

MR. McCLOY: ...that deals with problems all over the world that affect the military and political policy. It has dealt with all manner of subjects. There was a committee on Germany in SWNCC on which it was proposed to put in Treasury and FEA which met with some objection, and in the face of that Mr. Clayton thought it would be wiser to have a separate committee for Germany. We wanted to be sure that we didn't have another committee on Germany that would be dealing with the Joint Chiefs of Staff through a different secretariat, so the arrangement was we should have a separate committee, which is this one, but use the SWNCC secretariat in its relations with the military.

H.M.JR: Let me just say, for myself, I think the working staff of this--I would like to personally compliment all of

them. I think they did a magnificent job. I don't give a damn how it is formed, if the President of the United States says for us to go ahead, the same people in this room. Call it anything you want to, but if the same group can continue, I would be delighted to have them participate on any basis. That's the way I feel. I have seen committees rise and fall. President Roosevelt appointed the Secretary of State, War, and Treasury to deal with Germany. He appointed that at Cabinet. I don't know what the standing of that Committee is. That was done last September, I think, before Quebec.

MR. McCLOY: This supersedes that.

H.M.JR: It was Mr. Stimson's suggestion.

MR. McCLOY: Was it?

H.M.JR: Yes, he suggested it at Cabinet. Do you recall that, Mr. Crowley?

MR. CROWLEY: I remember that.

H.M.JR: I don't know what the status is, but is this secretariat all right as far as you are concerned?

MR. COE: The SWGCC secretariat is excellent. and as you see, this enormous document is turned over to them.

H.M.JR: As far as I am concerned, if the President wants it, and would like us to continue asking him, I don't care what the form is or what, but we are delighted to participate because it gets results.

MR. CLAYTON: In other words, we go on as is. Is that satisfactory with everybody?

MR. CROWLEY: Yes.

H.M.JR: May I just point out that it's a little bit different? I don't know where that would fit in, but this thing President Truman asked me to do--China--and in that case the only difference is that we arranged with Messrs. Stimson

and Patterson to do that. I spoke to Mr. Crowley and he said he didn't think he was particularly interested.

MR. CROWLEY: I would like to say this, Mr. Secretary, that we don't on all these things like China and Germany-- FEA does have an interest, and I don't want to unnecessarily put FEA on things like gold into China, because I feel that's Treasury's business. On the other hand, in assuming the responsibility that we assume we have to know what is going on and participate in these things. I don't mean by that that we wouldn't follow the Treasury or anything on the gold in China.

H.M.JR: Why not say for the time being that we would take up the reparation thing next, because I suppose some day we will have to take up Japan?

MR. CLAYTON: I don't know. I was fixing to raise that question with regard to Austria, for example. That, of course, would fit in a good deal easier than Japan because for sometime now it has been a part of Germany. Of course, if they are going to be separate, there is going to have to be some policy agreed upon with respect to the treatment of Austria, and I think we should consider whether that would come in this committee. (Discussion off the record.) Have you any views on that, Jack?

MR. McCLOY: It seems we should do Austria.

MR. CROWLEY: We have some--

MR. CLAYTON: We have considerable information and data already on those.

MR. DESPRES: That's really pretty far advanced, I believe.

MR. CLAYTON: I don't know whether that is a question we should raise with the President. We have said in the last paragraph, "if you approve, the Informal Policy Committee on Germany will continue, under your direction, to develop basic policies of this Government for the treatment of Germany, including the pending matter of reparation."

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I suppose we should raise it with him since we put it in that form. This committee was appointed by the Secretary of State and not by the President, and it was appointed by the general authority and direction which President Roosevelt gave to the Secretary of State to see that the policies agreed upon, the objectives agreed upon at the outset were carried out by different departments of the Government.

H.M.JR: May I excuse myself? I'll say as far as I am concerned, you can call this committee by any name you want, see? I am delighted to participate in reparations and in Austria if you want it.

MR. CLAYTON: Even Japan.

H.M.JR: Or Japan, but I have to excuse myself now. I think it is informal--you call it informal--but it gets results, so what the hell!

MR. McCLOY: When are we to be there?

H.M.JR: Ten-ten.

MR. CLAYTON: I suppose we'll have the photostats?

H.M.JR: Yes.

MR. COWLEY: Do you want to leave your proxy with anyone while you're gone?

H.M.JR: Mr. Bell is accustomed to acting for me.

MR. COWLEY: I thought maybe you would give it to one of us.

H.M.JR: I'll even do that. But again I want--I think the working committee did a beautiful job and I am very much pleased.

DEPARTMENT OF STATE
WASHINGTON

SECRET

April 26, 1945

MEMORANDUM FOR THE PRESIDENT

The Informal Policy Committee on Germany is presenting to you, for your approval, a revised directive for the military government of Germany prepared on the basis of the policy memorandum of March 23, which was approved by President Roosevelt. The memorandum of March 23 has been introduced into the European Advisory Commission by Ambassador Winant for negotiation as a protocol of agreement with the U.K., the U.S.S.R. and France. Copies of the memorandum of March 23 and the revised directive are attached.

In the opinion of the committee the revised directive embodies policies and measures which faithfully carry out the principles set forth in the memorandum of March 23. The committee believes that this directive furnishes the basis for effective initial action to prevent Germany from again becoming a threat to world peace.

The revised directive is being submitted to the Joint Chiefs of Staff for consideration from the military point of view. Thereafter it will be transmitted to General Eisenhower as the basic instrument for the initial post-defeat period in Germany. The directive is designed to serve a dual purpose in that it will give him this Government's policy as formulated to date for his guidance as American member of the Control Council in Germany and will likewise guide him in the administration of the U.S. zone.

If you approve, the Informal Policy Committee on Germany will continue, under your direction, to develop basic policies of this Government for the treatment of Germany, including the pending matter of reparation.

Joseph P. Gurnea

Acting Secretary.

Indubly *Push us hard*
William L. Clayton *Henry M. Whiting Jr.*

April 27, 1945 212
10:48 A. M. ✓

Mr. Frank
Coe: Oh, thanks.

HMJr: He said he had that thing of the 23rd..

C: Yes.

HMJr: ..and he read it last night, and he's going to take this and read it every word himself.

C: Oh, wonderful.

HMJr: And Frank Walker has refused, and he is now looking for another man. And we continue on Tuesday, but it was wholly satisfactory.

C: Very, very good.

HMJr: Yeah, wholly satisfactory.

C: Mr. Secretary?

HMJr: Yes.

C: Well, I know -- just one thing...

HMJr: Yeah.

C: I think the way you pitched in on this has made all the difference.

HMJr: I agree with you.

C: (Laughs) All right, you should.

HMJr: Yeah.

C: Our German committee is very happy. One more thing..

HMJr: If I hadn't called up and driven this thing through, I bet it would be another month.

C: Quite true. I talked afterwards about that Swink thing that came up...

HMJr: Yeah.

C: ... and it changed an agreement with Riddleberger that they would clear up the existing business - German business in the Swink committee, and thereafter no more German business in the Swink committee.

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HMJr: Well, that's -- I don't quite understand. You tell it to me another time. But I did give the President, and I told them over there - told Clayton that I gave it to him - the March 1st document of the President.

C: Fine.

HMJr: I told them the informal status of the thing, and I told them I thought the thing ought to be regularized and he agrees.

C: Ahuh.

HMJr: See?

C: Yeah.

HMJr: So State knows I've given him that other thing.

C: All right. I rang Harry as we agreed....

HMJr: Yeah.

C: ...and suggested about commitments. He said there was no problem of any -- of his making any commitments or anything there because his - an advisory said if he'd think back to the Bretton Woods situation and the position of some of the advisory staff -- he doesn't know whether his views will have any weight there for it's surely in an individual basis.

HMJr: Well, he took it in perfectly good humor?

C: He took it in good humor, and he said that on this particular telegram - he sent it through direct - because he hoped we had the stuff, but he doubted if we did.

HMJr: No. --as to yourself, I'm most pleased the way you handled it. If I have a breathing spell I'm going to have you bring in everybody that worked on it this afternoon and thank them.

C: Fine.

HMJr: See? Tell that to Fitzgerald.

C: I will.

HMJr: I want to see everybody that had anything to do with it.

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O: Thank you.
HMJr: Goodbye.
O: Bye.

215-220

NOTE:

Pages 215-220 were erroneously inserted in this volume and belong in Book 842, April 28th. They have been put at beginning of book as pages A-F.

April 27, 1945²²¹
2:26 P. M.

Mr. O'Connell: ...Bob Hannegan called me at home last night about that Kansas City matter...

HMJr: Oh, yes.

O'C: So if you want to send me Charlie Bell's memorandum which you started to give me yesterday, I'll take care of it.

HMJr: I'm giving it to Mrs. McHugh now.

O: Thank you very much.

HMJr: He called up last night?

O: He called me at home about 9:30.

HMJr: For heaven's sake. Was he pleased?

O: He seemed to be quite pleased.

HMJr: Good.

O: Yes, and I told him that I would send in the information that he should have today, and we were hopeful that he would be able to make a constructive suggestion to us.

HMJr: Good. All right, thank you.

O: Thank you.

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April 27, 1945
3:05 p.m.

PROPOSED SPEECH FOR RADIO

Present: Mr. Feltus
Mr. Fussell
Lieutenant Levy
Mr. Clark
Mrs. Klets

H.M.JR: Now what have we got?

MR. FELTUS: Fussell has a draft which is a serious operation on the draft we had before, and we have this problem of where you come in on the program.

H.M.JR: Yes, well that's Admiral Levy, isn't it?

MR. FELTUS: The Admiral tells me you ought to be going on in the beginning.

H.M.JR: On the advice of counsel. He didn't put me up to that just as an old experienced radio commentator. Hollywood always overruns, don't they?

LT. LEVY: Bob Hope does.

MR. FELTUS: I would much rather see the speech done at the end rather than beginning for a variety of reasons. One is I think it is a little presumptuous on our part to tell them where you will come in. It's their program.

H.M.JR: Who's paying for this?

MR. FELTUS: The network. It's a sustaining show. Another thing is the dramatized program will build up a listening audience which you will inherit, whereas any straight speech loses audience. By the time you finish speaking they won't have their audience that they would have ordinarily which they will object to.

H.M.JR: What do you say? Of course it is a little bit different than wisecracking. This thing can be clocked, can't it?

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LT. LEVY: Oh yes.

H.M.JR: It isn't like one of these things--singing and joking.

LT. LEVY: It is straight dramatics.

MR. FELTUS: It is a sustaining show. They will not cut you off.

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

LT. LEVY: It's a straight dramatic program. I should think they could give us a definite time when we will come in and we will have a specific time on this and we can take just that time.

MR. FELTUS: Fussell cut the script to about five minutes. It gives them three minutes' time lag over their original time. They can certainly--

H.M.JR: Okay.

MR. FELTUS: In that connection I think it's always for your own sake best to either do what they want or nothing because of the relations with them. They get awfully insulted over any changes they have to make, the people who handle the programs.

H.M.JR: I never had any trouble with them. I'm in demand on the radio. Is that right, Dave?

LT. LEVY: Pretty true. We didn't have any trouble particularly. We had ordinary troubles, I'll say.

H.M.JR: Now, but I mean--well, anyway--

MR. FUSSELL: Mr. Secretary, that's in bad shape because moving the time up I had to farm it out among two girls on two different machines.

H.M.JR: Where is the original author?

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MR. FELTUS: Do you want him?

H.M.JR: Who is he?

MR. FELTUS: Clark.

H.M.JR: Where is he?

MR. FELTUS: In my office. Major Clark. I'll tell you who he is if it is of interest to you. He just published another book, "Robinson Crusoe, U.S. Navy." Have you seen it?

H.M.JR: No.

MR. FELTUS: It deals with the experiences of this man, Tweed, lost on Guam for two and one-half years. Clark is a very fine writer who is a Sergeant in the Army. He is in civilian clothes now and was loaned to us by OSS. He was on my staff some years ago. He writes for Reader's Digest regularly. He has published about five books and he was on your Treasury Hour once. He wrote a book called "Remember Pearl Harbor." He was there when it was bombed, and the book was a best seller. An excerpt from the book was put on the Treasury Hour.

H.M.JR: He was loaned to us. Is he actually in the Army?

MR. FELTUS: Yes, he is a sergeant.

H.M.JR: Like a lot of these OSS men. And we borrowed him for a couple of months?

MR. FELTUS: Until Bretton Woods is finished.

H.M.JR: How long has he been here?

MR. FELTUS: About a month. I am trying to think of the name of the man--the Superior Officer--Colonel Dougherty.

H.M.JR: (Reading from "Proposed Speech for Radio," attached.)

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"The Crew of Model T" dramatizes a great basic fact of modern times--that nations must live together. Living together means exchanging goods in a friendly, businesslike way.

"Just now, some of our neighbors are hard hit."

Did you do the ending on this?

MR. FUSSELL: Dick Brenner and I did, Mr. Secretary. Mr. Luxford sent Brenner to me and it hasn't been gone over by Luxford's office. All we had was cut down sharply and we made several changes as we went along.

H.M.JR: (Reading) "The needs of war-torn countries exceed anything our imagination can conceive. Transportation systems, factories, power plants, bridges, ports, and harbor installations that were a thousand years in developing are in ruins. The task of getting blood circulating again in the veins of industry depends largely upon the people in the countries affected; but they must have help."

You don't say anything about the people themselves. You left out the human side.

MR. FELTUS: We are not talking about it.

H.M.JR: You can say you can't do this, but somebody has to do the human side.

MR. FELTUS: I think we can add that here and there if you want to.

H.M.JR: I don't want to just talk about machines. They are talking about machines.

MR. FELTUS: Let's go through it once and we will inject that.

MR. FUSSELL: That can be put in.

H.M.JR: You can say, "Of course we can't do that," but somebody has got to do it.

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MR. FELTUS: I agree.

H.M.JR: He is not interested in people, just production.

MR. FELTUS: I think there may be some of that in here. I'm not sure.

H.M.JR: (Reading) "As a businessman--and a farmer must be a businessman--I have never advocated giving away anything, and I do not favor making indiscriminate gifts abroad even now. But, it is poor business indeed not to sell a man seed-corn on time. The world is still a good credit risk. Actually, beaten and bloody as it is, it prefers a 'leg-up' to a 'handout.'"

I would like to say, "The people of the world are still a good credit risk. Actually, beaten and bloody as they are, they prefer--"

(Mr. Clark enters the conference.)

H.M.JR: The first thing I suggested is this: In the first paragraph he talks about systems, factories, and power plants. If you get it, the most important thing is the human angle, men, women, and children, and I want to get something in, I mean, that we can keep repeating across Bretton Woods--but I certainly don't want to be a machine and only talk about machines.

MR. CLARK: That's right.

H.M.JR: Does that appeal to you?

MR. CLARK: Certainly. I think that's fine.

H.M.JR: All right. And at the bottom of the first page where it says, "The world is still a good credit risk," I would like to say, "The people of the world," huh?

MR. CLARK: Yes.

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H.M.JR: Use the phrase, "the masses." But I like that phrase "...sell a man seed-corn on time."

MR. CLARK: I think that's good. I picked that up from a friend of mine.

H.M.JR: It puts me in the same class as Henry Wallace, but it's all right.

MR. CLARK: It's a good fundamental figure.

H.M.JR: Are you from the South?

MR. CLARK: Tennessee. Are you familiar with that part of the country?

(Mrs. Klets enters the conference.)

H.M.JR: (Reading) "We learned that from the liberated countries in Europe, which ask not for relief, but for a chance to rebuild their shattered economic lives."

I am just going to make some suggestions as we go along. Spyros Skouras was over here for twenty-four hours the other day and what he wanted was to get five thousand horses for Greece. That's what they wanted to help put in the spring crops.

MR. CLARK: That's very interesting.

LT. LEVY: That's a specific touch.

H.M.JR: "Give us some horses and some seed and we'll do the rest."

MR. FELTUS: That can be injected.

H.M.JR: I'm just trying to inject a little of myself in these things.

(Reading) "In July of last year, representatives of 44 nations met at Bretton Woods, New Hampshire, to deal with this problem."

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To make it perfectly clear, while Bretton Woods can't do this, this is UNRRA's job, and I definitely want to talk about the human wreckage, huh?

(Reading) "...of the program they developed was an international bank, the working capital of which will be subscribed by all 44 nations, each according to its capacity.

"The bank proceeds on tried principles roughly similar to those used so successfully for the past ten years by the Federal Housing Authority in helping American citizens to become home owners."

Well, I would like to say "not only become--" oh yes, Federal Housing. Yes.

MR. FUSSELL: That ought to be "Administration."

H.M.JR: (Reading) "In the case of FHA, the U.S. Government guarantees against loss the banker lending to a prospective home-builder. The International Bank operates the same way, by guaranteeing against loss the individual or institution backing a productive enterprise in a foreign country. The member governments stand behind this guarantee, and share the risks.

"But helping these countries to rebuild their economies is not enough to insure prosperity after the war."

You don't mind if I go along--and the thing some people-- talking around this thing, we have got to do this or we will have Bolshevism or Fascism. I don't know whether Bolshevism is a popular word these days but I would like to throw that out. This is what I would like to get over, if you will just make some notes, that the conservative thing to do is to help these people so they won't go either Fascist or Bolshevist. That's the conservative thing. The radical thing is to do nothing and sit by and let them go to hell. Is that right?

MR. FELTUS: Yes.

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H.M.JR: If a person wants to be a radical, he will sit by and let them go to hell. If you are conservative, you do the other thing. That's the conservative thing if you want to keep this form of Government. It's like any other disease, it's catching. You can't just isolate it over there. I am just throwing these things at you because if you don't mind my saying, I don't know who all worked on it, but I would rather say something like that if I can sell it to you people rather than go through all this stuff about forty-four nations. When you are working with me I throw these things out. You don't have to accept them.

MR. CLARK: All right.

H.M.JR: But, do you like that idea?

MR. FELTUS: I have a definite reservation on it.

H.M.JR: What?

MR. FELTUS: It has a great deal of tendency toward anti-Russian propaganda by some of our more reactionary forces which are playing havoc with the San Francisco Conference at the moment. The use of the word "Bolshevism" attributes to that.

H.M.JR: You don't have to say that. You can say, "...in order to keep Europe from going into complete decay."

MR. CLARK: That's the conservative thing to do.

H.M.JR: "And lose all semblance of government."

MR. FELTUS: Use radical and conservative.

H.M.JR: All semblance of any form of government in order to keep stable government in these countries. The conservative thing to do is to help them.

MR. CLARK: Yes, I think that would be a very constructive way of putting it.

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H.M.JR: Somebody used it--McCloy.

MR. FELTUS: It's good.

H.M.JR: I won't use the word "Bolshevism." But these people who are sitting back, if they only realized that if we let Europe go to hell we will have either Fascism or Bolshevism. It's going to spread. That's what we fought to keep from spreading.

(Reading) "All countries, including the United States, need to expand their foreign trade. This cannot be done in the kind of financial atmosphere that existed before the war. Led by Nazi Germany practically all the countries were forced to engage in discriminatory currency practices to try and hang on to their foreign markets."

That's a little bit heavy, "discriminatory." Why not just say "competitive currency," something like that?

MR. FELTUS: They are both heavy.

H.M.JR: Well, Dave, you have got to watch the words. But "discriminatory currency practices," huh, Dave?

LT. LEVY: Yes.

H.M.JR: (Reading) "They used such familiar devices as changing the value of their currencies and putting restrictions on the ability of importers to get the currencies they needed to buy goods abroad. The result was that world trade declined and all countries suffered."

That's pretty repetitious. We have used that so much.

MR. CLARK: It is well it should be set up. Once a mechanism is set up it works.

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H.M.JK: (Reading) "To solve these problems, the Bretton Woods Conference proposed an International Monetary Fund. Member nations agree to abandon these destructive monetary practices. To help them do so money is subscribed for use in stabilizing currencies. The technique of stabilization is so well understood as that of making loans, and once the mechanism is set up it works. The technical machinery is no more complex than in any other specialized device of our time. The inner mechanism of an ordinary traffic system is a mystery to most of us, but its purpose is clear.

"As technical methods are improved, traffic systems and similar devices are continually modernized. Similarly the Bretton Woods proposals will doubtless be improved in the light of practical experience. The vital need is to set up the machinery as soon as possible--not to risk the rejection of something that is admittedly 99% good because it may not be 100% perfect.

"We have within our grasp history's greatest opportunity."

I'll just stop one minute. I'll talk to you.

(The Secretary and Mrs. Klotz leave the conference temporarily.)

H.M.JK: Look, can I be very frank? What I want to say is this: I would rather repeat part of the stuff that I said in Detroit. My mind is pretty tired. I can't think of anything original except talking about ten percent exports or what it means to the meat dealer and cotton farmer, export generally. Ten percent of exports controls profits and that sort of thing, rather than doing this thing by giving a general description of Bretton Woods which we have been doing now for a couple of months. I personally can't spark to apply anything new. I am squeezed dry, but--

MR. FELTUS: Wednesday Clark had what I considered--

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H.M.JK: Get a little fresh approach to this thing, if there is such a thing.

MR. FELTUS: Clark had what I considered to be a very new analogy originally here. Was there any reason for taking it out?

MR. FUSSELL: No, except it was treated very radically.

H.M.JK: From my standpoint it's awfully dry, if you don't mind my saying. There is nothing new here. It's awfully dry. Dave, do you agree or not?

LT. LEVY: I think--

H.M.JK: You're so polite all the time, that's the trouble.

LT. LEVY: No, the thing--the suggestion you made about five thousand horses--specific bits of news like that--is good.

H.M.JK: That's not enough. I like the first page, the "seed-corn" and "leg-up" and "handout" and that, see?

MR. CLARK: This "seed-corn" was part of that original figure. The original figure was I felt, too, that what people really need is an idea of how foreign trade really will help, a conception of it that they never really had before. And I thought it would easily be explained by showing here in the United States before the war the manufacturers produced about five thousand generators of electricity to send to farms. Well, now, every anti-aircraft battery has to have one, so they are producing about a hundred thousand every four or six months. After the war there is going to be over a million. What shall we do? If we hand them back to the manufacturers, they can tell their people to come back one hundred years from now, but if those things should be even given away in Yugoslavia or Bulgaria, some place that needs them, even maintenance,

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just maintenance will be a bigger business for the manufacturers than they had before the war, and as they wear out, why then replacement would be equal to a war-time market.

H.M.JR: Plus the important thing that the American product would be established in a country.

MR. CLARK: Exactly, and when a farmer had a generator he would have electric appliances that go with electricity.

H.M.JR: I like that.

MR. FELTUS: Then he pointed out--

MR. CLARK: And none of the fear.

MR. FELTUS: He pointed out that that generator is only one of twenty-four thousand items of that kind.

H.M.JR: You see, unfortunately I have been so pressed; but I accomplished my mission this week. We handed to President Truman a directive on how to run Germany. That's why I am squeezed dry, and believe me, after he signs that the Germans will be squeezed dry, but every single morning we had a meeting. May I start all over? I haven't had time. Supposing I give you the job? (To Clark) I go how many words a minute?

LT. LEVY: One hundred and twenty.

H.M.JR: How many minutes are they giving us?

LT. LEVY: Five minutes.

H.M.JR: I thought you said eight.

MR. FELTUS: They did, we cut it to five in order to make it a little lighter. Eight minutes is a long time.

H.M.JR: Make it around eight hundred words, seven or eight hundred words. Why not let him take his own piece?

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Cut it to seven or eight hundred words. Put it on my teletype, which I have here, and send it down to me in Daytona. Why not give him the job to do that?

MR. CLARK: I am just an ordinary layman myself, but in these matters I feel if it impresses me and makes me understand what foreign trade can do, it will impress anybody, and I think it will do that.

H.M.JR: You take your article and keep--how fast do you work?

LT. LEVY: Well, I'll do it in time to get it done.

H.M.JR: Could you do it so I will have it by noon tomorrow?

MR. CLARK: Certainly.

H.M.JR: Give it to Mr. Fitzgerald and he will see that it is put on the teletype.

What I suggest is before he comes out let him show it to him. (Bernstein)

MR. FELTUS: For accuracy.

H.M.JR: Yes.

MR. FELTUS: I'll tell you right now Bernstein will not like that generator analogy.

H.M.JR: Send it down and let me decide. When are you going to New York?

LT. LEVY: Not for a little while.

H.M.JR: Are you available?

LT. LEVY: I am available.

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H.M.JR: Levy, in private life, was producer of "We The People" which is a damn good show. He knows me, knows what I like, knows my language, and knows radio, so why not work with him? Do the cutting yourself and let him see it as to words, and so forth. Between the two of you you can get it to me so that it can be put on the teletype by noon tomorrow. How's that?

MR. FUSSELL: Fine. How about Luxford or Bernstein or Brenner checking it?

H.M.JR: Okay.

MR. FUSSELL: Does it make any difference which one?

H.M.JR: No, let them send it to me unadulterated, and let them fuss with it afterwards. Just let the two men send it down. I have a little sense, not much. Just let the two men get something on the teletype by noon tomorrow and see what it looks like. Run it off sixty words a minute.

MR. FUSSELL: I am responsible for cutting this but it had to be slashed pretty radically, Mr. Secretary.

H.M.JR: I'm direct. I haven't time to say "Pardon me," three times. I just say what I think, and I am just repeating it. As it is, I couldn't give it. Don't ask me what I want to give. I'm too exhausted.

MR. FELTUS: I think he's got your idea.

H.M.JR: But the two of you--this man worked with so he knows my radio personality.

MR. CLARK: All right, fine, Mr. Secretary.

H.M.JR: All right, get something. Show it to Fussell before it comes down, will you?

LT. LEVY: Yes, sir.

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H.M.JR: By noon tomorrow. Are you going to be here over the week end?

LT. LEVY: Yes.

H.M.JR: Both of you? Well, then, arrange it so if I shoot the thing back for corrections, they will know how to get you.

LT. LEVY: All right.

Proposed Speech for Radio

"The Crew of Model T" dramatizes a great basic fact of modern times -- that nations must live together. Living together means exchanging goods in a friendly, businesslike way.

Just now, some of our neighbors are hard hit. The needs of war-torn countries exceed anything our imagination can conceive. Transportation systems, factories, power plants, bridges, ports, and harbor installations that were a thousand years in developing are in ruins. The task of getting blood circulating again in the veins of industry depends largely upon the people in the countries affected; but they must have help.

As a businessman -- and a farmer must be a businessman -- I have never advocated giving away anything, and I do not favor making indiscriminate gifts abroad even now. But, it is poor business indeed not to sell a man seed-corn on time. The world is still a good credit risk. Actually, beaten and bloody as it is, it prefers a "leg-up" to a "handout." We learned that from the liberated countries in Europe, which ask not for relief, but for a chance to rebuild their shattered economic lives.

In July of last year, representatives of 44 nations met at Bretton Woods, New Hampshire, to deal with this problem. Part

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of the program they developed was an international bank, the working capital of which will be subscribed by all 44 nations, each according to its capacity.

The Bank proceeds on tried principles roughly similar to those used so successfully for the past ten years by the Federal Housing Authority in helping American citizens to become home owners. In the case of FHA, the U. S. Government guarantees against loss the banker lending to a prospective home-builder. The International Bank operates the same way, by guaranteeing against loss the individual or institution backing a productive enterprise in a foreign country. The member governments stand behind this guarantee, and share the risks.

But helping these countries to rebuild their economies is not enough to insure prosperity after the war. All countries, including the United States, need to expand their foreign trade. This cannot be done in the kind of financial atmosphere that existed before the war. Led by Nazi Germany practically all the countries were forced to engage in discriminatory currency practices to try and hang on to their foreign markets. They used such familiar devices as changing the value of their currencies and putting restrictions on the ability of importers to get the currencies they needed to buy goods abroad. The result was that world trade declined and all countries suffered.

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To solve these problems, the Bretton Woods Conference proposed an International Monetary Fund. Member nations agree to abandon these destructive monetary practices. To help them do so money is subscribed for use in stabilizing currencies. The technique of stabilization is so well understood as that of making loans, and once the mechanism is set up it works. The technical machinery is no more complex than in any other specialized device of our time. The inner mechanism of an ordinary traffic system is a mystery to most of us, but its purpose is clear.

As technical methods are improved, traffic systems and similar devices are continually modernized. Similarly the Bretton Woods proposals will doubtless be improved in the light of practical experience. The vital need is to set up the machinery as soon as possible -- not to risk the rejection of something that is admittedly 99% good because it may not be 100% perfect.

We have within our grasp history's greatest opportunity. If it is not seized it may turn into history's greatest calamity. We are the most powerful of all nations. The rest are looking to see if we are going to lead in world cooperation or withdraw into isolationism. If Bretton Woods fails, the hope of economic peace flies out the window. And when economic warfare is rampant,

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military warfare is not far off. Dumbarton Oaks offers a police force to settle quarrels in the world neighborhood. Bretton Woods proposes to eliminate from the world neighborhood the source of many of its quarrels.

You and I will prosper in the post-war world only if it enters a new era of expanded trade between nations. Let no one fear loss to the United States from the development of other countries that this flow of trade will bring. Once these countries have developed their resources they will be in an even better position to buy from the United States. Only 11 million people in highly developed Canada buy four times as much American goods as all the 800 million people of undeveloped China and India put together.

World peace requires an Economic Magna Charta -- a Bill of Rights for the world. The Freedoms from Fear and Want will be realized only if we build a solid foundation of world prosperity. Bretton Woods is offered to the world as the first stone for this foundation.

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April 27, 1945
3:20 p.m.

KILGORE COMMITTEE

Present: Mr. Feltus
Mr. Fussell
Mr. Luxford
Mr. Coe
Mr. DuBois

H.M.JR: All right, now let's have the load down on this Kilgore business.

MR. COE: Well, the load down--

H.M.JR: If you are bored, Joe--

MR. COE: Drew Pearson--

MR. DuBOIS: There is one they won't print in the Post, an article by Pearson. It's really a honey, too.

MR. LUXFORD: Now he won't listen.

H.M.JR: Where is it?

MR. DuBOIS: They won't print it in the Post.

H.M.JR: Do you want to give it to me later on?

MR. DuBOIS: I'd like to at least leave it here.

H.M.JR: Get it photostated so I can take it with me.

MR. COE: These fellows came in to get some technical assistance in connection with their proposed hearings on Germany.

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It developed on the proposed hearings on Germany they intend to go into practically the whole industrial economic picture there.

H.M.JR: Who?

MR. COE: The Kilgore Committee. Schimmel and Kramer.

H.M.JR: And they have a committee on what?

MR. FELTUS: War Mobilization of which I was a consultant for six months at one time.

H.M.JR: Did they come down under their own steam?

MR. COE: They spoke to Harry White two or three weeks ago to ask if we wouldn't help them in outlining the hearings, and so forth. We didn't settle it but we have promised to give them assistance. However, they got that question of Kilgore's into view tomorrow with the President and decided to get a little help on that and let the hearings go for a day or two. Now, they wanted--they said that this was arranged as a discussion between Kilgore and the President on the intelligence setup. OSS has been getting at Kilgore trying to convince him of the need for a super-duper intelligence setup in the post-war world which is to be their setup, and so he was to talk it over with the President.

We were talking of some more constructive things that he might say on the German situation. They say that he would be very influential with the President on this whole German question, but that it would have to be hit on something more sensational, let's say the LOSY memo, either in terms of our personalities conspiracy, cartel conspiracy, banking conspiracy, that sort of thing.

MR. DuBOIS: They mentioned that Kilgore was going to show that Drew Pearson article yesterday to the President, and I wondered if we couldn't develop something along that line for him to show, a one-page memo for him to show the President together with some attachment.

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MR. COE: So they wanted before very late this afternoon a page or two of outline which they could show Kilgore fast and which he could make the basis for his remarks and show the President tomorrow.

H.M.JR: I think Joe has something up now.

MR. COE: Then we were discussing personnel and the general setup under Clay. They thought both Truman and Kilgore were going to be very rough on Clay because it was Clay and Somervell with whom both of them clashed repeatedly before and that the kind of group of mixed brass hats and industrialists that Clay is getting in there is just what Truman would be on to, would know that he was doing that sort of thing and be on the lookout for it, on the personnel thing.

H.M.JR: Could I interrupt you and tell you a little something very much in the room? I told-- incidentally, President Truman has given me the green light to go ahead with my articles.

MR. LUXFORD: Good.

H.M.JR: But I wasn't satisfied and I said I wanted to come back and show them to him on Germany--the Morgenthau Plan--so I said I wanted him to see them before they were published, although he didn't ask me to show them, and I said President Roosevelt gave me a green light and I said, "There is one other thing I talked to him about. I don't know whether you ever knew of a fellow named Robert Murphy, economic political advisor to Eisenhower. He's no good. He is a very dangerous fellow," and he jumped out of his chair and came over and shook my hand. He jumped right out of his chair and said, "Wonderful!" I told the President he should swap him with the American Ambassador to Chile.

MR. LUXFORD: Bowers?

H.M.JR: Bowers. He said, "That's wonderful!" I said, "Break the little clique." He said, "That's marvelous!" But he jumped out of his chair and shook

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me by the hand, and he loves the idea of Claude Bowers for Robert Murphy, so that's a wonderfully strong wind. But don't, for God's sake, breath a word of it, because if it got out, it would--let him break it and get all the credit.

(Discussion off the record.)

H.M.JR: What do you want from me?

MR. COE: I beg your pardon.

H.M.JR: Just a report?

MR. COE: I think we may want to change it when we discuss it with Schimmel, but this would be--

H.M.JR: There's no harm to that. I think it ought to be pointed out, but I am sure he knows, he wants to set up a list in War and Navy and just go down--

MR. DuBOIS: We are getting that.

H.M.JR: ...and go down from the top.

MR. DuBOIS: We are getting a list of personnel and--

H.M.JR: Starting from the top to the bottom, and what their connections are in war and peacetime.

MR. COE: We considered more specifically than this whether there was anything that you would advise to be put through that would be helpful on this reparations thing? We discussed Kilgore going himself.

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H.M.JR: If the Senator would go, that would be fine, but he will have to move fast because the President is offering it to somebody else, but I think from all indications that Kilgore wants to get into public life, and this is as good a way as any because this is a permanent thing.

MR. LUXFORD: He could suggest Sumner Welles.

H.M.JR: I think it would be a mistake.

MR. DuBOIS: Yes.

MR. LUXFORD: Right. I said could he?

MR. FELTUS: No, he won't.

MR. COE: And Hull would get up and say--

MR. DuBOIS: It would be bad.

H.M.JR: Hull would oppose that?

MR. FELTUS: He won't do that. It would do no good.

H.M.JR: As far as Kilgore, himself--

MR. DuBOIS: He mentioned Max Lowenthal. I have known him for some time.

H.M.JR: What for, reparations? No.

MR. COE: Do you think Baruch would take it?

H.M.JR: The man was in a business and had a contract--

MR. LUXFORD: You're thinking of Morris Rosenthal.

H.M.JR: Who are you thinking of?

MR. LUXFORD: Max Lowenthal.

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MR. COE: Do you think Baruch would take it?

H.M.JR: I don't know. I'll tell you something, boys. You can't one minute talk Wall Street and in the next minute be advocating Baruch. The Baruch-Burns-Krook triumvirate may be temporarily split but they are still there. You can't get all "het" up about Wall Street and then bring in Baruch who typifies Wall Street certainly in the minds of the world. It would mean a change of heart. I wouldn't. There must be some two-fisted guys that people like Kilgore or Truman know, see?

MR. FELTUS: How long will this assignment last?

MR. COE: Two months.

H.M.JR: No, if he says the Reparation Commission, it may take years, but the actual meeting in Moscow will take a couple of months and then he could step down and let the administrator step in. I don't see why a man would have to resign from the Senate to do this.

MR. LUXFORD: I shouldn't think so.

MR. COE: We know it.

H.M.JR: I don't see why, but, you know they keep talking all the time about your former boss for different jobs. You have seen that.

MR. FUSSELL: Boettiger and Schwellenbach.

H.M.JR: You have seen that.

MR. FUSSELL: I have seen one or two mentions of it. He might be all right.

MR. LUXFORD: Who's that?

H.M.JR: Schwellenbach.

- 7 -

MR. LUXFORD: I know who you mean, one of those two men somebody said had aged a great deal.

MR. DuBOIS: Schwellenbach.

H.M.JR: I don't know where he stands but either Hugo Black or Bill Douglas.

MR. LUXFORD: Roberts took a mission to Hawaii.

H.M.JR: And Murphy from Detroit went in the Army for six months.

MR. FELTUS: Black would be magnificent.

H.M.JR: Why not Black or Bill Douglas, one or the other?

MR. LUXFORD: That's the kind of man we need. Senator Black would be good.

H.M.JR: I mean--just to bring back the Baruch-Burns-Arthur Krook crowd, I am opposed to that. This fellow--from the way he talked I think he wants a little fresh blood. Does that strike you? Does that give you what you want out of me?

MR. LUXFORD: Yes, sir.

H.M.JR: All right?

MR. LUXFORD: Yes, very good.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 27, 1945

TO Secretary Morgenthau
FROM Mr. Murphy *MM*

I agree with you that the article in Fortune is scurrilous; and, in view of the approaching SEVENTH War Loan, shows an amazing lack of a sense of public responsibility.

Inflation is as much a disease of the nerves and the mind of the economy as it is a matter of disequilibrium of physical quantities of money and goods. It can be caused by suggestion, and this article makes a good try.

You ask what the article is driving at. It seems to me that it represents a part of a major play on the part of business for postwar position vis a vis Government. It is the greatest struggle of our times -- that represented by the conflicting points of view in Beveridge's "Full Employment in a Free Society" and Hayek's "The Road to Serfdom". The article, in effect, goes all-out for the position that the control of the individual by his Government is serfdom; while the control of the individual by business is freedom. I emphatically disagree.

The Treasury Department and its wartime policies seem to me to be merely a conveniently selected battleground, but not what the fighting is really about. The main issue of the fighting is: Who shall control the postwar scene -- Government or business? The issue is a big one, and no holds are barred.

Coming down to cases, as near as can be done within the deadline, I think that the following points should be noted:

(1) Fortune complains that taxes have not been high enough. The Treasury has consistently urged that taxes should be higher. The responsibility rests primarily with Congress; but the Treasury, not Congress, is Fortune's primary target in the article.

(2) Prices have advanced less in this war than in any other major war in which the United States has been engaged.

Secretary Morgenthau - 2

They have also risen less in this country than in any of the United Nations. Fortune passes over these facts very lightly.

(3) Fortune says that "Between the spring of 1942 and March, 1945, the market value of stocks on the New York Exchange moved up 89 per cent in a great bull market with echoes of 1929." The Dow-Jones industrials are still (April 26) 16 percent below their 1937 highs, and 45 percent below their 1930 highs. No one questioned the soundness of the dollar because of either of these levels of stock prices, and corporate profits are now at approximately their all-time high -- much higher than in the years just mentioned. Fortune just can't stand prosperity!

(4) Toward the end of the article, Fortune says what the Treasury might do to get its own house in order. The assumption that the house is not in order is made gratuitously and never proved. But let's look at the particular suggestions. They are:

- (a) "If the war boom continues, additional excise taxes are in order." Why excise taxes? Fortune does not say. The probable answer is that they would be ashamed to propose a schedule of income tax rates which would bear so hard on the poor and so lightly on the well-to-do, as would additional excise taxes.
- (b) "If it [the Treasury] cannot find it in its heart to revise interest rates, at least it might abandon its present policy of subtly lowering them by keeping so much of the public debt in short-term securities." The article does not say a word about how this would help the problem of inflation. As a matter of fact, it would not help at all. Capital expenditures of business are subject to direct control, and interest rates have no impact upon consumer spending. Have you ever known a man who postponed buying a new suit because he could invest his money at 3 percent instead of 2 percent? Higher interest rates, on the other hand, would increase Government spending -- just one paragraph earlier, Fortune had been worrying

Secretary Morgenthau - 3

about the \$4.5 billion interest on the public debt which must be paid next fiscal year. What would this figure be if interest rates were revised to suit them?

- (c) Fortune's third and last suggestion for "putting the Treasury's house in order" is that non-military expenditures should be cut. Strictly speaking, this is not a Treasury matter at all. It is interesting to observe, however, that total Federal expenditures, other than military (which Fortune does not attack), veterans, tax refunds, and interest on the public debt (which Fortune wishes to raise) will amount this fiscal year to about \$3.5 billion, or less than 2 percent of the gross national product. The impact of these expenditures on inflation can hardly be the main issue.

The final question is "Should the article be answered?" I do not believe so. To answer it, would greatly increase the attention which it is likely to receive, and would be definitely harmful on the inflation front. The Treasury should show a higher sense of public responsibility than Fortune. In any event, the article will please a large segment of the Fortune clientele, and can do little harm circulating among them.

As a last remark, the fact that "Fortune costs a dollar a copy" is still impressive is, in itself, a pretty good comment on the progress of inflation and the value of the dollar.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 27,
1945

TO Secretary Morgenthau For Information
FROM Mr. Coe

1. Stabilization Fund's Gold Transactions

During the three months ending March 31, 1945, the Stabilization Fund sold approximately \$174.0 million of gold to foreign countries principally to be earmarked for their accounts with the Federal Reserve Bank of New York. Sales by countries were as follows:

Gold Sales to Foreign Countries

Country	Millions of dollars
Argentina	49.876
Bolivia	.998
Brazil	9.975
Chile	.997
China	3.324
Cuba	25.000
Netherlands East Indies	.058
Portugal	22.943
Switzerland	26.089
Uruguay	9.477
Turkey	4.987
Vatican City	.251
Venezuela	20.000
Total	173.975

The Fund purchased approximately \$6.0 million of gold from the National Bank of Belgium, \$1.0 million of gold from the National Bank of Denmark and \$2.0 million from the Central Bank of Peru.

In order to maintain its gold balance, the Fund also purchased \$165.0 million of gold from the Treasury General Fund.

As a result of the above transactions, there was a net increase of approximately \$20.0 million in the Stabilization Fund's gold holdings by March 31, as shown in the following summary:

Summary of the Fund's Gold Transactions

Sales	Millions of dollars
To foreign countries	173.975
<u>Purchases</u>	
From foreign countries	9.012
From the General Fund	165.000
Total	194.012
Net increase in the Fund's gold holdings	20.037

2. Treasury Gold Stock

During this quarter, the Treasury's gold stock decreased \$200.2 million from \$20,618.8 million on December 31, 1944

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- 3 -

to \$20,418.8 million as of March 31, 1945. Known and estimated amounts of sales and acquisitions were as follows:

<u>Sales</u>	<u>Millions of dollars</u>
Sold to the Stabilization Fund	185.000
Sold to Industry	20.350
Miscellaneous	<u>5.432</u>
Total	210.782

<u>Acquisitions</u>	
Newly-mined domestic	2.460
Imports bought directly by mints and assay offices	7.050
Miscellaneous (coin and scrap)	<u>1.100</u>
Total	<u>10.610</u>

Net decrease in the Treasury gold stock 200.172

3. Total Gold Holdings of the United States

	<u>Dec. 31, 1944</u>	<u>March 31, 1945</u>
Treasury gold stock	\$20,618,829,939	\$20,418,657,267
Stabilization Fund gold	<u>12,046,718</u>	<u>32,064,585</u>
Total	\$20,630,876,655	\$20,450,741,852

The decrease in the gold holdings of the Treasury and the Stabilization Fund during this quarter was \$180.1 million.

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MEMORANDUM FOR THE SECRETARY.

April 27, 1945.

Mail Report

The mail report this week could be the sentence, "Exactly the same as last week". There was a falling off in receipts, but the subjects covered remained just the same. There were fewer letters of condolence because of the death of the President, and fewer suggestions regarding memorials, but these both followed the lines of letters which came shortly after his death.

There continue to be requests for material about Bretton Woods, and inquiries as to the objectives of the San Francisco Conference. There are also the same ideas as to the disposal of the gold and art treasures captured from the Nazis. One writer wanted these prizes credited against World War I debts, another wanted them to be used to eliminate the 8th Drive, and still another suggested the redemption of German bonds and currency held by Americans. Recent atrocity stories have elicited little comment, but there are still occasional protests against the reported pampering of prisoners of war. There was nothing new in the tax mail, while bond communications largely related to the Drive. Aside from the suggestions for honoring President Roosevelt in connection with the Drive, much promotional material was submitted, and a New Hampshire town reported that it has already exceeded its quota.

J. C. [Signature]

General Comments

James A. Durham, Arlington, Virginia. Today the San Francisco Conference begins, with a substantial chance of success. At the same time, however, many of us are concerned that Congress will emasculate the Bretton Woods Agreement. * * * People who are sincerely in favor of the Agreement are openly conceding that it is a dead duck. If supporters feel this way, it is a very bad sign. I suggest that the people of this country who want Bretton Woods need a boost in their morale. * * * I know that your Department has issued some official brief statements on the Agreement, but I submit that you need wider newspaper and cinema publicity. I beseech you, Sir, to get an advertising man, if necessary, to carry the message of the Agreement to every home in America in plain, simple terms. In other words, something in the nature of the job that Chester Bowles has tried to do in OPA. Time is going fast.

Mrs. Lee Maran, Secretary, Parents-Teachers Association, Public School 100, Brooklyn, New York. Because we, as parents with children in the Public Schools, feel strongly that the proposed plan of Bretton Woods is not only a plan concerning the bankers alone, but is the concern of every living American who is looking ahead for everlasting peace, may we urge you to mail to us any factual information on the issue of Bretton Woods. Thanking you for your cooperation to make possible an enlightened people.

Willie Mosconi, Audubon, New Jersey. Enclosed please find a \$25 War Bond which was given to me in good faith by one Mr. Richard Stack of Carrollton, Illinois. At the present time, I am the holder of the World's Pocket Billiard Championship. * * * A short time ago, I had the privilege of performing in Mr. Stack's place of business. This gentleman is quite old, over 70 years

- 2 -

of age, in fact, and he could have used the \$18.75 to further his own needs. Very much so, Mr. Morgenthau. But he is behind the war effort so much that he donates practically all of his earnings to canteens and to War Bonds. * * * I know what the \$18.75 means to this man, and to me he is one of the unsung heroes of this war. * * * Mr. Stack wishes this bond to be donated to the U. S. Treasury.

Merl M. Privett, Cushing, Oklahoma. May I take this opportunity to suggest that a new dime be issued in commemoration of Mr. Roosevelt, and his idea of the March of Dimes for infantile paralysis veterans. Mr. Roosevelt's picture could be put on one side and a crippled child on the other, then the American people would be reminded every day to help carry on this great work. If a President's picture can't be put on a small coin, then the Warm Springs, Georgia, infantile paralysis hospital could be.

- 3 -

Favorable Comments on Bonds

Walter W. Head, State Chairman, Missouri War Finance Committee, St. Louis, Missouri: Thank you very much for the gracious and generous manner in which you expressed yourself relative to the sale of Government securities in the State of Missouri during the previous six War Loan Drives. It is refreshing, encouraging and inspiring to know that you are closely following the work of the Finance Committees of the various states and that, in your busy life in this period of uncertainty and anxiety, occasioned by the stress and strain of war, you find time to write to your State Chairmen expressing words of encouragement and commendation. * * * It is our purpose to make a thorough, a vigorous and an intensive solicitation for the sale of War Bonds to individuals in every county for our present Drive, and, so far as it is possible to do so, in every home in our state. Please accept my deep appreciation for your letter and the encouragement which you have given us.

Henry T. Bush, State Chairman, Delaware War Finance Committee, Wilmington, Delaware. Thank you for your letter of April 16, in regard to the Seventh War Loan Drive. We appreciate your comments on our achievements here in Delaware, and I would like to say, in return, that we feel here that a great measure of our success has been due to the fine cooperation and support offered by you and your associates, particularly those who head the War Finance Division. * * *

Sanchez Sight Saving Class, San Francisco, California. We are the seven pupils of the primary sight saving class in the Sanchez School at San Francisco, California. We thought that you would like to know that we equipped one G. I. Joe for battle in five weeks. We have twelve dollars and sixty cents left to start equipping another soldier. We hope that we can equip him in five weeks also.

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Renslow P. Sherer, Chairman, War Finance Committee, Chicago, Illinois. Thank you for your thoughtful and gracious letter of April 16, addressed to me. You are far too generous. This organization is a team and all who are playing their part deserve equal credit. Therefore, I am taking the liberty of passing on your letter to them as if it were addressed personally to each of them. I am confident Illinois will do its part as well or better in the Seventh Loan as in the preceding Drives.

Glendon V. Weir, Executive Vice President, First State Bank, Greenville, Michigan. Would you be willing to consider a method to decrease the redemption of Series E War Savings Bonds? The increase in the redemption of these bonds is due to the fact that a large part of the liquid assets of most individuals now consist of these securities. * * * I have found by inquiry in case after case that these bonds are redeemed due to the fact that the owner is confronted with a sudden need for cash due to sickness, the down-payment on a home, a farm or something of a similar nature. In seventy-five percent of these cases, I also find that the owners of these bonds do not wish to dispose of them. If it were possible for these people to borrow against these bonds (at a low rate of interest, such debt to be retired by weekly, monthly, or semi-annual installments) they would prefer to do so rather than to turn them in. I have in mind a 4% rate. I have made loan after loan to prevent the sale of Series E Bonds and in every instance the borrowers have paid these loans promptly and were greatly pleased that it was not necessary for them to dispose of the bonds. Under present regulations, I could loan only to those whose credit was extremely good since these bonds are ineligible as collateral. The people want to keep their War Bonds. If I could have used these bonds as security, I know that I could have prevented the cashing of a great many more of them. * * *

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Unfavorable Comments on Bonds

H. W. Cooling, N.P., Havre de Grace, Maryland.
I enclose U. S. Bond of Mr. Wheeler Vine, who was,
before me, a Notary Public of Havre de Grace, Maryland.
After signing his name, I notarized same, which was
then presented at the banks and they refused to cash
same, stating he should have signed in their presence.
In reading the instructions, I find that the owner is
supposed to appear before an officer to be identified.
As I am an officer, appointed by the Government,
I felt I had the power to notarize same. Please
let me know what form to take so as the said party
can have bond cashed as his mother is ill and he
really needs the money.

- 6 -

Unfavorable Comments on Taxation

F. B. Griffith, Alexandria, Minnesota. I am sending
you herewith some correspondence which I have had
with the Collector of Internal Revenue at St. Paul,
with regard to a refund which I have coming on my
1944 income tax return. I have asked that office
to refund the money for the reason that I need it but
I cannot get any more information or satisfaction
out of them. * * * Last year I had to wait 11 solid
months for the refund and no good reason could be
given me for the delay after having written them
several times and called them up over the telephone.
* * * They have all the information in the office and
when the taxpayer files his return, it should take
but a few minutes to audit. There certainly is no
shortage of good accountants, and it seems perfectly
ridiculous to pack these returns up and send them to
a "processing office" instead of leaving them in the
district. * * *

THE WHITE HOUSE
WASHINGTON

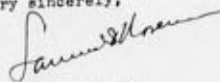
April 27, 1945

Dear Mr. Bell:

I cannot tell you how
much I appreciate your assistance,
and that of your staff, in getting
together my Report to the President
in bound form.

It is a beautiful job --
as usual.

Very sincerely,



SAMUEL I. ROSEMAN

Mr. Charles S. Bell,
Administrative Assistant
to the Secretary,
Treasury Department,
Washington, D. C.

IMMEDIATE RELEASE

APRIL 27, 1945

The President today addressed the following letter to the Honorable Edwin W. Pauley:

"My dear Mr. Pauley:

"I hereby designate you to act as my personal representative, with the rank of Ambassador, to represent and assist me in exploring, developing and negotiating the formulae and methods for exacting reparations from the aggressor nations in the current war.

"In this matter, you will represent me in dealing with the other interested nations.

"At the Crimea Conference, it was agreed that Germany would be obliged to the greatest extent possible to make reparations in kind for the damage caused by her to the Allied countries. It was further agreed that a commission would be established to consider the question of the extent and methods for collecting such reparations.

"I wish you also to represent the United States and me personally as a member of that commission.

"In all matters within your jurisdiction you will report to me personally and directly.

"May I express my gratification at your willingness to assume this important but arduous mission.

"Very sincerely yours,

"HARRY S. TRUMAN"

In connection with the foregoing letter, the President said:

"I wish, also, to announce that I have asked Dr. Isador Lubin, Commissioner of Labor Statistics, to serve with and accompany Mr. Pauley as his associate.

"Dr. Lubin will be given the personal rank of Minister. I am very grateful to Dr. Lubin for accepting this post."

Treasury Department
Division of Monetary Research 260

Date April 27, 1945

To: Secretary Morgenthau

From: Mr. Coe *cc*

This is in answer to
General Somervell's telephone
query. He seemed to be under
the erroneous impression that
an overall agreement had been
signed.

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APR 27 1945

Dear General Somerswell:

In response to your telephone request of yesterday, I write to inform you officially of the present status of the Stage II Lend-Lease program for Great Britain as it pertains to the British ground army, air and fleet air arm requirements.

No overall agreement with the British was entered into and the program approved by the American Committee does not constitute any commitment. The American Committee, appointed for this purpose by the President, revised the conclusions and recommendations submitted to it by the various Joint Sub-Committees and, with some modifications, approved them as constituting a suitable basis for this government's budgetary and production planning.

So far as the British ground army requirements are concerned, the program approved by the Committee embodies substantially the conclusions and recommendations submitted to it on October 23, 1944 by representatives of the U. S. War Department and the British. (Covering memorandums signed by Patterson, Somerswell and Clay for the U. S. and by Yeming, Neaks and Macready for the British). Similarly, for the British air and fleet air arm requirements, the approved program embodies substantially the conclusions and recommendations submitted on November 2, 1944 by representatives of the U. S. War and Navy Departments and British Air and Admiralty officials. (Letter of transmittal, November 2, signed by U. S. Brig. General G. C. Jamison and covering memorandums signed by Patterson, Lovett, Arnold, Gates, Fitch and Riley for the U. S. and Courtney, Fairry, Willock, Somersville and Abel-Smith for the British).

There were, however, as I have indicated, some modifications of the reports submitted by these Joint Sub-Committees in the program finally approved by the American Committee. These modifications were arrived at through correspondence and discussions, the records of which are doubtless available to you but for your convenience I summarize the principal points as follows:

1. Duplication of certain items in ground army and navy programs.

A minor modification in the ground army schedule as submitted by the Sub-Committee was made in order to eliminate provisions for the Army procurement of landing vehicles tracked, an item which also appeared on the navy schedule. See in this connection letter to me from Under Secretary Patterson dated November 14, 1944.

2. Addition of \$75 million contingency provision to air program.

The original air program provided a contingency item of \$200 million

for new and spot requirements but the British requested an additional contingency provision of \$75 million for certain types of naval aircraft should these become available. At a combined meeting in my office on November 10, 1944 Mr. Gates and Sir Robert Sinclair reported that agreement had been reached to provide this additional item. A supplementary memorandum of agreement to that effect was signed November 6, 1944 by the signatories to the original joint memorandum covering the air program.

3. Recommendation that Lend-Lease to British be conditioned on acceptance by U. K. of responsibility for furnishing of reciprocal aid throughout British Empire and Commonwealth as required by the common interest.

A recommendation to the above effect, subscribed to by the U. S. representatives only, was contained in Paragraph 10 of the Sub-Committee report on British ground army requirements and in Paragraph 11 of the Sub-Committee report on air requirements. As you know, it was objected to by the British, Dominion and Indian representatives and was the subject of much U. S. inter-departmental discussion as well as joint discussion with the British at various committee levels.

At a combined meeting of the British and American groups in my office on November 22, 1944, it was decided that Mr. Dean Acheson, of the State Department, should, after conference with the interested parties, recommend to the American Committee a suitable solution of the problem. Mr. Acheson's recommendation, which was to the effect that the assurances of the Dominion and Indian governments pertaining to Reciprocal Aid be accepted and the conditional clauses above referred to be eliminated, was approved by the American Committee. This information, together with the relevant documents, was transmitted to Under Secretary of War Patterson in a letter from me dated January 18, 1945.

I believe that the foregoing points constitute the only modifications that have been made in the ground army and air program and their covering memoranda as submitted by the Joint Sub-Committees. Other matters connected with the Stage II negotiations have been the subject of discussions and correspondence between the Treasury and War Departments but these do not modify in any way the Lend-Lease program as approved.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

General Hrehon B. Somerswell,
General, Commanding,
Army Service Forces,
Office of the Commanding General,
Washington, D. C.

ENC:ah 4/27/45

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D W H V W T D 27 APRIL 8:48 PM GR 516

SERIAL NBR --E/27TH--

TO : SECRETARY MORGENTHAU

FROM : MR. COE

TOP SECRET

FOR INFORMATION

SUBJECT: CHINESE GOLD

FOR YOUR INFORMATION THESE ARE OUR TENTATIVE VIEWS ON THE SUBJECT OF GOLD FOR CHINA. IN ADDITION TO THE DISCUSSION WITH PATTERSON, WE HAVE MET WITH MR. COLLADO OF STATE AND THE ACTING HEAD OF THE CHINA DIVISION THERE. I THINK WE CAN GET THEIR AGREEMENT ON ALL THE POINTS BELOW, EXCEPT THE ONE INDICATED.

1. THE TREASURY SHOULD CONTINUE TO OPPOSE ALL EXCEPT MINIMUM SHIPMENTS OF GOLD, WHERE THESE ENDANGER AMERICAN LIVES OR ^{USE} SCARCE TRANSPORT. THIS POLICY SHOULD CONTINUE TO APPLY TO CHINA.

(CGTN-LINE 7 WITH EDSSHD BE USE NOT SUE)

I 2. WE CANNOT NOW AGREE TO PROMISE THE \$50 MILLION OF GOLD SHIPMENTS WHICH THE CHINESE WANT IN THE NEXT FEW MONTHS IN ORDER TO MEET THE GOLD CERTIFICATES WHICH FALL DUE. THE CHINESE DID NOT CONSULT US ABOUT THESE FORWARD SALES OF GOLD, WHICH ARE OBVIOUSLY IMPRUDENT IN THE CIRCUMSTANCES AND WERE DESIGNED TO ACT AS A PISTOL AT OUR HEADS.

STATE HAS NOT INDICATED THAT THEY ARE AFRAID OF THE POLITICAL CONSEQUENCES OF THIS REFUSAL. I SUPPOSE, HOWEVER, THAT IF IN LATER MONTHS A GREAT FUSS IS MADE AND IF STATE TELLS US THAT THEY ARE AFRAID OF GRAVE POLITICAL CONSEQUENCES, WE WOULD AGREE TO STEP UP GOLD SHIPMENTS IN ORDER TO CLEAR UP THESE ARREARS.

3. WITHOUT CONDONING THE PAST PROGRAM, WE SHOULD TELL THE CHINESE THAT WE EXPECT THEM TO STOP ALL FORMS OF FORWARD SALES OF GOLD IMMEDIATELY.

4. IN ANY CASE, ALL FURTHER GOLD SENT TO CHINA SHOULD BE OUT OF THEIR OWN FUNDS, AND NOT OUT OF THE \$500 MILLION LOAN. YOUR OWN RESPONSIBILITY FOR THE USES TO WHICH THIS LOAN IS PUT IS THE BASIS FOR THIS RECOMMENDATION. THE PROGRAM OF FORWARD SALES OF GOLD, LIKE THE PREDECESSOR PROGRAMS OF \$200 MILLION U.S. SAVINGS CERTIFICATES AND BONDS, HAS BEEN USED AS A DEVICE FOR ENRICHING A FEW INSIDERS AND HAS HAD NEGLIGIBLE EFFECTS UPON THE CHINESE INFLATION.

5. AFTER CONSIDERATION OF THE WHOLE HISTORY OF THE \$500 MILLION LOAN, AND THE USES TO WHICH IT HAS BEEN PUT, WE THINK THAT YOU SHOULD TELL THE CHINESE THAT YOU WISH THEM TO PUT ASIDE THE REMAINING \$240 MILLION OF THE LOAN, AND AN ADDITIONAL SUM OF THEIR OWN U.S. DOLLAR EXCHANGE, OF PERHAPS \$260 MILLION, AS A FUND TO BE USED FOR STABILIZATION AND RECONSTRUCTION PURPOSES, IN ACCORDANCE WITH AN AGREED PROGRAM, TO GO INTO EFFECT AT AN AGREED DATE. THE PROGRAM SHOULD INCLUDE THE FISCAL, ECONOMIC AND ~~ADMINISTRATIVE~~ ADMINISTRATIVE MEASURES NECESSARY TO STABILIZE THE CURRENCY, AND THE DATE SHOULD BE THE EARLIEST TIME WHEN WE AND THE CHINESE AGREE THAT THEY CAN GO FORWARD ON SUCH A PROGRAM.

IF THE CHINESE ARE NOT WILLING TO ACCEPT THIS PROPOSAL, WE THINK IT WISE POLICY TO ALLOW NO FURTHER DEPLETION OF THE LOAN. (IN ADDITION TO THIS \$240 MILLION THE CHINESE NOW HAVE SOME \$700 MILLION OF U.S. DOLLAR EXCHANGE).

WE HAVE PREPARED CHARTS AND ANALYSES TO SHOW THAT THE ACQUISITION BY CHINA OF ADDITIONAL FOREIGN EXCHANGE AND THE SALE OF GOLD OR ANY OTHER FORM OF FOREIGN EXCHANGE BY CHINA HAVE HAD NO DISCERNIBLE EFFECT IN HALTING THE INFLATION.

TOD: WU APRIL 8:05 PM WTD (RAJ)

TOR: 27 APRIL 8:05 PM DWH (WAG)

RESTRICTEDOFFICE OF STRATEGIC SERVICES
WASHINGTON, D. C.

27 April 1945

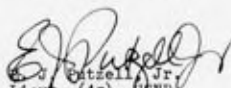
Honorable Henry Morgenthau, Jr.
Secretary of the Treasury
Treasury Department
Washington, D. C.

My dear Mr. Secretary:

We are forwarding herewith as
of possible interest to you radiotelephone mes-
sage #294, dated April 26, 1945.

It was received last night from
our representative in Berne.

Respectfully yours,



E. W. Fitzell, Jr.
Lieut. (jg), USNR
Acting Executive
Officer

RESTRICTED

12"

Form O-52 (Rev. 1-15-44)

OFFICE OF STRATEGIC SERVICES
OFFICIAL DISPATCH

DATE 26 April 1945

6204

FROM Berns	INFO	PRIORITY
		ROUTINE
		DEFERRED
TO DIRECTOR, OFFICE OF STRATEGIC SERVICES		
DISTRIBUTION		
(FOR ACTION)	(FOR INFORMATION)	

RECEIVED IN PLAIN TEXT RESTRICTED

RESTRICTED

GERMANY

The last remnants of Nazi and Fascist power still cling to their link with Switzerland as the last land outlet to the outside world. The areas of contact are becoming hourly narrower and narrower, the valleys leading from southern Switzerland and to Italy are almost entirely controlled by Partisans, and even the main railway link that from Chiasso to Como and Milan, is now cut. Como is still said to be a fiefdom of Fascist forces, but their position is hopeless, as they are cut off, both on the Swiss and Milan sides, by Partisans. Como is also reported to be the place of refuge of many high Fascists, and rumors have it that Mussolini is there. However, since he suddenly left Milan a couple of days ago, there is no clear evidence as to his whereabouts. In any event, Fascist Italy is fast dying, and it seems doubtful whether it will ever be able to pull together her last stand in the eastern corner of the Veneto. This depends upon whether Vietinghoff's eastern forces can rally on the Adige, now that the Po is well past. This seems unlikely, as the Germans have lost the will to fight, and they prefer Anglo-Saxon prisoner camps to the alternative of falling into the hands of Tito or the Russians. Not many of the Germans appear to have any interest in joining the hodge-podge of armies that are drifting back into the rear.

On the Swiss frontier with Germany, there only remains a part of the Lake of Constance and the narrow area to the South, where one railway runs to Munich and the other through the Vorarlberg to Innsbruck. Here, in and about Bregenz, is a hotly gathering of refugees of all nationalities, many of whom would like to cross the frontier into Switzerland. Laval is reported to have tried to come over and been refused. The problem of separating the wheat from the chaff among those pressing at the Swiss frontier is not easy. It is fair to say, however, that an honest effort is being made here to keep out those who are not worthy of asylum.

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PAGE 2

OFFICE OF STRATEGIC SERVICES
OFFICIAL DISPATCH

REF. NO. 294

FROM Berns TO DIRECTOR, OFFICE OF STRATEGIC SERVICES

RECEIVED

RESTRICTED

The case of Petsin is of particular interest. If he had asked asylum here it would have presented a difficult problem for the Swiss. However, since he only asked the privilege of crossing to face trial, there was no issue. The old man had quite an enthusiastic reception from the people in the streets as he passed through Switzerland today to the French frontier to give himself up.

The whereabouts of Hitler and Himmler are still a mystery. A few days ago they were both in or near Berlin. Have they remained there, to go down in the ruins, or have they got away by plane? This is a question we can't answer. With the sky patrol of Anglo-American and Russian planes in this area, retreat by air during recent days would have been a hazardous job. It is conceivable that Hitler will just disappear and that we will never know definitely what has happened to him. This will give his fanatical followers the possibility of continuing to use his name to keep alive the underground movement.

RESTRICTED

CONFIDENTIAL

AIRGRAM
London
Dated April 27, 1945
Rec'd 5 p.m., May 3

Secretary of State,

Washington

A-473, April 27, 1945

For Department and Earl G. Harrison, United States
representative on Intergovernmental Committee on Refugees.

Department's telegram No. 2308, March 24, 6 p.m.

Sir Herbert Morrison, Director of IGC replied in a
letter dated April 26, 1945, as follows to the Embassy's
suggestion that the IGC press other Government members
for voluntary contributions:

"Dear Varner:

I am writing to acknowledge with thanks your
letter of April 10, 1945, relating to contributions
by Member Governments towards operational expendi-
ture. As you know, the same point has been raised
by the British Government. In the ordinary course,
we should have pressed Member Governments, other than
those of the United Kingdom and the United States or
America, to contribute towards operational expenditure
when we circulated to them the operational budget for
the current year. We have, however, been unable to
circulate that budget because we have not heard that
your Government has agreed to the provision of funds.

I now propose to include the matter in the agenda
of the next Executive Committee on the basis of the
views expressed by the two Governments, and to seek
the express authority of the Committee to press the
invitation in strong terms on Member Governments.
This will be more effective than if I, as Director,
issued a circular to Member Governments in the ordinary
course of business, since it will direct the attention
of Member Governments of the Executive Committee to
the importance of the question, and it will enable
me to send a Circular to all Member Governments
under the specific direction of the Executive Committee."

No indication has been given as to the date of the
next meeting of the Executive Committee. Any comments
which the Department may care to make should be sent by
telegram as soon as possible.

MR. CARLOS MANNING
CJW:pg

WIRANT

April 27, 1945

7 p.m.

ALLEGATION

STOCKHOLM

774

Re your 1447 April 19 and 1476 April 20.

Department questions stated nationality of the reported
5,000 Jewish arrivals in Sweden in view of information
received previously that of 8,000 Jews formerly in Denmark,
comprised of 6,000 native Jews and 2,000 refugees, 1,000
had been deported to the east and 5-6,000 had escaped to
Sweden thus leaving only 1-2,000 in German concentration
camps.

Please clarify as to character of this group.

GREW
(Acting)
(GHS)

WRB:RMY:ED
4/26/45

HQS

12"

271

Bern

Dated April 27, 1945

Rec'd 8:15 p.m.

Secretary of State,

Washington.

2468, April 27, 4 p.m.

FOR C'DAYIN OF WBS FROM KATZKI AND MCCLELLAND

Third truck convey bringing detainees from Mauthausen reached Switzerland April 25. (Legation's 2428 April 25) It is now officially reported that these 3 convoys evacuated 791 detainees almost all women of French, Belgian and Dutch nationalities. Group is at present being cared for at St. Gall where it will remain some days prior to repatriation (with probable exception of Dutch).

Germans permitted release these people on basis "exchange" agreement reported in Legation's 2175 April 12 negotiated by ICRC which applied only to French and Belgians. We do not yet know on what grounds Dutch were extricated although Burckhardt stated during April 12 meeting that he "hoped be able something about evacuating Dutch schutshoeftlinge".

We have urged ICRC attempt bring back detainees of other nationalities in future evacuations if at all possible.

HARRISON

JMS

PLAIN

Lisben

Dated April 27y 1945

Rec'd 1:51 a.m., 28th

Secretary of State,

Washington.

915, Twenty-seventh

WBS 400 FOR RIAS, 425 LAFAYETTE STREET, NEW YORK, FROM DAVID SCHWEITZER HIGHM

Inform Isidore Goldberger, 2417 Folsom Street, Los Angeles, Charlette Goldberger husband Ferenc Tekacs arrived healthy Bucharest care of Teodosiu 63 Sfintii Apostoli expecting baby June asking urgent financial help.

William Altman, 1165 Gerard Avenue, Bronx, Bela Pepper wife Kather sons George Ernest 51 Cltomi Bucharest returned Transnistria ask urgent financial help.

Thomas Ferbeth, care of Tiber Falyan, 114 West 32nd Street, New York, father mother, sister Susy departed last June, Lucy Sanyi Fiech also departed sister Eva and husband Peter Alder living father's house and Hans Liesl Agoston inform grandmother Pepper with sister brother-in-law departed December 8.

Message for Bertalan Magyar, 1000 Park Avenue, New York, from Marcel Aczel Bucharest "Whole families Nagy Vassarhelyi including newly born Nicolai family Armands alive well".

Inform Erno Wittman, Hotel Beverly, Lexington Avenue and Fiftieth Street, that Klari Klenka Paul Roberts advised Richards departed Svod brothers killed Klari and child safe ask news of Georges Erico and request certificate brothers American citizenship.

Baruh

JM

272

PLAIN
Paris
Dated April 27, 1945
Rec'd 7:03 a.m., 28th

Secretary of State,
Washington.

2151, Twentyseventh
FOR WAR REFUGEE BOARD FOR MOSES LEAVITT AMERICAN
JOINT DISTRIBUTION COMMITTEE FROM JOSEPH SCHWARTZ.

Connection Passman's cable of his discussions
with Leo Fait approve fully principles and procedures
suggested and have advised Passman accordingly. Have
also furnished full information concerning programs
France Belgium and Holland sending out additional
information concerning our Balkan program.

CAFFERY

JMS

273

LFO - 1919
This telegram must be
paraphrased before being
communicated to anyone
other than a Government
Agency. (RESTRICTED)
Rime
Dated April 27, 1945
Rec'd 2:15 p.m.

Secretary of State,
Washington

1063, April 27, 5 p.m.

FOR MOSES LEAVITT FROM REUBEN RESNIK

28. Have been to Bologna and Modena now in
Ferrara. Have obtained all records from concentration
camp at Passoli di Carti and given emergency assistance
to all communities.

KIRK

BR

AIS-1903
Distribution of
true reading only by
special arrangement
(SECRET W)

Lisbon
Dated April 27, 1945
Rec'd 4:52 p.m.

Secretary of State
Washington

916, April 27, 5 p.m.

THIS IS WNB 398 JDC 229 FOR LEAVITT FROM THOSE

On April 25, 248 people left Tangiers for Palestine.

Departed via Gibraltar.

BARUCH

JDS

SPD-90
Distribution of true
reading only by special
arrangement (SECRET W)

Bern
Dated April 27, 1945
Rec'd 11:02 p.m.

Secretary of State,
Washington

2473, April 27, 6 p.m.

FOR OWNER OF BUS FROM KATZKI AND MCCLELLAND

We were informed by IHC on April 26 (Legation's
2421, April 25) that prospects for getting further
truck convoys of relief supplies for detainees in
Germany out of Switzerland looked more favorable than
two days ago. Attempt will be made dispatch at least
one more convoy to camp of Mauthausen near Linz which
has not yet been overrun by Russians and possibly other
smaller convoys to the Resenstadt and Landsberg.

We will keep you posted all developments this
situation.

HARRISON

DW
JM

12"

AMS-181

PLAIN

Paris

Dated April 27, 1945

Rec'd 7:07 a.m., 28th

Secretary of State,
Washington.

2150, Twenty-seventh

FOR WAR REFUGEE BOARD FOR HONOR LEAVITT AMERICAN
JOINT DISTRIBUTION COMMITTEE FROM JOSEPH SCHWARTZ.

"Prospects now favorable for us send staff members
to Germany to deal with problem displaced persons espec-
ially stateless. Arrangement will be worked out either
through UNRRA or intergovernmental committee or else
through direct negotiations with military authorities.
Important therefore you select immediately at least 3
highly qualified persons and get them over here soonest
possible. Meanwhile important also persons already
selected for France proceed immediately."

CAPFRET

LSF

237

LPO-168

PLAIN

Lisbon

Dated April 27, 1945

Rec'd 6:47 a.m., 28th

Secretary of State,
Washington.

917, Twentyseventh

NRB 399 JUC 230 FOR LEAVITT FROM TROBE.

Hayer received \$400,000 Gottfard received \$1,000.

BARUCH

JIS

TRU-1936

PLAIN

London

Dated April 27, 1945

Rec'd 2:53 p.m.

Secretary of State

Washington

4293, Twentyseventh.

FOR O'DWYER FROM HANE

Information believed reliable transmitted to JEC by Army chaplain indicates that there are 3000 Jews at Buchenwald of which approximately 600 are orphan children. Please advise Leavitt.

WENANT

HEP

270

CABLE TO AMERICAN LEGATION, GENEVE, FROM BOSTON, FROM THE SWI SWISS BOARD

Please deliver the following message to Gerhard Heigler, 37 Quai Wilson, Geneva, from Kurt H. Grossman of World Jewish Congress:

NOTE: PLEASE CONTACT WPA COMPANY, LES AVANT, SUITCOUARD
AND FIND OUT WHO PAUL BARRER, BORN MAY 23, 1900, HAS BEEN
TRANSFERRED FROM THURMIN TO LAFFAN. UNL007K

THIS IS NEW YORK CASE NO. 514

145 N.Y.
April 27, 1945

NOT TO BE RETRANSMITTED

COPY NO. 1

SECRETOPTEL NO. 134

Information received up to 10 a.m. 27th April, 1945.

NAVAL

1. Northern Waters: A convoy of 26 ships and 16 submarine chasers under delivery to the U.S.S.R. escorted by ships of the Home Fleet have arrived North Russian ports without loss.
2. Home Waters. 25th/26th. M/T,B's torpedoed and probably sank an armed coaster off Dutch coast.

MILITARY

3. Western Front. (Southern Sector): French troops driving down East bank of Rhine have reached Swiss frontier East of Basle; 7th U.S. Army continues to close to River Danube and have completely cleared Ulm and enlarged bridgehead at Dillingen. (Central Sector): 3rd U.S. Army also closing to Danube in conjunction with 7th U.S. Army while further East armour of former army now within 12 miles Passau on Austrian border. (Northern Sector): U.K. infantry have captured whole of Bremen while slight advances also made by Canadian troops in Ems Estuary area.
4. Eastern Front. (Northern Sector): Canal connecting Frisches Haff with Baltic Sea crossed by Russians who have developed this advance along the Frische Nehrung. (Central Sector): Stettin captured and an advance of 18 miles made West of River Oder. In battle for Berlin both sides threw in reserves and heavy fighting now raging Southern, Eastern and Northern parts of city with capture of Gartenstadt, Siemensstadt and Dahlem districts reported by Russians as also Goerlitze railway station. West of capital Russians have advanced to areas of Fehrbellin (25 miles N.W.), Rathenow (40 miles W.N.W.) and Brandenburg (30 miles West). In pocket to S.W. of Frankfurt on Oder further places taken. South of this towns of Torgau and Strehla on Western bank River Elbe have been occupied. Further South, in area Bautzen, Russians state continued counter attacks by large forces German infantry and tanks thrown back while Germans claim destruction Russian forces operating this area and relief of Bautzen itself. Further slight progress also made in reduction Fortress of Breslau. (Southern Sector): Russians report capture of Brno.
5. Italy. (8th Army Sector): Troops this Army now well across River Po at many points and line now runs Adria, Rovigo, Fiesso and along River Adige, West of Badia. (5th Army Sector): Troops have crossed River Adige in areas Legnano and Verona capturing latter city. Line then runs approximately South, with Mantua still in enemy hands to Carpi (South River Po) and from there approximately N.W. to Trescall where River Taro has been crossed. South of this Parma has been captured and second crossing of River Taro made along highway 9, some 6 miles N.W. of city. In coastal area reconnaissance troops reported as entering Genoa on morning 26th.

AIR

6. Western Front. 25th. SHAEF (Air) report further results with aircraft 397 (missing 4) operating Southern battle area and destroying or damaging 297 road and rail vehicles while inflicting enemy air casualties 2:1:2 in combat and 165:0:103 on ground, 25th/26th. Bomber Command despatched aircraft 290 (missing 1) 119 oil depot (384 tons) at Vaillo (40 miles S.W. Oslo) 82 Transformer Station Ulich/Pasing (111 tons) and 89 on other operations when both main attacks obtained good results. 26th. No heavy bombers operated. SHAEF (Air) Mediums attacked airfield Plattling (114 tons) while fighters and fighter bombers 1545 (missing fighters 9) operated battle areas destroying or damaging 113 locomotives, 657 railway wagons 694 Mt. 39 Mt. and inflicting enemy air casualties 2:1:10 in combat and 54:0:43 on ground. Coastal Command aircraft attacked shipping off Norway leaving floating cock and coaster on fire while also obtaining hits on two vessels of 15,000 and 2,000 tons. 26th/27th. Bomber Command despatched Mosquitoes 120, against four airfields Germany, 12 Kiel and 9 Bomber support.
7. Mediterranean. 25th. Escorted heavy bombers 519 (missing 15) dropped 1079 tons on railway centres Lips and Weis and other targets with good results. Medium bombers 115 (missing 1) attacked bridges North Italy and Austria and railway centre Gorizia while fighters and fighter bombers 1152 attacked targets battle areas destroying or damaging 517 road and rail vehicles.

S.E.A.C.

8. 24th. Liberators dropped 107 tons Burma/Siam railway.