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Authority **UN0859277**
By **VR** NARA Date **11/1**

RG **27**
Entry **FILE 600500**
File **GEA-SWEDEN**
Box **36**

GEA-Sweden ~~EGM~~

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DEPARTMENT OF STATE

Memorandum of Conversation

~~W/G~~

DATE: **October 6, 1946**

SUBJECT: **Seven Million Swedish Kroner Problem Under Washington Accord.**

PARTICIPANTS: **Mr. Goldsmith, US Treasury Delegation**
Mr. Reinstejn - GEM

COPIES TO: **GEM Embassy, Stockholm**
GEM Embassy, Bonn (2)
RA
SR
RAA
IC - Mr. Phillips

GPO 903504

Mr. Goldsmith telephoned me today to say that he had received a telegram from London stating that London has no comments on Mr. Virgin's draft letter stating the intention of the Swedish Government to pay the seven million kroner to the United Nations Commission for Refugees; that the British agreed to an acknowledgment being made along the lines which I had discussed with Mr. Virgin; and that they agreed that the United States Government should respond to the letter on behalf of the three allied Governments.

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~~AA~~

IO - Mr. Phillips

October 3, 1956

GER - J. J. Reinstein

RHP
WG

I attach for your information a copy of the memorandum I have made of the conversations I have been having with Mr. Virgin of the Swedish Foreign Office on the subject of the 7 million kronor. As you will see from this, the Swedish Government proposed the payment to the UN High Commissioner for Refugees on the understanding, which is unfounded, that this could be done within the framework of the present Allied-Swedish Agreement. The general position which I took with him was one which had been agreed to by the Three Governments.

I am hopeful in the light of my talk with Mr. Virgin of October 2 that we will now be able to resolve the problem along the lines of my previous discussion with him. However, I am not certain we can get British and French agreement on the papers within a few days time as the Swedes apparently hope.

Attachment

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By VR

UNDR859277

NARA Date 111

KG 27

Entry FILE 60D500File GER-SWEDENBox 36~~LIMITED OFFICIAL USE~~

DEPARTMENT OF STATE

Memorandum of Conversation

September 27, 1956

DATE:

September 28, 1956

October 2, 1956

SUBJECT:

Disposition of 7 million kroner under
Washington Accord on German Assets in Sweden.

PARTICIPANTS:

Mr. Eric Virgin, Swedish Foreign Office
Mr. J. J. Reinstein, GRS

COPIES TO:

GIB (2)

NSA

NA

GRS

GSA

10 - Mr. Phillips

Embassy Room (3)

Embassy Stockholm

Embassy Brussels

During the course of a luncheon conversation Mr. Reinstein raised with Mr. Virgin the question of the disposition of the 7 million kroner which had not been disposed of under Paragraph 2 of the Swedish letter of July 18, 1946 under which the Swedish Government undertook to make available 75 million kroner to countries parties to the Paris Agreement on Reparations. He reminded Mr. Virgin that the representatives of the Three Powers had raised this matter with him and Judge Sandstrom on the occasion of their visit to Stockholm in February and had asked what the intentions of the Swedish Government with respect to this matter were. He understood that Mr. Virgin had subsequently informed the British Commercial Attache in Stockholm that the Swedish Government suggested that the 7 million kroner be made available to the UN High Commissioner for Refugees and that the matter be treated as a transfer from Paragraph 2 of the Swedish letter to Paragraph 1 under which the Swedish Government undertook to make 50 million kroner available to the Intergovernmental Committee on Refugees. Mr. Virgin said this was correct.

Mr. Reinstein said there was one point which he thought he should clarify. The successor organization to the Intergovernmental Committee on Refugees was the Paris Reparation Fund. He thought that the three Allied Governments would be prepared to agree that 7 million kroner should be allocated to the Paris Reparation Fund. In this case, however, he thought that he should make clear that the funds would not be used for new relief activities but would be used to pay for activities which had taken place in the past. He pointed out that the Paris Reparation Agreement had provided for the establishment of a fund of \$25 million, to be realized from the German assets in the neutral countries, for the benefit of refugees. On the expectation that this sum would be made available without too much delay, various American charitable organizations,

Catholic

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GEA-Sweden

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-2-

Catholic, Protestant and Jewish, had advanced funds to permit work on behalf of refugees to be carried on immediately after the war. The negotiations with the neutral countries had not resulted in the realization of the sum of \$25 million, and the organizations had in a number of cases been under the necessity of borrowing from commercial banks in order to take care of the situation. They were naturally most eager to be compensated by the Refugee Relief Fund and the three Governments were anxious that this be done. Mr. Reinstein said, in the event that the 7 million kroner should be paid to the Refugee Relief Fund, it would be used to repay these debts.

Mr. Virgin said he did not think this solution would be acceptable to the Swedish Government. He said the Swedish Government was impressed with the need for supporting the activities of the United Nations High Commissioner. The idea of using the 7 million kroner for this purpose had been very favorably received within the Swedish Government. Mr. Virgin said that the Foreign Minister, Mr. Unden and a Mrs. Lindstrom, who is also a member of the Swedish Cabinet, were personally interested in the suggestion.

Mr. Reinstein said that, in the event the Swedish Government could not see its way clear to paying the 7 million kroner to the Refugee Relief Fund, he thought that the solution proposed by the Swedish Government would be acceptable if it were adopted by unilateral action of the Swedish Government. He said that the Three Governments did not feel that they could legally agree to a use of the funds for purposes not envisaged in the original agreement, in the light of their trustee position under the Paris Agreement. On the other hand, the Swedish Government should see fit to allot the 7 million kroner to the United Nations High Commissioner for Refugees, Mr. Reinstein thought the Three Governments would acquiesce in this decision and content themselves with reporting the situation to IANA.

Mr. Virgin appeared to be somewhat surprised at the suggestion that the matter should be settled by unilateral action of the Swedish Government and said he was not certain how his Government would react to this. He said he thought the best thing to do would be for him to take it up with the Swedish Government. He asked how the matter could be handled. He thought that perhaps it could be taken care of in some exchange of letters. Mr. Reinstein said this was what he had in mind. He thought that the basis of an exchange of letters might be the inquiries which had been made by the representatives of the Three Governments during the conversations which they had had with Mr. Virgin and Judge Sandstrom in Stockholm in February. There was some discussion as to how the letters might be drafted and Mr. Reinstein undertook to give Mr. Virgin on the following day any suggestions which he might be able to make in this connection.

On September 28 Mr. Reinstein telephoned Mr. Virgin. He said he had an opportunity to discuss the matter with some of his colleagues in the State Department, but that he had not been able to discuss it with the British and

French.

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GEA - Sweden

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French. Nevertheless, he thought he was sufficiently familiar with the viewpoint of the three governments to offer a suggestion which, if it appeared acceptable to Mr. Virginia he could take up with the British and French Governments. He suggested that the Swedish Government might address a communication to the three Allied Governments referring to the inquiries which the representatives of the Allied Powers had made during the discussions at Stockholm. The latter might then refer to the history of the 75 million Bremer Fund. In this connection Mr. Helmslein thought it would be useful to point out that these funds represented funds which had been appropriated by the Swedish Parliament and not German assets. He said that he had not been aware of this fact himself prior to the discussions in Stockholm. He thought that this fact had a considerable bearing upon the solution of the problem. The letter might then go on to recount the efforts which had been made by the Swedish Government to turn down. The letter could conclude with whatever the Swedish Government felt like saying with regard to the proposed solution. If the Swedish Government felt that it had discharged its obligations under the Agreement, it might wish to dispose of the funds in a manner consistent with the spirit of the original offer.

Mr. Helmslein said that if such a letter were written to the three governments, it was his thought that they would acknowledge it. The acknowledgment might thank the Swedish Government for the information provided regarding the intentions and take note of the action which the Swedish Government intended to take. The Allied answer might conclude by stating that the three governments would comment on this information to the IAN government when they represented.

Mr. Virginia said he would telegraph Stockholm and ask for a general indication as to whether this line of action was acceptable. He would then prepare a draft of a letter which he would communicate to the State Department. Mr. Palastin held that upon receipt of the draft the State Department would make the matter with the British and French Governments. Meanwhile, the British and French would be informed of the communication.

On October 2 Mr. Virginia telegraphed Mr. Helmslein that he had received authorization from the Swedish Government to carry on the discussions on the basis on which he and Mr. Helmslein had discussed the matter. He said he had prepared a draft of a letter from the Swedish Government on the subject which the Swedish Embassy would deliver to Mr. Helmslein. He said he would be very glad to come to Washington to discuss this with representatives of the three Powers, possibly at the end of the week. He indicated that Mr. Under was very anxious to receive at least an indication in principle as to the acceptability of the proposal by October 7. Mr. Helmslein assured him that he would make every effort to get an answer by that date.

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5.19B ECEFP MEETINGS

Box

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3. Documents 37/46 - 45/46

CONFIDENTIAL

ECEFP D-37/46

May 22, 1946

CONFIDENTIAL

EXECUTIVE COMMITTEE ON ECONOMIC FOREIGN POLICY

Department of State
Office of Economic Security Policy

MEMORANDUM

May 9, 1946

To: Mr. Carr

From: S. J. Rubin

Subject: The Proclaimed List.

It is suggested that a brief memorandum be distributed to the members of the interdepartmental Executive Committee on Economic Foreign Policy. The memorandum should in substance be as follows: It is not believed that a meeting of the Executive Committee is necessary at this time, unless it is requested by some member of the Executive Committee:

1. The question of the continuation of the Proclaimed List has been taken up by State Department officials with British officials. The British reaction was that the List could be continued beyond May 8 until June 30, 1946, but that June 30 was the absolute terminal date so far as the British were concerned. The British also indicated a preference for withdrawing the List at the same time in both the Eastern and the Western Hemispheres.

2. Discussions have been held, in accordance with the directives of the Executive Committee, with Assistant Secretary Braden and members of his staff. It has been agreed with Mr. Braden's office that the List for the Western Hemisphere, like the List for the Eastern Hemisphere, will be continued until at least June 30, the date for final withdrawal for any country remaining the subject of further consultation. This agreement is subject to possible alteration, should the negotiations with the neutrals, which are now current on the subject of German external assets, result in agreement that the List would be retired, prior to June 30, 1946 in any one of the neutral countries.

3. The State Department has presently under consideration the desirability of a further approach to the British on possible continuation of the List beyond June 30, 1946. The objective of such possible prolongation of the List would be integration of the listing procedures with the current negotiations with the neutrals. A further report on this matter will be submitted at an appropriate time.

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Authority AWO 968106
By SR NARA Date 10-21-99RG 59
Entry LOT 62D115
File 910-GOLD
Box 4 1944
DECLARATION

⑧

Gold Declaration of February 22, 1944

Treasury Department,
Tuesday, February 22, 1944.

Secretary Morgenthau today issued the following declaration:

On January 5, 1943, the United States and certain others of the United Nations issued a warning to all concerned, and in particular to persons in neutral countries, that they intend to do their utmost to defeat the methods of dispossession practiced by the governments with which they are at war against the countries and peoples who have been so wantonly assaulted and despoiled. Furthermore, it has been announced many times that one of the purposes of the financial and property controls of the United States Government is to prevent the liquidation in the United States of assets looted by the Axis through duress and conquest.

One of the particular methods of dispossession practiced by the Axis Powers has been the illegal seizure of large amounts of gold belonging to the nations they have occupied and plundered. The Axis Powers have purported to sell such looted gold to various countries which continue to maintain diplomatic and commercial relations with the Axis, such gold thereby providing an important source of foreign exchange to the Axis and enabling the Axis to obtain much-needed imports from these countries.

The United States Treasury has already taken measures designed to protect the assets of the invaded countries and to prevent the Axis from disposing of looted currencies, securities, and other looted assets on the world market. Similarly, the United States Government cannot in any way condone the policy of systematic plundering adopted by the Axis or participate in any way directly or indirectly in the unlawful disposition of looted gold.

In view of the foregoing facts and considerations, the United States Government formally declares that it does not and will not recognize the transference of title to the looted gold which the Axis at any time holds or has disposed of in world markets. It further declares that it will be the policy of the United States Treasury not to buy any gold presently located outside of the territorial limits of the United States from any country which has not broken relations with the Axis, or from any country which after the date of this announcement acquires gold from any country which has not broken relations

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Authority 100968106By SL NARA Date 10-21-99

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Entry

LOT 62D115

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910-GOLD
DECLARATION

Box

4 1944

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with the Axis, unless and until the United States Treasury is fully satisfied that such gold is not gold which was acquired directly or indirectly from the Axis Powers or is not gold which any such country has been or is enabled to release as a result of the acquisition of gold directly or indirectly from the Axis Powers."

It is understood that a similar declaration is being issued simultaneously by the United Kingdom Treasury, and by the Union of Soviet Socialist Republics.

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elaborate machinery for reviewing and initiating action on all listing cases, it is not believed that a situation comparable to that of the British will exist regarding attendance at meetings of the Interdepartmental Proclaimed List Committee, considering its technical composition and necessary compactness. In order that the French authorities may fully weigh these considerations, the Embassy is most cordially invited to have a representative attend several meetings of the Interdepartmental Proclaimed List Committee as a visitor. Additionally, if it should develop in the joint study of certain cases that efficiency would be gained by having a French representative participate in discussion before the Committee, the Embassy will be invited to have an officer attend meetings of the Committee for that purpose.

WASHINGTON, January 16, 1945.

Foreign Relations of the United States 1944, vol. II, USGPO, Washington, 1967. pp. 213-214.

204261

CONCERN OF THE UNITED STATES OVER ENEMY ATTEMPTS TO SECRETE FUNDS OR OTHER ASSETS IN NEUTRAL COUNTRIES: INCEPTION OF THE SAFE-HAVEN PROGRAM

840.51 Frozen Credits/12479a : Circular telegram

The Acting Secretary of State to Certain Diplomatic and Consular Officers¹

WASHINGTON, February 22, 1944.

There is quoted below the text of a declaration issued by the Secretary of the Treasury² at twelve noon Eastern War Time, February 22, 1944. A similar declaration was issued by the United Kingdom and U.S.S.R. Treasuries.³

"On January 5, 1943 the United States and certain others of the United Nations issued a warning to all concerned, and in particular to persons in neutral countries, that they intend to do their utmost to defeat the methods of dispossession practiced by the governments with which they are at war against the countries and peoples who have been so wantonly assaulted and despoiled.⁴ Furthermore, it has been announced many times that one of the purposes of the financial and property controls of the United States Government is to prevent the liquidation in the United States of assets looted by the Axis through duress and conquest.

¹ In Algeria, Argentina, Anstralla, Bolivia, Brazil, Canada, Chile, China, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, Egypt (repeated to the diplomatic representatives for Greece and Yugoslavia), El Salvador, Ethiopia, Great Britain (repeated to the diplomatic representative for Belgium, Czechoslovakia, the Netherlands, Norway and Poland), Guatemala, Haiti, Honduras, Iceland, India, Iran, Iraq, Liberia, Mexico, New Zealand, Nicaragua, Panama, Paraguay, Peru, Portugal, Spain, Sweden, Switzerland, Turkey, Union of South Africa (Pretoria and Capetown), Unibn of Soviet Socialist Republics, Uruguay, and Venezuela.

² Henry Morgenthau, Jr.

³ A memorandum of December 27, 1943, by the Chief of the Financial Division (Livesey) stated: "The general policy expressed in the proposed declaration was thoroughly cleared in the Department and approved by two Assistant Secretaries and the Secretary. The Treasury was told of this general approval and of collateral suggestions by the Department of State that the issuance of the statement should be taken up with the British with a view to having them take parallel action." (740.00113 European War/1253b)

In a memorandum of December 29, 1943, the Chief of the Financial Division noted that Harry Dexter White, Assistant to the Secretary of the Treasury, had informed him in a telephone conversation on that date that Secretary Morgenthau, several days before, had suggested that the consultation with Great Britain regarding the proposed Treasury declaration be broadened by also consulting the Soviet Union (740.00113 European War 1939/1278).

⁴ For text of Inter-Allied declaration against acts of dispossession committed in territories under enemy occupation or control, January 5, 1943, see *Foreign Relations*, 1943, vol. 1, p. 443.

REPRODUCED AT THE NATIONAL ARCHIVES

One of the particular methods of dispossession practiced by the Axis powers has been the illegal seizure of large amounts of gold belonging to the nations they have occupied and plundered. The Axis powers have purported to sell such looted gold to various countries which continue to maintain diplomatic and commercial relations with the Axis, such gold thereby providing an important source of foreign exchange to the Axis and enabling the Axis to obtain much-needed imports from these countries.

The United States Treasury has already taken measures designed to protect the assets of the invaded countries and to prevent the Axis from disposing of looted currencies, securities, and other looted assets on the world market. Similarly, the United States Government cannot in any way condone the policy of systematic plundering adopted by the Axis or participate in any way directly or indirectly in the unlawful disposition of looted gold.

In view of the foregoing facts and considerations, the United States Government formally declares that it does not and will not recognize the transference of title to the looted gold which the Axis at any time holds or has disposed of in world markets. It further declares that it will be the policy of the United States Treasury not to buy any gold presently located outside of the territorial limits of the United States from any country which has not broken relations with the Axis, or from any country which after the date of this announcement acquires gold from any country which has not broken relations with the Axis, unless and until the United States Treasury is fully satisfied that such gold is not gold which was acquired directly or indirectly from the Axis powers or is not gold which any such country has been or is enabled to release as a result of the acquisition of gold directly or indirectly from the Axis powers.⁵

You are instructed to bring the above declaration to the attention of the appropriate officials of the government to which you are accredited, and to inform such officials that it is our sincere hope that their government will take parallel action.⁶

STETTINIUS

⁵ A note of February 22 from the Soviet Ambassador (Gromyko) cited a letter from the Acting Secretary of the Treasury (Bell) to the effect that the provisions contained in the last paragraph of the Treasury declaration would not be applied to operations on gold transactions of the U.S.S.R. The Acting Secretary of State (Stettinius), in his note of February 22 to the Soviet Ambassador, confirmed that the provisions in the final section would not be held operative in respect to gold transactions of the U.S.S.R. (800.515/973)

⁶ During 1944, according to Department records, the following Governments declared publicly their adherence to the declaration, or notified the Department of their acceptance of its principles and their intention to implement the declaration: Belgium, Brazil, China, Czechoslovakia, Dominican Republic, El Salvador, Ethiopia, Greece, Guatemala, Haiti, Iceland, India, Iran, Liberia, Luxembourg, Netherlands, New Zealand, Nicaragua, Norway, Peru, Poland, Union of South Africa, and Yugoslavia.

The Secretary of State to the Ambassador in the United Kingdom (Winant)

WASHINGTON, April 25, 1944—5:10 p. m.

A-702. If such a communication has not been sent within recent months, the Department believes that a circular instruction should be sent to the missions at Stockholm, Lisbon, Madrid, Bern, Tangier and Ankara requesting them to be on the alert for any information or evidence relating to enemy attempts to secrete funds or other assets in neutral countries for safekeeping, or for other purposes, and to report all pertinent information immediately to the Department. Meanwhile the Department will appreciate receiving from you the text of any communications of this type which may have been sent by you or MEW⁷ and also copies of any reports which you or MEW may have received from the missions with regard to enemy attempts to place their funds in neutral territory.

HULL

The National Archives, FEA Records

The Director of the Special Areas Branch, Foreign Economic Administration (Stone) to the Chief of the Eastern Hemisphere Division (Merchant)

WASHINGTON, May 17, 1944.

DEAR LIVY: Later this year military developments may threaten trade communications between Germany and the Iberian Peninsula or Turkey or other European neutrals. One of the problems which will then arise will be a last-minute flight of German capital for safekeeping in neutral territory. Enemy firms, officials and individuals will, no doubt, attempt to transfer legally owned wealth and loot in their various forms such as gold, gems, securities and money, and will be under special pressure to accelerate such exports while it is still physically possible. German assets in neutral territory will no longer be usable for purchases of war supplies and hence will be available for other purposes, possibly for transfer to the Western Hemisphere.

Our Government will no doubt wish to consider taking stronger measures than heretofore to offset this form of enemy activity. It might be decided, for example, to exert pressure on the neutrals to refuse such enemy capital exports or alternatively to catalogue existing caches as part of a joint program in preparation for ultimate post-war settlements.

While it might now be too early to take final action, I believe a useful purpose would be served if informal preliminary discussions on

⁷ British Ministry of Economic Warfare.

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Entry 192

File 5.19J ECEFP SUBJECT FILE

Box 78 4. HEMISPHERE SELF-SUFFICIENCY: Safehaven Project

STANDARD FORM 64

File

Office Memorandum • UNITED STATES GOVERNMENT

DATE: 12-21

December 20, 1945

TO : A-C - Mr. Carr

FROM :

SUBJECT :

Safe-Haven

I think Rubin will tell you that there have been complications in clearing draft proposals within this Govt., and there will therefore be perhaps quite a bit of delay in having them ready for ECEFP consideration.

ve Committee minutes
ttee is to expect a
d States representative
ouncil relating to the
preciate it if you
ready.

Dec. 27, Taylor, SA,

copy doc awaiting clearance by General Clay - ACC
RMC

HRS

A-C Secretariat, Executive Committee on Economic Foreign Policy
DEC 21 1945
DEPARTMENT OF STATE

DEC 21 1945

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Box 78 4.

HEMISPHERE SELF-SUFFICIENCY:
Safehaven Project

A-G/F - Mr. Collado
A-G - Mr. Carr

December 20, 1945

Memorandum UNITED STATES GOVERNMENT
DATE 12/21/45

According to paragraph 4 of the Executive Committee minutes of December 7 (M-43/45), the Executive Committee is to expect a further report for the guidance of the United States representative on the Inter-American Economic and Social Council relating to the subject of safehaven objectives. I would appreciate it if you would tell me about when this report will be ready.

cc: MSP - Mr. Rubin
OP - Mr. Smith ✓

A-G Secretariat, Executive Committee
on Economic Foreign Policy
DEC 21 1945
DEPARTMENT OF STATE

DEC 21 1945

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Entry 192

File 5.19J ECEFP SUBJECT FILE

Box 78 4. HEMISPHERE SELF-SUFFICIENCY:
Safehaven Project

FMA: Mr. Rubin

2/24/45

A-C: Mr. Carr

~~FEJ~~
~~JAR~~
~~ADS~~
PA

With reference to your memorandum of February 23 concerning a proposed telegram to London regarding economic sanctions to achieve Safehaven objectives, I perceive no objection to referring to the Executive Committee a proposal providing more definitely for such sanctions.

I have a minor suggestion regarding the wording of one of the phrases in the telegram, brackets indicating omissions, underscoring insertions; ". . . it is felt that the important point to be stressed is the willingness of this Government to withhold the economic favors which it has the power to bestow, until and unless the economic and financial objectives are achieved/ use such economic pressures as may be available to obtain the economic and financial objectives in view which are of increasing importance now that trade with Germany is limited or no longer possible."

This revision is, I think, more in accord with the neutral policy document and also avoids the phrase "economic favors". Economic favors might be interpreted as meaning treatment more favorable than that granted to most countries, whereas I think we mean that we would not grant treatment as favorable as that granted to most countries.

A-C:EMC:sb

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Box 78

4. HEMISPHERE SELF-SUFFICIENCY:
Safehaven Project

25

Spencer
11.30.45

Feb 19, 1945

In reply refer to
A-C 710 Conference (w & PN/2 - 1545

My dear Mr. Klaus:

I have your letter of February 15 enclosing for the record of the Executive Committee a copy of the letter from Mr. Crowley to Mr. Stettinius of February 14, 1945 together with a copy of the Safe Haven resolution originally proposed by the Foreign Economic Administration for submission at the Mexico City conference.

I am bringing particularly to the attention of Mr. Rubin and other interested officers in the Department the second paragraph of the letter regarding your understanding that the subject matter of the resolution in question will be placed before the subcommittee at the forthcoming conference charged with the handling of the general resolution regarding Safe Haven objectives.

Sincerely yours,

Robert M. Carr
Executive Secretary, Executive Committee
on Economic Foreign Policy

Mr. Samuel Klaus,
Assistant General Counsel,
Foreign Economic Administration,
Washington 25, D.C.

A-C:RMC:ps
2/17/45

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Box 78 4. HEMISPHERE SELF-SUFFICIENCY:
Safehaven Project*FED*
Amc

MEMORANDUM OF CONVERSATION

Jan. 29, 1945

Supply Purchase Program and Safe Haven: - Spain

Mr. Becker	LA -State	Mr. Delaplans	- FEA
Mr. Weber	LA -State	Mr. Butler	- FEA
Mr. Cowles	WE -State	Mr. Harrison	- FEA
Mr. Phelps	CP -State		
Lt. Karasik	FMA-State		

The above and to Miss Dennison, ECA, and Mrs. Davis, WEA.

The problem of the above listed committee was the consideration of the draft of the Supply Purchase Agreement with Spain in its relation to the Safe Haven project. At the second meeting of the European Neutrals Committee it was agreed that the American view would be studied and formulated for presentation at the next meeting of the ENC on February 2.

The chief aspect of the problems are as follows:

1. Desire to present a unified United Nations Program to the Spanish.
2. Need to adapt general Safe Haven project to the peculiarities of the Spanish scene.
3. Necessity to maintain as strong a position as possible in the negotiations.

The meeting

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 HEMISPHERE SELF-SUFFICIENCY:
 Safehaven Project

- 2 -

The meeting discussed at some length the difficulty of getting agreement with the British (and/or others) on the details of Safe Haven for inclusion in the Supply Purchase Agreement. It was finally agreed that it would probably be best to present the Supply Purchase Agreement to the Spanish with a general statement of the Safe Haven objective, with no details on procedure, etc., to be given. It was expected that all U.S. agencies concerned and the British as well would agree to the change in the draft and that agreement might include a request for the formulation of an Hispano-UK-US consultative committee to consider the details as well as all other problems arising from this general project.

It was further agreed that the Safe Haven people would draft the appropriate section for inclusion in the Supply Purchase Agreement and also draft a telegram to Madrid and London, outlining the issues, the suggestions above, and requesting comments.

The opinion of the Madrid and London Embassies would also be requested on the advisability of presenting Safe Haven before or no later than the presentation of the Supply Purchase Agreement.

Much of the meeting was devoted to the development of the agreement outlined above and to consideration of various practical problems in connection with Safe Haven work in Spain.

SHW
 Shirley H. Weber

cc: Miss Dennison, ECA
 Mrs. Davis, WEA

LA:SHW:ar

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Box 78 4. HEMISPHERE SELF-SUFFICIENCY: Safehaven Project

021812-9

WT - Mr. Baker
Mr. Russell

ECA - Mr. Carr

12/9/44

~~JAL~~
~~12/15/44~~
~~CLS~~
FA

As indicated in the attached memorandum of December 4, clearance has been obtained for the establishment of an interdepartmental committee on the safehaven project on the understanding that the committee would maintain close liaison with the Executive Committee and include the Executive Committee Secretariat on its distribution lists for all agenda, minutes, and documents.

12/15/44 Safehaven Project is off. ED

Attachment:
Memo of Dec. 4, 1944

ECA:RMC:ar

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Box 78^{4.}HEMISPHERE SELF-SUFFICIENCY:
Safehaven Project

orig 12-4

Pending Concurrence

ECA - Mr. Haley
WEA - Mr. Taft
A-A - Mr. Acheson
ECA - Mr. Carr

December 4, 1944

Mr. Russell's memorandum of November 18 has been referred to me with the request that I look into the matter of the proposal for the establishment of an interdepartmental committee on the safehaven project. It was believed in this connection that there was a misunderstanding and that FMA did not favor the formal establishment of an interdepartmental committee on this subject. This matter has now been discussed further by WT and FMA, and it is understood that FMA now concurs in the proposal to establish such a committee. Furthermore, as a result of this discussion, the memorandum attached to Mr. Russell's memorandum to Mr. Taft of November 18 was revised on November 25 and a copy of the revision is included in this file.

If it is agreed to establish an interdepartmental committee on the safehaven project, I suggest that it not be set up as a subcommittee of the Executive Committee, since it will presumably be concerned only with operations. Its status should rather be that of the so-called related committees with which the Executive Committee maintains close liaison. Accordingly, the proposed committee should include the Executive Committee Secretariat on its distribution list for all agenda, minutes and documents. The Secretariat would then be in a position to bring to the Executive Committee such activities of the committee on the safehaven project as might involve policy questions and make arrangements for referring such matters to the Executive Committee.

If you concur I will so inform WT.

ECA:RMC:pa

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Foreign Relations

of the

United States

Diplomatic Papers

1945

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Austria; Germany



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740.00119 EW/4-2745: Telegram

The Chargé in the Soviet Union (Kennan) to the Secretary of State

Moscow, April 27, 1945—1 p. m.

[Received April 27—8:23 a.m.]

1381A. ReEmbtel 755 March 14, 2 p. m. [*midnight*] and 1057 April 6, 10 a. m. [*p. m.*]. Additional evidence of Soviet policy of seizing and removing to Soviet Union German material or equipment in advance of any reparation settlement is given by observations of a competent official American observer who has just returned to Moscow from trip through Ukraine, eastern Poland and White Russia. He reports extensive movement eastward of used German machinery and equipment of all kinds. He observed, for example, two entire trains loaded with turret lathes, one trainload of steel rails and bars, one of threshing machines from East Prussia, one of farm wagons, etc. French, German and Italian rolling stock which could not be used on Russian gauge without adjustment was being moved east on flat cars. All information reaching Embassy indicates that Russians are seizing and transporting to Soviet Union without compunction any German materials, equipment or supplies which they feel could be of use to them.

KENNAN

740.00119 EAC/4-1345: Telegram

The Acting Secretary of State to the Ambassador in the United Kingdom (Winant)

WASHINGTON, April 27, 1945—7 p. m.

3315. Reurtel 3781, April 13, Comea 216. It is noted that the question of looted gold may come up in the EAC discussions on restitution. The gold question may be accentuated by the discovery of the Reichsbank gold by the Third Army. For your guidance, the Department's views are as follows:

(1) The Gold Declaration of February 22, 1944⁶² indicated explicitly that United Nations subscribing thereto would not recognize the German title to gold taken from the occupied countries.

(2) The reparation documents prepared in the Department, of which you have copies, indicated that looted gold found in Germany would not be subject to restitution but would be prorated. (See final report of Interdivisional Reparation Committee, ECEFP D-19/44,⁶³ Part 2, page 10; and Summary: Report on Reparation, Restitution, et cetera, ECEFP D-37/44,⁶⁴ page 11 para (g)).

⁶² For text, see *Foreign Relations, 1944*, vol. II, p. 213, or 9 *Federal Register* 2096.

⁶³ Not printed.

⁶⁴ *Foreign Relations, 1944*, vol. I, pp. 287, 295.

(3) It seems necessary to revise the views of the Department as expressed in the reparation documents, since the public announcement that transfers of gold would be regarded as invalid would seem to mean that looted and identifiable gold found in Germany is still regarded as the property of the persons or countries from whom it was taken. It does not seem politically or otherwise feasible to attempt to prorate gold which is thus declared to be the property of Allied countries.

(4) For purposes of your discussions with EAC, therefore, you should adhere to the principle that gold, like other property, is subject to restitution if identifiable. However, it seems important to make the point that in this case especially restitution should be limited to the returning of identifiable looted property and should not be extended to cover the replacement of looted gold by gold which cannot be identified as having been the property of the country in question. Since the application of the restitution principle as above defined may result in one country recovering its stock of gold while another does not, Department believes gold recovered in Germany should be presumed to be unidentifiable unless convincing evidence to the contrary can be presented.

GREW

740.00119 EW/4-2345: Telegram

The Acting Secretary of State to the Ambassador in the Soviet Union (Harriman)⁶⁵

WASHINGTON, April 28, 1945—7 p. m.

970. The President has appointed Edwin W. Pauley, Treasurer of Democratic National Committee, as the American member of the Reparations Commission with the rank of Ambassador.⁶⁶ Mr. Lubin will be his associate with the rank of Minister.

Since Maiski raised with you (reurtel 1317, April 23⁶⁷) the question of the Reparations Commission by asking about Lubin's plans, you may inform him that:

1. The date of the American delegation's departure has not definitely been fixed.

2. The United States Government does not understand why the Soviet Government has not issued an invitation to the French Govern-

⁶⁵ This telegram was repeated to London as Department's 3347 with the following paragraph added: "Since your 3334, April 16, indicates full British support of French claim to membership on the Reparations Commission, it is hoped that the British Foreign Office will follow the same policy as the United States and will not have the British delegation leave for Moscow until the question of the composition of the Reparations Commission has been settled." (740.00119 EW/4-2845)

⁶⁶ President Truman's letter of appointment, dated April 27, is quoted in the letter of September 14 from Mr. Pauley to the Secretary of State, p. 1290.

⁶⁷ Not printed.

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elaborate machinery for reviewing and initiating action on all listing cases, it is not believed that a situation comparable to that of the British will exist regarding attendance at meetings of the Interdepartmental Proclaimed List Committee, considering its technical composition and necessary compactness. In order that the French authorities may fully weigh these considerations, the Embassy is most cordially invited to have a representative attend several meetings of the Interdepartmental Proclaimed List Committee as a visitor. Additionally, if it should develop in the joint study of certain cases that efficiency would be gained by having a French representative participate in discussion before the Committee, the Embassy will be invited to have an officer attend meetings of the Committee for that purpose.

WASHINGTON, January 16, 1945.

CONCERN OF THE UNITED STATES OVER ENEMY ATTEMPTS TO SECRETE FUNDS OR OTHER ASSETS IN NEUTRAL COUNTRIES: INCEPTION OF THE SAFE-HAVEN PROGRAM

840.51 Frozen Credits/12479a : Circular telegram

*The Acting Secretary of State to Certain Diplomatic and Consular Officers*¹

WASHINGTON, February 22, 1944.

There is quoted below the text of a declaration issued by the Secretary of the Treasury² at twelve noon Eastern War Time, February 22, 1944. A similar declaration was issued by the United Kingdom and U.S.S.R. Treasuries.³

"On January 5, 1943 the United States and certain others of the United Nations issued a warning to all concerned, and in particular to persons in neutral countries, that they intend to do their utmost to defeat the methods of dispossession practiced by the governments with which they are at war against the countries and peoples who have been so wantonly assaulted and despoiled.⁴ Furthermore, it has been announced many times that one of the purposes of the financial and property controls of the United States Government is to prevent the liquidation in the United States of assets looted by the Axis through duress and conquest.

¹ In Algeria, Argentina, Australia, Bolivia, Brazil, Canada, Chile, China, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, Egypt (repeated to the diplomatic representatives for Greece and Yugoslavia), El Salvador, Ethiopia, Great Britain (repeated to the diplomatic representative for Belgium), Czechoslovakia, the Netherlands, Norway and Poland), Guatemala, Haiti, Honduras, Iceland, India, Iran, Iraq, Liberia, Mexico, New Zealand, Nicaragua, Panama, Paraguay, Peru, Portugal, Spain, Sweden, Switzerland, Turkey, Union of South Africa (Pretoria and Capetown), Union of Soviet Socialist Republics, Uruguay, and Venezuela.

² Henry Morgenthau, Jr.

³ A memorandum of December 27, 1943, by the Chief of the Financial Division (Livesey) stated: "The general policy expressed in the proposed declaration was thoroughly cleared in the Department and approved by two Assistant Secretaries and the Secretary. The Treasury was told of this general approval and of collateral suggestions by the Department of State that the issuance of the statement should be taken up with the British with a view to having them take parallel action." (740.00113 European War/1253b)

⁴ In a memorandum of December 29, 1943, the Chief of the Financial Division noted that Harry Dexter White, Assistant to the Secretary of the Treasury, had informed him in a telephone conversation on that date that Secretary Morgenthau, several days before, had suggested that the consultation with Great Britain regarding the proposed Treasury declaration be broadened by also consulting the Soviet Union (740.00113 European War 1939/1278).

⁵ For text of Inter-Allied declaration against acts of dispossession committed in territories under enemy occupation or control, January 5, 1943, see *Foreign Relations*, 1943, vol. I, p. 443.

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One of the particular methods of dispossession practiced by the Axis powers has been the illegal seizure of large amounts of gold belonging to the nations they have occupied and plundered. The Axis powers have purported to sell such looted gold to various countries which continue to maintain diplomatic and commercial relations with the Axis, such gold thereby providing an important source of foreign exchange to the Axis and enabling the Axis to obtain much-needed imports from these countries.

The United States Treasury has already taken measures designed to protect the assets of the invaded countries and to prevent the Axis from disposing of looted currencies, securities, and other looted assets on the world market. Similarly, the United States Government cannot in any way condone the policy of systematic plundering adopted by the Axis or participate in any way directly or indirectly in the unlawful disposition of looted gold.

In view of the foregoing facts and considerations, the United States Government formally declares that it does not and will not recognize the transference of title to the looted gold which the Axis at any time holds or has disposed of in world markets. It further declares that it will be the policy of the United States Treasury not to buy any gold presently located outside of the territorial limits of the United States from any country which has not broken relations with the Axis, or from any country which after the date of this announcement acquires gold from any country which has not broken relations with the Axis, unless and until the United States Treasury is fully satisfied that such gold is not gold which was acquired directly or indirectly from the Axis powers or is not gold which any such country has been or is enabled to release as a result of the acquisition of gold directly or indirectly from the Axis powers.⁵

You are instructed to bring the above declaration to the attention of the appropriate officials of the government to which you are accredited, and to inform such officials that it is our sincere hope that their government will take parallel action.⁶

STETTINIUS

⁵ A note of February 22 from the Soviet Ambassador (Gromyko) cited a letter from the Acting Secretary of the Treasury (Bell) to the effect that the provisions contained in the last paragraph of the Treasury declaration would not be applied to operations on gold transactions of the U.S.S.R. The Acting Secretary of State (Stettinius), in his note of February 22 to the Soviet Ambassador, confirmed that the provisions in the final section would not be held operative in respect to gold transactions of the U.S.S.R. (800.515/973)

⁶ During 1944, according to Department records, the following Governments declared publicly their adherence to the declaration, or notified the Department of their acceptance of its principles and their intention to implement the declaration: Belgium, Brazil, China, Czechoslovakia, Dominican Republic, El Salvador, Ethiopia, Greece, Guatemala, Haiti, Iceland, India, Iran, Liberia, Luxembourg, Netherlands, New Zealand, Nicaragua, Norway, Peru, Poland, Union of South Africa, and Yugoslavia.

740.00112A E.W.1939/36597a: Airgram

The Secretary of State to the Ambassador in the United Kingdom
(Winant)

WASHINGTON, April 25, 1944—5:10 p. m.

A-702. If such a communication has not been sent within recent months, the Department believes that a circular instruction should be sent to the missions at Stockholm, Lisbon, Madrid, Bern, Tangier and Ankara requesting them to be on the alert for any information or evidence relating to enemy attempts to secrete funds or other assets in neutral countries for safekeeping, or for other purposes, and to report all pertinent information immediately to the Department. Meanwhile the Department will appreciate receiving from you the text of any communications of this type which may have been sent by you or MEW⁷ and also copies of any reports which you or MEW may have received from the missions with regard to enemy attempts to place their funds in neutral territory.

HULL

The National Archives, FEA Records

The Director of the Special Areas Branch, Foreign Economic Administration (Stone) to the Chief of the Eastern Hemisphere Division (Merchant)

WASHINGTON, May 17, 1944.

DEAR LIVY: Later this year military developments may threaten trade communications between Germany and the Iberian Peninsula or Turkey or other European neutrals. One of the problems which will then arise will be a last minute flight of German capital for safe keeping in neutral territory. Enemy firms, officials and individuals will, no doubt, attempt to transfer legally owned wealth and loot in their various forms such as gold, gems, securities and money, and will be under special pressure to accelerate such exports while it is still physically possible. German assets in neutral territory will no longer be usable for purchases of war supplies and hence will be available for other purposes, possibly for transfer to the Western Hemisphere.

Our Government will no doubt wish to consider taking stronger measures than heretofore to offset this form of enemy activity. It might be decided, for example, to exert pressure on the neutrals to refuse such enemy capital exports or alternatively to catalogue existing caches as part of a joint program in preparation for ultimate post-war settlements.

While it might now be too early to take final action, I believe a useful purpose would be served if informal preliminary discussions on

⁷ British Ministry of Economic Warfare.

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The achievement of these objectives will require that as quickly as possible Nazi principles be eliminated from German trade, industry, and finance, and that independent trade unions, cooperatives, and similar forms of free economic association be restored. The longer range elements in the program which this Government considers to be essential to achieve the integration of Germany into the world economy and which should be instituted as soon as this may be done consistently with the reparation and short-range objectives outlined above, include, but are not necessarily limited to, the following:

1. The exposure of high-cost industries artificially created for self-sufficiency reasons to the pressure of world competition;
2. the persistent but orderly reduction of agricultural protection in the shortest possible period;
3. the elimination of discriminatory trade practices, bilateralism, and multiple currency devices;
4. the organization and administration of German business and other economic institutions in consonance with such international policies and institutions as may be established for the world economy as a whole, with particular reference to international cartels and combines;
5. full employment of manpower and resources in the production of those commodities and services of a non-military character for which the German economy is well adapted.

This Government regards the carrying out of such a program as essential for the success of its general economic policies, and also attaches great importance to it as a contribution to international security, because it will tend to 1) prevent Germany from again carrying on trade as a branch of war, 2) increase the vulnerability of Germany to economic sanctions, 3) remove some of the most formidable obstacles to the relaxation of trade barriers and 4) eventually make possible the rising standard of living necessary to reconcile the German people, under new leadership, to the peace settlement.

It is recognized that the accomplishment of the foregoing long-range objectives will require that Germany be afforded opportunity for developing adequate export markets and will also require the maintenance of policies and institutions, by other countries as well as Germany, which will permit the proceeds of German exports to be realized in internationally convertible currencies. It follows therefore that the full realization of such a program is dependent not only on acts by Germany but also on progress toward the general achievement internationally of the objectives of the Atlantic Charter and of Article VII of the Mutual Aid Agreements. The long-range integration of Germany into a world economy of this type cannot be wholly achieved unless other major countries are also pursuing compatible economic policies for the maximum reduction of the economic significance of frontiers and the development of agencies of international collaboration. It is to the interest of the United States

Germany eventually should participate fully in such international economic organizations and agencies and that the German people be allowed to determine the nature of their economic system, subject to the requirements outlined in this and the foregoing sections, and to the development of democratic institutions in Germany.

It is further recognized that immediate post-hostilities problems may require the temporary pursuit of policies inconsistent with some of the long-range objectives. The immediate need for food-stuffs, for example, may require continuation of measures for the support of agricultural prices and the maintenance of production, even though this production may be of a character which in the long run should be discouraged by the reduction of agricultural production. The need for the maintenance of industrial production for urgent civilian needs, for reparation, for reconstruction, and possibly even for the prosecution of the war against Japan may similarly condition the treatment of German industry. The need for assuring the minimum import requirements of Germany may, during the early occupation period, require *ad hoc* trade and payment arrangements not fully compatible with a multilateral system, freedom from quotas, etc. It is nevertheless of importance that the long-range objectives be clearly formulated and clearly kept in view, that transitional expedients of a different character be adopted only after a balancing of emergency need and of long-range policy, and that where such transitional arrangements are adopted they be kept under continuing scrutiny with a view to abolishing them or tapering them off at the earliest practicable moment.

[Enclosure 2]²⁴

Memorandum by the Executive Committee on Foreign Economic Policy²⁵

ECEFP D-37/44

[WASHINGTON,] August 12, 1944.

SUMMARY: REPORT ON REPARATION, RESTITUTION, AND PROPERTY RIGHTS—GERMANY

I. INTEREST OF THE UNITED STATES IN GERMAN REPARATION

The problem of German reparation is immediately related to the broader question of a general peace settlement, through which the United Nations hope to attain certain political, economic, and security objectives. While not in itself a major means of achieving these objectives, a reparation program can, depending upon its nature,

²⁴ Filed separately under Lot 122 (Rev.) S/S-S Files, Box 20.

²⁵ Cover sheet to this paper bears the notation: "As finally revised and approved by the Executive Committee on Economic Foreign Policy at its meeting on August 4, 1944."

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greatly help or hinder their attainment. This Government has approached the problem of German reparation with a view to reaching a solution which would facilitate the attainment of these objectives. The "direct" interest of the United States in German reparation, i.e. in the amount of reparation which this country may receive, is small. The claims of other nations which have suffered severely from German aggression are direct and substantial. The main concern of this Government with respect to German reparation is that the program aid in the attainment of (or interfere as little as possible with) its economic, political, and security objectives and policies.

Broadly stated, the general economic and political objectives of this Government are as follows:

1. The preservation of peace by a system of collective security and disarmament of the aggressors.
2. The early return to a multilateral system of international trade and finance through the removal of excessive barriers to the movement of goods and funds.
3. The rapid reconstruction and rehabilitation of war-torn areas.
4. The maintenance of high levels of employment and standards of living.
5. With respect to Germany:*
 - a) The control of German economic war potential. This, however, is not assumed to imply a large-scale and permanent impairment of all German industry.
 - b) The elimination of German economic domination in Europe.
 - c) The eventual integration of Germany into the world economy.
 - d) The establishment of democratic institutions, including a free trade union movement.

II. NEED FOR SPECIAL ARRANGEMENTS FOR THE IMMEDIATE POST-SURRENDER PERIOD

It is unlikely that agreed decisions regarding all of the basic policy questions can be reached during the immediate post-surrender period. It is essential, however, that a program of restitution and reparation transfers be initiated promptly, both in order to hasten European reconstruction and to avert an undue imposition of European requirements upon the American economy while the war against Japan is still in progress.

In order to bridge this gap, immediate discussions looking toward agreement among the claimant states or, in any event, among the United States, United Kingdom, and Union of Soviet Socialist Republics should be inaugurated. Preliminary agreement must promptly be reached on

*Based on General Objectives of United States Economic Policy with Respect to Germany. (ECEFP D-22/44) [Footnote in the original. In its final revised form this document was designated ECEFP D-36/44; for text see p. 278.]

1. certain minimum basic principles;
2. an interim reparation organization and the relation of this organization to the machinery of Allied economic control of Germany;
3. the development in advance of the military collapse of Germany of an *ad hoc* program for reparation deliveries which will meet the immediate needs of claimant countries. Such an advance program is essential to the orderly reconversion of industry and labor to post-war production.

The purpose of such an interim arrangement would be to initiate and develop a large program of restitution and reparation transfers even before the terms of a final agreement had been settled.

A temporary arrangement of the kind contemplated would remain in effect until a more comprehensive program, based on a final agreement, could be inaugurated.

III. RÉSUMÉ OF RECOMMENDATIONS ON THE FINAL REPARATION AGREEMENT

The essential elements of the program recommended in the Reparation Report may be summarized as follows:

1. Time Period.

The reparation period should begin as soon as the United Nations have the power to impose economic controls on Germany. It should be limited to a minimum of about five years from its inception but perhaps may have to be extended to ten. Both political and economic considerations emphasize the need for a short reparation period.

The urgent needs of the devastated areas for relief and rehabilitation and the desirability of restoring normally functioning economies in these areas as rapidly as possible demand quick and decisive action. Moreover, unless the United Nations stand ready to exploit fully the opportunity for cooperative action during the early period after the surrender of Germany, it may prove difficult to accomplish the aims of the program.

The one-way movement of goods and services which takes place under reparation is artificial and necessarily different from normal trade. The longer it continues the longer is deferred the full resumption of regular multilateral trade and the desired integration of Germany into the world economy.

From the political point of view, it must be remembered that the humiliation and cost of reparation will almost inevitably be associated in the mind of the German public with the regime in power at the time. For this reason, long-continued reparation would prejudice the establishment of democratic government in Germany and, indirectly, the maintenance of peace.

The collection of substantial reparation from Germany will probably be impossible without fairly extensive controls over the German economy. Since this Government has taken the position that enduring

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controls of this nature are undesirable † the length of the reparation period will need to be correspondingly limited.

It is realized, however, that the countries which have been devastated by Germany will probably demand a much longer reparation period. The long-range objectives of this Government make a five-year period preferable to a longer one. If it is found necessary to extend this period, however, reparation deliveries should in no event continue beyond ten years. In case a period in excess of five years is adopted, deliveries should taper off toward the end of the extended period.

2. Amount of Reparation.

In view of the numerous uncertainties surrounding the post-war situation of Germany, no useful purpose would be served in attempting to estimate at this time the amount of reparation Germany will be able to pay. These uncertainties relate especially to the amount of damage to physical plant in Germany, the degree of disorganization or disruption of the country's working force, the nature and extent of economic disarmament, and territorial adjustment.

This much may be stated with confidence, however:

a) Barring dismemberment or extremes of devastation, Germany will be capable of paying, in absolute terms, a very substantial amount of reparation. This has been made manifest by the proportion of national income devoted by Germany (as well as by other countries) to war purposes.

b) Large as it may be in absolute terms the amount recoverable from Germany will, in all probability, be but a small fraction of the total admissible claims, and a much smaller fraction still of the total direct and indirect damage caused by Germany to the claimant countries. It would be highly misleading and dangerous to let the notion gain currency that Germany can be forced to make good all or even a large part of the damage she has wrought.

c) Reparation deliveries by Germany will be limited both in character and amount by the goods and services the claimant countries are willing and able to take.

Certain general principles regarding the amount of reparation are recommended as follows:

(1) As between the amount, on the one hand, and the time limit on the period of reparation on the other, the time limit should be the governing factor. This means that instead of beginning with the assessment of a definite amount of reparation and adjusting the time period accordingly, the maximum time limit should be defined from the outset and the greatest possible amount of reparation should be collected during that period.

† See ECEFP D-22/44, cited, p. 2. [Footnote in the original.]

Provision should be made for extending the time period in the event the Allied authorities believe the reparation program is being sabotaged. Conversely, in the event the reparation period is determined to be more than five years, it may be desirable to hold out to the Germans the possibility of reducing the duration of the period by fulfilling their obligations energetically. The decision as to the duration of reparation should not be made known to Germany until an appropriate time in the light of political developments.

(2) During the period of reparation the German people should be permitted to retain such part of their production as may be required to maintain a minimum prescribed standard of living. It is clear that the execution of such a program will require effective controls over the economic life of the country, perhaps similar to the wartime controls now in force.

During the control period Germany's production will consist of that required:

- a) to maintain the prescribed minimum standard of living.
- b) to furnish such exports as may be necessary to pay for essential German imports.
- c) to furnish reparation.

The composition of German output and the reparation schedule should be so fixed as to utilize all German production above that required for (a) and (b) above.

All foreign exchange proceeds of exports should be utilized by the Allied control authorities to pay for necessary German imports and, if there is any surplus, to provide cash reparation. Imports should be restricted to the amounts necessary to effectuate the above types of German production.

3. Form of Reparation Payments.

The bearing of form of payment on the long-range political and security objectives of this Government is regarded as an important consideration. The most important question that arises in this connection is whether payment should be made predominately in kind or in cash. It is agreed that a policy of requiring payments in kind with allowance for cash payments only in exceptional cases should be adopted.

A. Reparation in Kind.

Payments in kind can be made from the following sources:

- a) Stocks of goods †;
- b) Existing capital equipment †;
- c) Current production of goods and services;
- d) Direct labor services.

† Other than those subject to restitution which would not be credited against reparation. [Footnote in the original.]

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Stocks of raw materials and food above certain minima for German use will, no doubt, be taken immediately from Germany and transferred to the most needy surrounding countries. In regard to other classes of goods to be included in payments in kind, deliveries should consist of the widest possible range of goods needed by the claimant countries for rehabilitation and reconstruction purposes. Reparation in kind should include machinery, electrical equipment, and any other types of manufactured goods that Germany is fitted to produce and the claimant countries are willing to accept, as well as coal, fertilizers, chemicals, et cetera. Only in this way can Germany make its maximum contribution to the European recovery.

One major question, however, remains to be answered: To what extent should reparation come out of existing stocks of goods and capital equipment and to what extent out of current production?

This question involves consideration of the following factors:

(1) To what extent should deliveries be made out of existing stocks of goods and capital equipment for the purpose of satisfying immediate post-surrender needs in the claimant countries?

Deliveries of this nature should be confined to the early years of the reparation period, first, because they will make their maximum contribution to European reconstruction in these years, when the need will be most urgent, and secondly, because such transfers in the later years might impede the reintegration of Germany into the world economy. The transfer of equipment, particularly of equipment for capital goods industries, should be subject to the condition that the ability of such equipment to contribute to the net reconstruction of Europe is not thereby seriously impaired.

This policy of taking reparation deliveries in the form of existing goods and equipment might be objected to on the ground that it will have the effect of reducing German productive capacity and will result in a reduction of reparation deliveries below the maximum obtainable over the total reparation period. It is believed that the long-range security objectives and the contribution to immediate reconstruction in the claimant countries outweigh this objection in many cases. It is recognized, however, that the great bulk of reparation deliveries over the entire period must come from current production since the reparation which could be derived from the transfer of capital equipment would, in any case, be relatively small compared to that available from current production.

(2) To what extent should German industry be rebuilt and operated for the purpose of maximizing current production for reparation deliveries?

It should be the policy of this Government to maximize reparation deliveries in so far as this is possible without extensive rebuilding of German plant and equipment. This kind of capital formation should

be kept to a minimum in Germany and should be permitted to the maximum extent in the claimant countries. In general, Germany should be permitted only so much capital expenditure as may be necessary to maintain reparation schedules and the prescribed standard of living. It would be undesirable to leave Germany at the end of the reparation period with plant and equipment much newer and more modern than that of her European neighbors.

Qualifications to this principle would arise in instances such as the following:

a) In case of extreme devastation of German industry it would be necessary to allow some rebuilding before substantial reparation could be delivered.

b) A limited quantity of capital equipment of a "bottleneck" nature will have to be provided so as to permit German production to get under way.

It is clear that decisions in regard to capital formation in Germany will depend not only on the extent of destruction but also on the types of plant and equipment destroyed in both Germany and the surrounding countries.

B. Reparation in Cash.

Cash payments depend on the commercial policy and the readiness to import of Germany's potential customers. A program of heavy reliance on cash payments is accordingly vulnerable to the same difficulties that plagued the reparation program of the twenties. It will be possible to make use of cash reparation to the extent that a commercial cash market exists for German exports and to the extent that the control authorities decide in exceptional cases to permit such exports to exceed those required to pay for necessary imports. The gold and net foreign exchange assets available to Germany after the restitution program has been completed will be limited.

In a five-year reparation period there will be relatively little need for cash payment. Cash payment, however, can serve a useful purpose in taking care of exceptional cases and in lending flexibility to the reparation program provided the total volume is kept down to a relatively small figure.

If the period is extended to ten years, it may be desirable to increase the proportion of cash payment in the latter half of the period. With reconstruction substantially complete, the claimant countries will be less needful of German goods. As German resources are released from satisfying the wants of surrounding countries, they can be turned increasingly to the production of export goods for other markets on a commercial basis, thus creating foreign exchange for reparation purposes and beginning the process of reintegrating Germany into the world economy.

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Reparation whether paid in kind or in foreign exchange should be strictly related to the export surplus of goods and services actually obtained from Germany. Any significant accumulation of external indebtedness by Germany during the period of reparation transfers is contrary to the objectives of this Government. This precludes both commercialization of reparation through the floatation of new German securities abroad and any other substantial extensions of credit to Germany.

Commercialization or other borrowing would in effect mean the financing of German reparation payments primarily by the United States and Great Britain. The continuance over a long period of years of payments by Germany may well become an internal political issue and thus create repercussions which would interfere with the long-range political and security objectives of this Government. Moreover, at present Germany's credit worthiness is virtually nil. An estimation of Germany's future credit worthiness cannot well be made until such time as the essential changes in her political and economic structure have begun.

4. Apportionment of Reparation.

It is recommended that the principal basis for the apportionment of reparation among claimant states should be the amount of damage to and loss of non-military property caused by or incident to hostilities.

This basis of admissible claims does not necessarily favor property owners over other classes of claimants such, for example, as those suffering personal injury since reparation payments will be made to governments, not to individuals. Governments may dispose of the proceeds of reparation and make such compensation to their injured nationals as they see fit.

A precise audit of property loss will be impossible. The total of admissible claims will have to be reached on the basis of reasonable estimates as determined by the appropriate Allied authorities.

It is recognized that the relative impact of property losses on different countries may not be accurately reflected by even the most careful computations. The hardships imposed depend on the circumstances surrounding the loss and on the wealth of the country concerned.

As a supplementary basis for the apportionment of reparation it is recommended that occupation costs levied by Germany also be allowed as an admissible claim but at a lower weighting than property losses. Occupation costs for this purpose should include clearing balances built up in Germany during the period of occupation. Some occupied countries have suffered relatively little physical damage but have undergone many other types of injury at the hands of the Nazis.

It is felt that it will be difficult to deny the claims of such countries for some compensation.

In recommending the foregoing two bases for reparation claims, it is intended that all other claims should be excluded.

5. Restitution and Replacement.

The principal recommendations with respect to this subject may be summarized briefly as follows:

a) In principle there should be an unlimited obligation on Germany to restore identifiable looted property, even though in practice official efforts to locate such property will have to be confined to a limited number of categories.

b) Restitution should be restricted to identifiable property in existence prior to German occupation. Looted property should be restored to the existing governments of the territories where the property had its situs and not to the former owners individually.

c) Looted property should be returned in the condition in which it is found. The return of such property should not count as a credit against Germany's reparation obligation nor should it be deducted from the reparation claim of the recipient.

d) All property transferred to Germany during the period of German occupation (except for current output) should be presumed to have been transferred under duress and accordingly treated as looted property.

e) The right to restitution is not absolute. The Allied authorities should have the discretionary right to prevent or postpone restitution of vital equipment (such as, e.g., rolling stock) whenever such equipment is deemed essential to assist the revival of a seriously disorganized country.

f) It has been suggested that, in addition to restitution and reparation, countries having suffered property losses be entitled to "replacement", meaning the receipt of an equivalent piece of property for property lost or destroyed. It is believed that the "replacement" category would be a source of confusion and that it would serve no purpose that could not be served equally well by reparation in kind. It is, therefore, recommended that no claims for replacement be allowed except in the cases of (1) gold and (2) works of art and other cultural treasures, these exceptions being justified by the peculiar importance attached to those categories of goods.

g) Replacement of gold means that stocks of monetary gold found by the Allied authorities in Germany should be prorated in proportion to gold losses among the Allied countries whose gold stocks were looted. In no case, however, should there be transferred to any country gold in excess of its losses.

6. Labor Services (Tentative).

No final conclusion has been reached on this subject and it is receiving further study. In principle it is agreed that under appropriate conditions and to a limited extent labor services can be a proper and useful form of reparation. The chief problems relate to the method of selection of the laborers, their treatment and length of service, and the valuation of their services.

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One suggestion receiving consideration is that there be two classes of laborers, one to consist of extreme Nazis such as members of the Gestapo, S.S., etc., and the other to be recruited, on a voluntary basis if possible, from the general German public. It is contemplated that the former class, which would receive punitive or semi-punitive treatment, would be selected on the basis of previous political affiliation or activity and not, like the latter class, on the basis of the needs of claimant countries for labor services. The latter class should be protected by more or less normal labor standards.

7. *Reparation Commission.*

It is believed that questions of policy such as those discussed in this summary are outside the proper scope of a Reparation Commission. The Commission should be an administrative body whose function, broadly speaking, would be the supervision and management of the program of reparation and restitution. Within the broad limits of policy laid down by the Allied governments, it would be granted wide discretionary powers to determine the amounts of reparation to be paid periodically, to schedule deliveries in kind, to make adjustments in the schedules of payments, to determine whether Germany is complying with the provisions of the reparation settlement, etc.

The Reparation Commission should act in cooperation with the supreme Allied control authorities in Germany, which authorities should have the power to review and veto any of the Commission's acts.

The Commission should consist of representatives of all claimant states, but equal plural votes should be provided for the United States, the United Kingdom and the Union of Soviet Socialist Republics.

IV. RÉSUMÉ OF RECOMMENDATIONS WITH RESPECT TO SUBJECTS CLOSELY RELATED TO REPARATION

1. *Treatment of Property.*

a) *German Property Abroad.*

Each member of the United Nations should reserve the right to retain and dispose of all German property and rights within its territories, and to use the proceeds to pay off reparation claims, and possibly pre-war debts owed by Germany or its nationals to the country in question or to its nationals. The value of property so retained or disposed of, regardless of the claims which it goes to satisfy, should be counted as payment against the reparation claim of the holding country. Germany can be left to compensate its nationals for property so retained.

The problem of obtaining control over German property in neutral countries is a much more difficult one, since from a strictly juridical

point of view there is no way of compelling the neutrals to transfer ownership. The matter thus becomes one for treatment on the political level.

b) *Allied Property in Germany.*

The German Government should be required to return to the owners Allied property in Germany where such property was sequestered by German authorities or seized in any other manner. Such return shall not be deemed to prevent German authorities from subsequent exercise of the customary governmental rights over private property. In the event that industries in which foreign owners have an interest are required to be dismantled for security reasons or are subjected to other measures impairing the value of their assets, consideration shall be given to the question of appropriate compensation. Where the property consists of liquid funds, such return should not carry with it the right to transfer the funds out of the country except in accordance with the exchange regulations established by the Allied authorities.

Countries should have the right to present reparation claims for damage to or destruction of property in Germany belonging to them or their nationals.

2. *Pre-War Debts and Claims.*

American citizens have outstanding substantial amounts of pre-war claims against both the German Government, and German nationals. These claims consist of short-term, long-term, and commercial obligations. While the problem has not been thoroughly investigated, it is believed both politically impossible and economically undesirable to leave American creditors of Germany entirely to their own devices in protecting their interests. The matter should receive further study.

It is recommended, however, in view of the urgent need of reparation for reconstruction purposes, that pre-war debts and claims receive a priority below that of reparation.

3. *Compensation for Injuries to Persecuted German Minority Groups.*

It is considered appropriate for several reasons that the German Government be required in some way to compensate the minority groups persecuted by it. The moral basis for such compensation is self-evident. Moreover, it is now recognized that minority baiting and persecution is a potent weapon in the hands of totalitarian demagogues both for gaining political power at home and for spreading anti-democratic doctrines abroad. Finally, it is felt that since Germany was responsible for a situation in which many thousands of former German nationals needed to be rehabilitated or resettled, she

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should contribute to the solution of that problem and not be permitted to leave the entire burden to the outside world.

The restitution of property located in Germany is, on a number of grounds, regarded as an unsatisfactory answer to the problem:

- a) Most of the individuals involved are either dead or outside the country and many would not find it worthwhile to return in order to regain their property;
- b) Large-scale transfers of funds abroad in full satisfaction of these claims would be out of the question;
- c) The full return of property to members of these groups at a time when the general German public was passing through a period of great difficulty would tend to create strong social tension in Germany.
- d) Lack of proof by claimants, and the varying circumstances under which property was lost or sold, would make the administrative problem of restitution extremely difficult.

A two-fold contribution by Germany is, accordingly recommended:

(1) *Resettlement Aid*, i.e. payments in cash or in kind, to an international agency, to aid in the settlement of individuals belonging to persecuted minority groups. Such payments would be akin to reparation, but their amounts would be related to the needs of the resettlement schemes rather than to the property losses of the individuals concerned.

(2) *Indemnity for Property Losses*. In addition to the foregoing payments, Germany should also be obliged in lieu of restitution, to provide an indemnity, up to some moderate maximum per person, to individuals who have suffered property losses since the inception of the Nazi regime through discriminatory measures. Transfers of such indemnities abroad should be subject to the availability of foreign exchange but should receive a priority equal to that of other reparation payments.

The foregoing recommendations apply to German nationals, or former nationals, situated outside Germany § who have been subjected to discriminatory laws by reason of their racial, religious or political status.

While the racial and religious categories are susceptible of fairly precise definition and do not involve unmanageable numbers, a moment's reflection will show that the political category offers formidable difficulties in both respects. In spite of this fact, it is considered both impolitic and unjustifiable to deny compensation to those Germans who have suffered loss because of their political opposition to Nazism while granting it to persons discriminated against on

§ and to stateless persons resident in Germany on or before September 1, 1939. [Footnote in the original.]

other grounds. The problem of defining the political category so as to keep within reasonable bounds the number included is now receiving further attention.

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*Memorandum by the Representative of the Soviet Union to the European Advisory Commission (Gousev)*³⁶

E.A.C. (44) 25

LONDON, 26 August, 1944.³⁷

CONTROL MACHINERY FOR GERMANY

At the present time, when it is still difficult to determine in every detail how events in Germany will develop after her surrender, the immediate problem is to decide what Allied agencies should be set up in Germany directly after the cessation of hostilities and the occupation of Germany by the armed forces of the Union of Soviet Socialist Republics, the United Kingdom and the United States of America. The Soviet Delegation submits for the European Advisory Commission's consideration a plan for the agencies of control and administration to cover the first period of the occupation of Germany immediately following her defeat, i.e. the period during which Germany will be carrying out the basic requirements of unconditional surrender.

The purposes of these agencies will be to control the execution by Germany of the Terms of Surrender and of any additional requirements which may be presented to Germany in accordance with those terms. The most important of these objectives are:—control of the disarmament of Germany, the abolition of the Nazi regime and the preparation of conditions for the creation in Germany of central and local organs based on democratic principles.

Accordingly, the following draft agreement between the Governments of the U.S.S.R., the U.K. and the U.S.A. regarding the structure of Allied organs in the territory of occupied Germany is submitted for discussion:—

"1. Supreme authority in Germany will be exercised in its plenitude by the Commanders-in-Chief of the armed forces of the U.S.S.R., the U.K. and the U.S.A., each in his own zone of occupation.

³⁶ Copy transmitted to the Department by the Ambassador in the United Kingdom in his despatch 17726, August 28; received September 2.

³⁷ Originally circulated in the European Advisory Commission by the Soviet representative on August 25.

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June 24, 1944

FINAL REPORT
OF THE
INTERDIVISIONAL COMMITTEE
ON
REPARATION, RESTITUTION,
AND PROPERTY RIGHTS

Part One: Recommendations with Respect to Reparation
During the Immediate Post-Armistice Period.

Introduction

This report attempts to deal, in a comprehensive manner, with the problem of German reparation. It is divided into three distinct parts. The first devotes attention to the minimum requirements of the immediate post-armistice period. The Committee realized that to formulate a broad, inclusive final settlement, based upon agreement among all the states claiming reparation, would undoubtedly require a considerable period of time, with the result that the necessary agreement might not be reached until long after the armistice. Yet accord with respect at least to a minimum number of basic principles together with action consistent with these principles, will be immediately necessary to deal with restitution of looted property and to inaugurate a reparation program. Otherwise German assets may be dispersed or arrangements may be made which would hinder the execution of such a program.

The initial portion of this report therefore outlines the subjects, very limited in number, which constitute an area of minimum necessary agreement, as well as the type of organization which it is believed would serve to handle the problems of the immediate post-armistice period.

Recommendations with respect to a longer-range settlement, more comprehensive in nature, are contained in Part Two, the main body of the report. This is followed by Part Three, which considers property rights and other matters related to, yet not directly a part of, any reparation settlement. Part Four provides a commentary on Parts Two and Three; here the reasons for the recommendations are given in greater detail, together with some discussion of their implications.

I. Agreement

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I. Agreement Among Claimant States

Reparation is a matter of such vital importance to many of the claimant states, in particular the occupied countries of Europe, that decisions relating to this problem should be formulated on as broad a basis of agreement as possible. Prompt inauguration of discussions with respect to the handling of reparation and restitution during the immediate post-surrender period, together with prior agreement between the United Kingdom, the United States, and the U.S.S.R. and leadership on their part in the succeeding discussions, should make it possible to reach accord with respect at least to certain minimum basic principles and to an interim mechanism to effectuate them. Any temporary agreement so achieved would, of course, continue in effect only until a more comprehensive program, based upon a more thorough examination of the problem, could be inaugurated.

II. Area of Agreement

The minimum principles upon which it is believed agreement must be reached are quite limited in number, but essential to the prompt and orderly initiation of reparation. These are indicated below. In Part Two of this report, these topics are treated more comprehensively; parenthetical references are to the relevant portions thereof.

1. Purpose of reparation.

The reparation settlement should serve primarily as a means of speeding physical reconstruction in the United Nations, though the payments need not be narrowly confined to this purpose.

2. Need for substantial reparation.

Germany should be required to make substantial reparation payments, though these payments must be tempered to Germany's capacity to pay and to the willingness of claimant countries to receive reparation. (III.1)

3. Relation of reparation to German standard of living.

Reparation payments should be large but not so large as to reduce the German standard of living

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below a tolerable minimum.

4. Form of Payment

(a) From current production. During the early period payments on reparation account from current German production should take the form largely of scheduled deliveries of goods.

(b) From existing stocks. Seizures for reparation payments of capital equipment and existing stocks should not be carried to a point where they would so impair the efficiency of German production as to threaten the minimum German standard of living, or make impossible the production of exports adequate to Germany's minimum needs, including the needs of industries producing reparation goods. The probable usefulness of these seized articles to the recipient countries must also be taken into account.

5. Restitution and replacement.

There should be an unlimited obligation upon Germany to restore looted property. In practice however, restitution will have to be subjected to limitations required by the needs of European reconstruction and by considerations of administrative feasibility.

Preliminary agreement should also be reached on essential aspects of the treatment of different types of looted property. In particular,

a) Looted property should be restored to the then existing governments of the territories where the property had its situs and not to the former owners individually;

b) Restitution should be restricted to property in existence prior to German occupation;

c) Restitution of property should be made apart from and in addition to any deliveries made by Germany as reparation;

d) Replacement should be limited to looted gold, works of art, books, and other cultural treasures. (VII)

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A special subsection of the organization created to handle reparation could be established to deal with restitution, together with the closely related problem of the transfer on reparation account of existing German capital equipment or stocks of goods or these tasks could be entrusted to a special commission.

6. Labor Services

Labor services can be justified on the pragmatic ground of maximizing Germany's contribution to the reconstruction of the damage she has wrought in Europe. Such services might be economically desirable if they contributed more, in a broad sense, to reconstruction than would the same personnel employed in Germany producing reparation goods.

Such labor as may be used for reparation labor service should not be drafted indiscriminately from the German population, but should be taken from its most fanatical Nazi elements, such as the SS, the SA, and the Gestapo.

Agreement should also be reached as to the amount and the allocation between countries of the labor to be used. (VIII.2)

III. Administration of Reparation

To administer during the immediate post-surrender period the collection and transfer of reparation, in line with the foregoing minimum principles, specific organizational arrangements will be essential. The assurance of prompt and adequate reparation deliveries will require far more than a single agency dealing with that particular problem. In view of the certain dislocation of German industry and trade as a result of devastation, shortages, economic breakdown, and the delays of reconversion, a comprehensive system of control over German production will have to be maintained or reestablished. For the restoration of even a minimum of foreign trade, an agency to exercise the widest powers in this field will be essential. Recommendations looking toward the establishment of such control bodies are being made to the Post-war Programs Committee by the Interdivisional Committee on Germany (CAC-149 and CAC-189).

On the assumption

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On the assumption that the problem of controlling the industry and the foreign trade of Germany is met by the creation of appropriate agencies, the Committee on Reparation recommends the following administrative arrangements with respect to reparation:

1. Establishment of an Interim Reparation Commission, representing on as wide a basis as possible the various claimant states.
2. This Commission should prepare estimates of requirements for reparation deliveries in the claimant states, present to the foreign trade control authority requests for deliveries of reparation goods, and apportion among the various claimants such goods as are allocated to it.
3. The Reparation Commission should have the status of a major claimant before the foreign trade control authority, which will be responsible for allocating the available export goods, including those for reparation. This agency, in turn, will be one of the major claimants before the authority controlling German production. In case of serious disagreement as to the share of exports allocated to reparation, the Reparation Commission should have the right of appeal to the Allied Control Commission or other appropriate body.
4. If agreement on the apportionment of the shares of reparation among the claimant states has not been reached when the Reparation Commission begins to function, shipments of reparation goods should be directed to those areas in which, in the judgment of the Commission, the need is greatest. Any disparity between early deliveries and subsequent apportionment of shares could be corrected in later deliveries.

Comments: The impossibility, after Germany's surrender, of leaving the functioning of that country's economy to the "natural" economic forces of the profit motive, competition, and consumers' demand is undisputed. Agreement appears to be well-nigh universal that in view of the devastation caused by war, the deterioration likely to occur in all activities after defeat, the immense tasks of reconversion and the accumulated pressure of powerful inflationary forces, the existing strong controls over economic life will have to be maintained, though modified--or, if these collapse, new controls

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will have to be created. Otherwise economic conditions in Germany will be chaotic.

Most vital of the needed agencies of economic control will be one which regulates the direction of German production, guiding it into various channels according to some determined system of priorities. (See CAC-149 for recommendations on this topic.)

In the field of foreign trade, the primary task of the relevant control authority will be the resurrection of an international flow of goods, even of the most moderate scope. For with Germany's surrender, the clearing agreements with her neighbors, which have constituted the channels of trade as well as the instruments of German economic and political domination, will be abruptly terminated. An agency will be needed to establish new bases of trading, to stimulate and perhaps procure imports essential to maintain in operation the German economy, and to control and foster the exports required to pay for the necessary imports. Such a foreign trade control authority will in all probability be set up on a tripartite rather than a United Nations basis, since it will have to work under the Occupation Authorities, with the Allied Control Commission, and with any agency (presumably likewise tripartite) established to control, direct, and allocate German production. It may be presumed also that this agency will be primarily a policy-determining body, with the actual administration carried out by the staff of existing or reformed German control authorities.

Reparation will constitute an integral yet distinct part of total exports. The purpose of reparation deliveries is not the normal one of procuring goods or services in exchange, but of serving as an uncompensated contribution to European reconstruction. Similarly, the problem of the authorities in preparing estimates of what the claimants need and might take as reparation goods is distinct from the scheduling of ordinary commercial exports to these same countries, or others, although the two processes are clearly interrelated.

To ascertain the reconstruction needs and to prepare statements of requirements, as well as to allocate reparation deliveries among the various claimant countries and to adjudicate disputes with respect to technical reparation matters, the establishment at the

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earliest possible moment of an Interim Reparation Commission seems preferable to subordinating this peculiar export function to the authority of the general foreign trade control agency. The closest collaboration between these two bodies will be essential, however, since the whole field of available export goods and their allocation to competing uses will be involved. It will also be necessary to establish intimate working relationships with UNRRA, because of the close connection between reconstruction, relief, and rehabilitation.

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June 24, 1944SUMMARY: REPORT ON REPARATION, RESTITUTION, AND
PROPERTY RIGHTS

The problem of German reparation is immediately related to the broader questions of a general peace settlement, through which the United Nations hope to attain certain political, economic, and security objectives. While not in itself a major means of achieving these objectives, a reparation settlement could, depending upon its nature, help or hinder their attainment. The imposition of an unduly harsh burden could so weaken the German economy as to generate bitterness and despair, and promote the eventual rise to power of those elements in the population bent upon aggression and revenge. A "soft" settlement, on the other hand, would lack the deterrent effects of a moderately heavy one, would fail to provide substantial aid to European reconstruction, and would provoke strong resentment among claimant nations which have suffered severely from German aggression. The Interdivisional Committee on Reparation, Restitution, and Property Rights, therefore, has approached the problem of German reparation with a view to reaching a solution which would avoid these dangers, and which would facilitate the attainment of the political, economic and security objectives of this government.

1. Immediate versus Final Settlement

It is improbable that a final reparation settlement can be agreed upon until a considerable time after the defeat of Germany, yet the machinery of reparation will have to be started soon after the armistice. Therefore a set of minimum recommendations is put forward to cover the period until a more comprehensive program can be set in motion. The basic principles involved differ in no important way from those suggested for the final settlement. The establishment of a temporary or interim Reparation Commission to handle reparation matters, which will have to work in close cooperation with the authority responsible for controlling Germany's foreign trade, is recommended. It may be impossible to include all the claimant states in the short-run agreement. Yet the decisions relating to a problem as vital as reparation should be reached on as broad a basis of agreement as possible.

II. Resume

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II. Resume of Proposed Final Reparation Settlement

The essential elements of the program recommended by the Committee are herewith stated in condensed form: 1/

1. Purpose of Reparation. The reparation settlement should serve primarily as a means of speeding physical reconstruction in the United Nations. (I)

2. Need for Substantial Compensation. Germany should be required to make substantial reparation payments; these will have to be fitted to Germany's capacity to pay and to the willingness of claimant states to receive them. Individual claimants should look for satisfaction of their claims solely to their national governments. (III)

3. Apportionment of Reparation. The principal basis for the apportionment of reparation among claimant states should be damage to or loss of non-military property caused by or incident to hostilities or to acts of Axis occupying forces. Occupation costs should also be admitted as an allowable claim, though at substantially lesser weight. (IV)

4. Period and Form of Payment. Reparation payments should be made over a period not to exceed 10 years. During the first 4 or 5 years, payments should be predominantly in the form of deliveries in kind, which should include the widest possible range of goods needed by the claimant countries. Thereafter, subject to the necessary safeguards, an increasing proportion of payments might be made in cash. (V)

5. Amount of reparation. The total amount of reparation to be required of Germany cannot be determined until some time after the armistice, when the assessment should be based upon estimates of such relevant factors as German national income, consumption requirements of the German public at a tolerable level of living, the minimum allowed expansion of capital equipment, the share of income devoted in the past to war, necessary governmental expenditures, and supportable levels of taxation. The reparation program should be designed to maximize payments during the period of active primary reconstruction, when the need will be greatest. (VI)

6. Restitution

1/ References in parentheses are to the relevant section of Part Two of the report.

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6. Restitution and replacement. There should be an unlimited obligation upon Germany to restore looted property. In practice, restitution will have to be limited by the needs of European reconstruction and by considerations of administrative feasibility. Looted property should be restored to governments rather than to former individual owners, and should be restricted to property in existence prior to German occupation. Restitution should be apart from and in addition to any deliveries made by Germany as reparation.

Replacement should be limited to gold and to works of art, books, and other cultural treasures. (VII)

7. Labor Services. Labor services can be justified on the pragmatic ground of maximizing Germany's contribution to the reconstruction of the damage she has wrought in Europe. Such services might be economically desirable if they contributed more, in a broad sense, to reconstruction than would the same personnel employed in Germany producing reparation goods. The period of labor service should be limited to three or four years.

Such labor as may be used for reparation labor service should not be drafted indiscriminately from the German population, but should be taken from its most fanatical Nazi elements, such as the SS, the SA, and the Gestapo. (VIII.2)

8. Reparation Commission. There should be established a Reparation Commission to administer a program established by agreement between claimant states, with the power to make necessary adjustments in the schedule of payments. The Commission should consist of representatives of all claimant states, but equal plural votes should be provided for the United States, the United Kingdom, and the U.S.S.R. (IX)

III. Resume of Recommendations with Respect to Treatment of Property, Pre-War Debts, and Compensation for Persecuted German Minorities.

The Committee has the following recommendations to make regarding three matters closely related to reparation:

1. Treatment of Property. Each member of the United Nations should reserve the right to retain and dispose of all German property within its territories, using the proceeds to pay off claims against Germany.

(Property

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(Property so retained should be deducted from such members' claims to reparation. See Part Four, Comments on Part Three, I, l.e.) Germany should compensate its nationals for property thus retained. Allied property sequestered or seized by German authorities should be returned to the owners. (Part Three, I)

2. Pre-War Debts and Claims. No choice should be made as to action now, but the problem should be studied. (Part Three, II) In any event, pre-war debts should receive a priority as to payment below that of reparation. (Part Two, VIII. 4, a)

3. Compensation for injuries to Persecuted German Minority Groups. Indemnification should be provided for minority groups persecuted by the Nazis, in the form of (a) payments in support of an organized resettlement scheme, and (b) individual payments up to a moderate maximum. The groups benefitting should be carefully defined so as not to be unreasonably inclusive. (Part Three, III)

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POSSIBLE POINTS OF INCONSISTENCY BETWEEN
ECEFP DOCUMENTS ON (1) ECONOMIC POLICY WITH
RESPECT TO GERMANY, AND (2) REPARATION.

In general the documents are quite consistent with each other. Only on a few points is there a possibility of divergency or inconsistency.

1. The reparation document recommends a reparation period of 10 years. The Germany document says on page 2 that

"enduring controls over the German economy... would be contrary to the objectives of American policy."

The suggestion here is that the period of economic controls should be relatively short. Since no specific time period is named, however, it is impossible to tell whether the authors of the Germany document would consider 10 years too long to maintain controls.

2. The Germany document says (page 6) that the rebuilding of a stable and prosperous economic life in Europe

"will necessarily involve a reasonable settlement of outstanding German debts to Governments and nationals of the United Nations, whether such debts are in the form of blocked balances, clearing accounts, or any other forms, and of proper claims which may be advanced by foreign workers and other displaced persons in Germany."

The reparation document does not deal with the problem of pre-war debts except to recognize the existence of that problem and to suggest further study. It does recommend, however, that such debts, including blocked (pre-war) balances, should be given a priority below that of reparation payments.

As to blocked balances and clearing accounts accumulated by occupied countries during the war, reparation document recommends that such obligations be recognized as an admissible claim in the allocation of reparations.

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payments and that they can help solve problems of economic readjustment are regarded as unfounded.

It is recognized that pressures to organize cartels arise in large part from depressions, trade barriers, and unbalanced over-expansion of particular industries, and that the success of a program directed against cartel restrictions must depend in large part upon successful policies for coping with such matters.

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August 16, 1944SUBCOMMITTEE ON ECONOMIC RECONSTRUCTION AND
DEVELOPMENT POLICIES

On June 29, 1944 the Executive Committee referred the document "Economic Reconstruction of Eastern and Southeastern Europe" (D-16) to the Committee on Liberated Areas for its views and comment prior to considering the establishment of a subcommittee and terms of reference (Cf. M-12).

The report of the Liberated Areas Committee (D-34) was considered briefly by the Executive Committee on August 4 and the Secretariat was asked to study the reports and recommend further action by the Committee on this subject (Cf. M-19).

It is recommended by the Secretariat that there should be established a Subcommittee on Economic Reconstruction and Development Policies with the following terms of reference:

- (1) To formulate a statement of United States Government policy in reference to economic reconstruction and development in war-torn areas including consideration of the following:
 - A. The interest of the United States in reconstruction and development of war-torn areas.
 - B. The question of appropriate United States participation in reconstruction and development, particularly in reference to (a) the terms and conditions under which credits should be extended, (b) the conditions under which technical assistance should be made available, and (c) the determination of requirements.
 - C. The extent to which and the means by which the United States Government should attempt to influence the reorientation of the structure of agriculture and industry in both liberated and ex-enemy areas.
 - D. The obligations, if any, which should be

imposed

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imposed upon other nations as a condition to the extension of aid by the United States for economic reconstruction and development programs.

- (2) To formulate separate policy statements for Western Europe, Eastern and Southeastern Europe, USSR, and the Far East if the Subcommittee feels that the interest of the United States in these areas and the lines of economic policy which should follow therefrom justify a consideration of policy on a country or a regional basis. (It may be considered advisable for this Subcommittee to establish study groups to consider the problems involved on a country or regional basis.)
- (3) To prepare a report upon each of the above matters for the Executive Committee on Economic Foreign Policy, and thereafter either to be terminated or to continue under further instructions from the Executive Committee.

It is recommended that the proposed Subcommittee should consist of one representative from each of the following agencies: Department of State, Treasury Department, Department of Commerce, Department of Agriculture, Foreign Economic Administration, Export-Import Bank, Office of Strategic Services, and the Tariff Commission. It is recommended that the Department of State representative should serve as Chairman of the Subcommittee.

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DEPARTMENT OF STATE
OFFICE
MINISTRY OF EUROPEAN AFFAIRS

May 11, 1944

CD - Mr. Carr:

At the request of Dr. Isiah Bowman, Mr. E. F. Penrose of our London Embassy prepared a memorandum on "Organization of International Economic Reconstruction". In giving us this memorandum Mr. Penrose felt that you might be interested in seeing a copy. One is therefore attached.

HFM
H. Freeman Matthews

EUR:HFM:TMT

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ORGANIZATION OF INTERNATIONAL ECONOMIC RECONSTRUCTION.

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I.

- (i) The United Nations Relief and Rehabilitation Administration has been set up and is in the early stages of organization.
- (ii) An International Conference has been held on Food and Agriculture and an International Food and Agriculture Organization is to be established.
- (iii) A conference of the International Labour Organization is being held on the post-war international program for labor.

Discussions have taken place on

- (iv) an international monetary organization,
- (v) an international commercial policy organization,
- (vi) an international commodity (raw material) organization,
- (vii) an international long-term investment organization,
- (viii) policies with respect to international cartels,
- (ix) international commercial aviation.

The discussions have gone far in respect to (iv), considerable progress has been made with (v) and (vi), while the discussions on (vii) and (viii) are in the earliest stage.

Discussions are about to begin on

- (x) Oil.

Memoranda have been exchanged on

- (xi) Shipping,
- (xii) European inland transport.

Secretary Hull at Moscow and President Roosevelt in a letter to Mr. Churchill have raised the question of

- (xiii) an overall steering committee in respect of measures for international economic reconstruction.

The President has written to Mr. Churchill on

- (xiv) the future of the Combined Boards.

II.

Many of these subjects are closely interconnected and there is much more unity than appears on the surface in the work that has been done. The following re-grouping of subjects will help to make this clear:

I. Relief

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- I. Relief and Emergency Rehabilitation
- II. Food and Agriculture
- III. Labor
- IV. International Monetary Organization
International Investment for Development
Purposes
International Trade, including
Commercial Policy
Commodity Policy
Oil Policy
Cartel Policy
- V. International Transport, including
Shipping
Inland Transport
Commercial Aviation

I suggest there are good reasons for adopting some such classification as the above in actually setting up international organizations. Thus in Group IV there would be three organizations only and in Group V one organization only. This would make the task of overall coordination much simpler than it would be if there were ten or eleven separate organizations in Groups IV. and V.

III.

How far does the preceding classification cover the fields of essential post-war economic measures?

The answer depends mainly on the scope which is given to the subjects outlined in the classification. It is possible to give the subjects a sufficiently extensive scope to cover the major part of the essential fields.

In practice however the discussions have left important gaps which must be filled if grave difficulties are to be avoided in the post-war period, particularly during the transition from war to peace conditions. Many of these gaps could be filled by extending the scope of the discussions of some of the subjects on which discussions have already taken place or are likely to take place in the near future.

The main gaps are:

Little provision has been made so far for the transition period between relief and the early stages of "rehabilitation" on the one hand and the application of long-term economic measures on the other.

The subjects discussed under Article VII have been treated largely from a long-term point of view. In some cases there seems to have been a tendency first to take up long-term measures and policies many of which it is agreed can only take effect after a transition period.

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This tendency is not in itself necessarily open to adverse criticism. One of the main objects of the discussions is to agree on the establishment of international economic bodies in certain fields, and in some of these fields - for example, monetary policy and commercial policy - it is impracticable to reach such agreement without a careful analysis of long-term as well as transition problems. Moreover, it would be dangerous to adopt transition measures on a day-to-day basis without regard to their long-run effects.

But the time has now come when measures for the transition period must be considered on a comprehensive scale without delay. The question arises whether problems of the transition period shall be dealt with through separate discussions and the use of separate machinery from those of the Article VII discussions or whether the scope of the latter discussions and of the international organizations which it is proposed to establish as an outcome could be enlarged to cover at least a substantial part of the measures that will be necessary during the transition period.

I suggest that the second of these alternatives should be adopted where practicable, for the following reasons:

- (1) The working experience gained in dealing with transition problems would increase the efficiency of the organization when it came to deal with long-term reconstruction.
- (2) There would be greater continuity between transition and long-term policies and the personnel administering them, and less danger that hastily improvised measures would be adopted in the transition period which would prejudice long-term policies.

If the principle is accepted of combining where practicable discussions and organizations dealing with transition problems with those dealing with long-term problems, what would be the scope of its application?

Commercial, Commodity and Cartel Policy.

The clearest cases are in the broad field of trade policy, especially in commodity - particularly raw material - questions. My suggestion is that when the Article VII talks are resumed the discussions of commodity and cartel questions and of quantitative restrictions on trade as well as tariffs should at an early stage deal systematically with the probable conditions that will arise immediately at the end of the war. This would cover some of the most acute of the immediate post-war economic problems.

If this course is not adopted what are the alternatives?

1. It may be argued that commodity questions in the transition period can be dealt with by the Combined Boards. When the structure and function of the Combined Boards are examined, however, this does not appear to be a satisfactory solution, for the following reasons:

- (1) The Combined Boards were set up as Anglo-American advisory administrative bodies

concerned

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concerned chiefly with allocation of scarce materials and shipping in the interests of the war effort. It is essential that they should continue to concentrate exclusively or primarily on this function not only until the war in Europe is ended but also until Japan is crushed. It seems inadvisable in these periods to add any substantial functions to those at present carried out by the Boards.

(ii) Raw material problems in the transition immediately after the war will by no means be simply problems of dealing with scarcities and recommending measures to increase production: in some cases - especially in minerals - they will be concerned with the disposal of stocks excessive for peacetime needs and with methods of curtailing excessively high-cost production. The types of skill and personnel required to deal with these questions differ widely from those required to carry out the present functions of the Combined Boards.

This does not mean that the role of the Combined Boards will end as soon as peace comes. On the contrary the Boards possess administrative machinery which is indispensable in the transition period as an instrument for international control and allocation of scarce commodities and services. The retention of such controls for some time after the war is essential if conditions of international economic anarchy are to be avoided. In carrying out these functions the Combined Boards will have to work in close cooperation with the International Commodity Organization in respect to plans for allocating scarce materials and increasing their production. But they will not be suitable bodies for dealing with other aspects of commodity questions.

2. Another alternative is to deal with the transition period by separate ad hoc governmental negotiations on the numerous questions that will arise.

At present there seems to be a drift in this direction. But improvised and ad hoc arrangements to deal piecemeal with transitional questions may create dangerous precedents and give rise to inconsistencies and confusion which will prejudice the chances of the successful operation at a later stage of the permanent economic bodies.

I suggest therefore that at the resumption of the talks on the international commercial policy organization the subject might be discussed with reference to transition measures as well as long-term measures and the objective be adopted of establishing the international commercial policy organization at as early a date as practicable with a view to using it as an instrument for international consultation on transition as well as long-run measures.

The same considerations might be applied to the resumed talks on the international commodity organization, which should preferably be a sub-group of the international commercial policy organization.

Cartel

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Cartel policy should be taken up as an aspect of commercial and commodity policy. It is essential to achieve as much consistency as possible between cartels and commodity policy and cartel policy should be considered from the starting point of the immediate post-war period.

International Monetary Policy.

The lines on which progress has already been made limit the scope of application of the main thesis of this paper to the field of monetary arrangements. Section X of the agreed statement on the International Monetary Fund shows recognition of transitional difficulties in the monetary field but it does so by exempting member countries from some of the provisions of the plan until transitional difficulties have passed. It specifically states that "the Fund is not intended to provide facilities for relief or reconstruction or to deal with international indebtedness arising out of the war."

In view of the progress already made in obtaining technical agreement on the monetary plan, it would be unwise at this stage to add functions to the International Monetary Fund. But the dangers of ad hoc arrangements in the transition period are serious and there is a gap to be filled in this field, especially since many new governments, in liberated territories will be faced with the necessity of making difficult adjustments. In such conditions organized international machinery is most desirable.

International Investment.

Present proposals are for a separate organization dealing with long-term investment (this is stated before I have had time to look at the latest British view) for development purposes. Such an international organization is of the greatest importance but it will be readily recognized that both it and the International Monetary Fund cover only a limited portion of the field in which international lending may be necessary after the war. Probably there are advantages in some specialized organization dealing with lending for long-term development and it is well to go ahead with the discussion of this field. Later however it may be that the international organization dealing with it could conveniently become a sub-division of a wider organization including other forms of lending.

Moreover one of the neglected fields is that of lending for immediate reconstruction purposes after the war. In the continued talks on the international investment body attention should be given to this, at least in so far as long-term loans for development can be applied to long-term projects dovetailed with essential capital reconstruction projects.

Transport.

The trend in this field on the whole has been in a different direction from that of the talks on monetary and commercial policy. Transition problems have been taken up at the start and more attention has been given to interim and transition

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then to long-run arrangements. The British view on an inland transport organization for Europe is that it should be set up promptly with a view to unified treatment of transitional questions and that out of the experience thus gained it may be possible to retain the organization in some form for long-run purposes. They fear resistance from European Allies if long-run plans are put in the forefront at the outset.

On the other hand it seems essential that the long-run as well as the transition problems of shipping should be discussed at an early date. They will no doubt come up in the Article VII talks on commercial policy. It seems desirable that there should be a systematic discussion in which both those familiar with overall economic policy and also technical shipping experts should be present. Could not this be arranged in connection with Article VII talks? Close links are needed, and it is to be hoped have already been established, between those concerned with commercial policy and those concerned with transport.

IV.

The suggestions made above would fill important gaps but would still leave a wide gap in the field of rehabilitation and readjustment.

UNRRA's terms of reference permit it to undertake limited rehabilitation. But its scope is narrow and its funds still more restricted. In practice it is not likely to be able to cover more than a small part of rehabilitation and that part will be confined to equipment needed for producing urgent consumer goods for relief purposes.

How will reestablished governments in Europe be able to obtain essential imports, especially of raw materials needed for industries which produce for exports as well as for domestic consumption? Some of them in the early stages will have little or no foreign funds and their export occupations will be disorganized. Britain likewise will be unable to finance readily many of its necessary imports in the first two years.

In some circles it has been argued that Lend-Lease should be renewed and extended for the early post-war period. Even apart from the great political difficulties in the United States, in the way of such a course, it does not appear that such a measure could fill the gap adequately in view of the limitations on the use of lend-lease materials for export purposes. Until the export industries of European countries are reestablished the transition period will be prolonged.

The alternative would seem to consist in international loans for specific purposes of reestablishment of economic life in the widest sense, including a high level of employment.

The question arises whether this should be done by bilateral arrangements through direct inter-governmental negotiations or whether international machinery should be established to serve as a standing instrument for negotiations.

Here again ad hoc arrangements seem inadequate and the most needy countries would have the greater difficulties in negotiating loans under such conditions.

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If the impression were spread abroad that the United States would supply large loans to Britain or other countries there might be a tendency for existing creditors to press for high terms of repayment in the belief that the funds would be available from other sources. Hence great care is obviously needed in planning and in respect to publicity on planning for international credits. Organized international machinery would have some advantage in this respect since it might facilitate compositions between creditors and debtors in some cases.

These views are embryonic and alternative measures for filling this gap in rehabilitation and early reconstruction should be carefully examined. It is clearly most urgent to reach decisions at an early date since these problems will come right in the forefront of public attention quickly after liberation.

E. F. Penrose

London, April 29, 1944
WFP:KOT

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DEPARTMENT OF STATE

~~ADVISED ON~~

~~INTERNATIONAL ECONOMIC AFFAIRS~~

OFFICE OF ECONOMIC AFFAIRS

September 29, 1944.

ECA - Mr. Carr:

With reference to your memorandum of September 25: until it becomes clearer (1) what the decisions at the Cabinet level on economic policy with respect to Germany are going to be, and (2) whether we are going to have much if anything to say about the administration of Rumania, I doubt whether there is any point in bringing up the Rumanian papers (PWC 73 and 75a) before the Executive Committee on Economic Foreign Policy.

As you know, these documents differ very substantially from the Germany document which the Executive Committee has considered. The Germany document is almost entirely confined to statement of policy principles. The Rumanian document, on the other hand, while having some important statements of principle, is much more like an outline for a directive to the military. Unless the ECEFP is going to review policy guides and directives which are being prepared primarily outside of the Department and reviewed here in the Department, I am a little inclined to wonder whether we should bring up the Rumanian documents at all.

h.S.

ECA:LDS:LW

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 to Germany, Japan, Rumania, etc.

FORM NO. 64

Office Memorandum • UNITED STATES GOVERNMENT

TO : ECA - Mr. Stinebower

DATE: September 25, 1944

FROM : ECA - Mr. Carr

SUBJECT:

With reference to papers on economic aspects of United Nations Occupation of Rumania, PWC - 73 and 75a there is the following passage from the minutes of the PWC of June 1, 1944:

"Mr. Stinebower informed the Committee that the Foreign Economic Administration had requested that the question of economic objectives in Rumania be discussed in the Executive Committee on Economic Foreign Policy and inquired as to whether such a procedure met with the approval of the Committee. After a short discussion of the subject, it was agreed that it would be proper for the Executive Committee to consider the question."

I have a notation of August 22 to the effect that you advise that we wait until we have received replies from the War and Navy Departments regarding the German documents before referring the Rumanian papers to the Executive Committee. We have now received an acknowledgment from the War Department with no indication that comments will be forthcoming and the Navy Department has not yet replied.

I do not know what bearing present discussions at the White House regarding post-war treatment of Germany will have on the case of Rumania, but I imagine that Rumania presents a rather different problem. On the other hand, it may be pretty late now to take up the question of Rumania with the Executive Committee. Do you have any suggestions one way or the other?

RMC
 ECA:RMC:md

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DEPARTMENT OF STATE
RHC
ADVISER ON
PT files
INTERNATIONAL ECONOMIC AFFAIRS

August 22, 1944

TO: MR. CARR ✓

FROM: MR. CATUDAL

*Mr. Carr advises that we
will not start war & navy
reply re German documents.*

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RAC

Excerpt from Minutes of 41st Meeting of Committee on
 Post-War Programs, June 1, 1944.

ECONOMIC ASPECTS OF UNITED NATIONS OCCUPATION OF RUMANIA

Mr. Mosely said that Mr. Stinebower would present the papers on economic aspects of United Nations' occupation of Rumania, PWC-73 and 75a. Mr. Berle inquired as to whether it had been decided to establish an Allied Control Commission in Rumania. Mr. Mosely and Mr. Stinebower explained that the previous papers on the subject had been deliberately vague because of the uncertainty of the position. They pointed out, however, that the European Advisory Commission provided a recognized channel for Allied consultation on the question and Mr. Riddleberger noted that the question of Rumanian occupation is on the Commission's agenda as a result of an agreement to this effect reached at the Moscow Conference.

Mr. Stinebower explained that PWC-73 contained basic background material as well as recommendations and proposed that he proceed by going over the points in PWC-75a, which was confined to the policy recommendations on the subject. Mr. Stinebower explained the significance of each individual recommendation and each recommendation met with the approval of the Committee with the understanding that point 10 should be redrafted so as to avoid the implication that the only purpose of education was the training of skilled workers.

Mr. Berle, however, commenting on the document as a whole, pointed out that the draft was in the form of recommendations of policies which would be beneficial to Rumania and it appeared to him, consequently, to be somewhat academic. He said that the purpose of the Committee was to formulate recommendations for United States policy vis-a-vis particular countries and that the document should specify what policies the United States should in practice advocate, and give some indication of how much pressure the United States should exert in order to obtain achievement of the particular policy advocated. He said that the United States had a number of very direct interests in Rumania such as oil, investments, and the operation of UNRRA; on the other hand, such questions as productive reserves, priority for materials, the social security system of the country, appeared to him to be of extremely indirect interest to the United States. He was doubtful

of

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of the advisability of the United States attempting to influence the adoption of policy on such questions of indirect interest. A general discussion on this point brought out that there was general agreement in support of Mr. Berle's point of view on the subject. The Under Secretary accordingly appointed a subcommittee composed of Mr. Berle, Mr. Stinebower, and Mr. Hosely to redraft the document in a form which would indicate to the American representative on the European Advisory Commission the extent of American interest in the adoption of the particular policies advocated in the document.

Mr. Stinebower informed the Committee that the FEA had requested that the question of economic objectives in Rumania be discussed in the Executive Committee on Economic Foreign Policy and inquired as to whether such procedure met with the approval of the Committee. After a short discussion of the subject, it was agreed that it would be proper for the Executive Committee to consider the question.

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Mr. Carr
Mr. Watkins
PA File?

TS - Mr. Blakesley

August 7, 1944

FMA - Mr. Collado

(Copies to Mr. Carr,
 Mr. Willoughby, Mr. Lockhart)

Document on Long-Run Economic Objectives with
 Respect to Japan

I understand from Dr. Phelps that the action of the Executive Committee on Economic Foreign Policy at its meeting on Friday in requesting the preparation of a document on long-run economic objectives in the case of Japan parallel to that just completed in the case of Germany may have caused some concern. In order that there may be no confusion regarding this action of the Executive Committee and its implications, I believe it would be desirable to indicate exactly what the Executive Committee wants and the relation thereto of the work of the Far Eastern Area Committee, particularly documents CAC-160 and CAC-222.

The ECEFP has for a number of weeks been ^{revised} considering two related questions: (a) a document prepared largely by Mr. Stinebower on the long-run economic objectives with respect to Germany; (b) the report of the Reparations Committee with special reference to Germany. Although these have been handled quite separately, as you are aware, it so happened that final clearance on each of the documents was taken at the same meeting last Friday.

The Germany document, which you may have seen, is a document of thirteen pages which discusses at some length the general objectives of United States economic policy in the postwar with special reference to the maintenance of peace and security, and outlines within this framework the overall economic policy of the United States with respect specifically to Germany. This is developed under four principal headings which relate to reparations and restitution, the control of Germany's economic war potential, the modification and reorientation of the pattern of European economy with special reference to Germany's place in it, and the effectuation of a fundamental change in the case of German economic life which would in time integrate Germany into the type of world economy envisaged by the Atlantic Charter.

The reparations material, I believe, you are already familiar with and I will not attempt to discuss it except to indicate that a fifteen-page summary has been prepared and approved by the Executive Committee.

At the

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England

At the close of the meeting at which these two documents, among others, were approved, the question was raised by the representatives of FEA and other agencies regarding the desirability of a document on Japan similar to the Germany general objectives document. They pointed out that this would be of special use to those agencies which are preparing civil affairs guides and other documentation looking both to the intermediate and long-run periods. The representative of FEA, Mr. Lauchlin Currie, suggested, perhaps partly jokingly, that we take the Germany document and change the word "Germany" to "Japan" in each place. There resulted a brief discussion in which it was pointed out that there are several factors in the Japanese case which warrant a special evaluation of the problem from the point of view of the case of Japan. The Department was then requested to prepare, and I was apparently given the job, a memorandum paralleling in scope and content the Germany document but with appropriate attention to the special Japanese problems.

not by the Committee

I have studied carefully CAC-160 and find that so far as it goes it is an excellent document. It points up very adequately the special problems of Japan. I would have two questions of some importance regarding this: (a) the treatment of reparations departs in certain respects from the final general reparations document approved in FWC and ECEFP; and (b) the terminology in the handling of the question of minimum standards of living differs in some measure from that very carefully debated and agreed upon in the ECEFP. I have asked Messrs. Rosenson and Spiegel to comment briefly on these two points, and they will turn their remarks over to Mr. Lockhart and Mrs. Gulick, who will bring them to the attention of the Economic Subcommittee of the Far Eastern Area Committee in the absence of Dr. Remer.

In order to carry out the directions which I have received from ECEFP, it will be necessary to prepare a somewhat longer and fuller memorandum paralleling the Germany document, including most if not all of the general discussion of our long-range economic objectives and then applying these specifically to the case of Japan. I

believe

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*orig. 7/29
(copies to
copy)*
*direct
each)
HMC, DH, LS*

Long Range Policy

July 28, 1944

Mr. Blakeslee - TS

Mr. Carr - ECA

- CC: Mr. Remer - FMA
- Mr. Willoughby - TA
- Mr. Phillips - CD
- Mr. Friedman - LRD
- Mr. Hawkins - ECA

There has been brought to my attention recently a document on "Japan: Economic Policies During Military Occupation" (SAC-222). It was suggested to me that the document might be referred to the Executive Committee on Economic Foreign Policy for consideration and comment as has been done in the case of various economic documents prepared in the Department with reference to Germany. With respect to the economic treatment of Germany, however, there were two documents; one, dealing with the problem from a long-range point of view, and the other, from the short-range (transitional period). In view of the fact that policies in the short-range, owing to problems peculiar to the transition from war to peace, may differ considerably from the long-range policies, it seems to me that, before considering economic policies with respect to Japan during military occupation, the Executive Committee should study first the problems of long-range policy. Such a study would be needed as background for consideration of the short-range policies. I was very much pleased to learn, therefore, in a telephone conversation with Dr. Remer that a memorandum on long-range policies with respect to Japan is being prepared. The Executive Committee is recessing until September 8, but I hope that this memorandum can be completed by around the first of September so that it can be distributed in time (not later than September 5) for consideration at the meeting on September 8.

It would be appreciated if you would let me know what the present status of the memorandum is and whether or not the schedule indicated above is feasible.

ECA:RMC:MD

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to Germany, Japan, Rumania, etc.

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believe that much of the material in the Germany memorandum may be paraphrased, but in so doing I should attempt to use virtually all of the material of CAC-160, which has the special merit not fully achieved in the Germany document of bringing out the importance of the successive time periods. With these materials it should be a relatively easy job to prepare a document of perhaps fifteen pages to fit exactly the specifications laid down by the ECEFP. I propose to undertake this drafting job at once and to arrange at once for informal clearances within the ECEFP and FEA, as the FEA were also named as drafting consultants. As soon as a draft has been prepared, which should be within a few days, I will ask Mr. Lockhart and Mrs. Gulick to bring it to the attention of the area group. The material included in CAC-222, which has already been cleared in ECEFP, is not involved.

hardly

*This memo far from the facts
but it see no harm in it
Pence*

FMA:EGC:ja

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A-C - Mr. Thorp

April 17, 1946

A-C - Mr. Carr

Consideration by the Executive Committee of Economic Relations
with Russia

Our economic relations with the Soviet Union present unique problems which are not covered by economic foreign policy formulated by the Executive Committee or which may require modification of such policy. These relations are of important interest to other departments of the Government and would appear to warrant consideration, therefore, by the Executive Committee. In fact, the Paris Conference of Economic Counselors recommended that the Executive Committee establish a country committee on USSR (Paris despatch no. 4401, February 8, 1946). The Conference pointed out that there should be a more precise definition of what we wish to attain in our relations with the Soviet Union, that there should be a fuller understanding of the objectives and tactics of the Soviet Union, and that there should be an intensified program by the Department for bringing the full facts of the Soviet situation currently to the attention of all United States officials dealing with the Soviet Government.

In almost every field of our economic relations with the USSR, there are urgent problems. The need to define more precisely our economic objectives regarding Russia and to decide on the tactics for attaining them is especially acute at present in view of the possibility of loan negotiations. If there is to be any interdepartmental consideration of the matter, it should be undertaken immediately.

It may not be necessary, however, for the Executive Committee to establish a country committee on the USSR. There is already before the Committee a proposal to establish a committee on state trading (ECCFP D-29/46). The question of our economic objectives regarding the USSR may be included under the third term of reference of that committee which is to study "other problems involved in our relations with countries maintaining state-owned

*Milroy in Thorp's office April 30: Will not refer or
to Ec. Com. economic program re Russia, but Committee
may consider from time to time application to Russia of
functional policy, e.g. export, technology, finance.*

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mitments which serve as a sound basis for granting credits
and conducting commercial relations. With the end of the

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or state-operated enterprises, etc."

It is proposed, therefore, that as soon as the state trading committee is established, the chairman, who will be a State Department officer, be requested to raise in his committee for consideration and recommendation to the Executive Committee the problem of our economic relations with the USSR. Among the matters involved are the following:

1. Treatment of American property in Soviet occupied areas.
2. Claims of American nationals on the USSR.
3. Export of technology to the USSR.
4. Fisheries and regulation of whaling.
5. Economic blackout in Soviet-dominated areas.
6. American access to supplies and markets in Soviet-dominated areas.
7. Treaty of friendship, commerce, and navigation.
8. Reciprocity vs. M. F. N. treatment.

Agencies of the Government or divisions thereof not represented on the committee should be invited to participate when matters of particular interest to them are under consideration. It would probably be better to make use of the state trading committee for this purpose than to establish a special committee on Russia. It would avoid calling undue attention to the problem. The personnel would be about the same anyhow.

An alternative procedure would be to refer the economic recommendations of the Department's Committee on the USSR directly to the Executive Committee for consideration. However, the Executive Committee could probably act more intelligently on this matter if there were previous discussions at the subcommittee stage.

I would appreciate your views.

HMCarr:bb

CC: ITP - Mr. Wilcox

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mitments which serve as a sound basis for granting credits and conducting commercial relations. With the end of the

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SECRET*Russia
File*MEMORANDUM FOR CONSIDERATION BY THE ECEFPPROBLEM:

Because of the economic and social organization of the Soviet Union, the problem of commercial relations with that country is of vital and immediate importance. Consideration in theory has been given to the problem of trade relations between free market and controlled economies, but the time has come to explore this problem further and to analyze the practical problems which may arise out of the commercial relations between the United States, in which foreign trade is conducted by private enterprise, and the Soviet Union, which maintains a complete monopoly of foreign trade.

In general the problem of commercial relations between the United States and the U.S.S.R. encompasses volume and character of post-war trade, application of the principle of commercial considerations in trade transactions, restrictive agreements, credits as a function of volume of trade, and the political, social, and economic commitments which serve as a sound basis for granting credits and conducting commercial relations. With the end of the

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will embark upon a period of vast reconstruction. Such a program will of necessity involve a rapid resumption in commercial relations between the United States and the U.S.S.R. and probably credits to the U.S.S.R. Vital policy decisions concerning commercial relations with the U.S.S.R. must be made in the very near future. Although the Trade Agreements ^{Committee on} ~~Committee~~ has a Subcommittee on the Soviet Union, the terms of reference of this Subcommittee are limited by the terms of reference of the Trade Agreements ^{Committee on} ~~Committee~~.

RECOMMENDATION:

It is recommended that an interdepartmental committee on commercial relations with the Soviet Union be established under chairmanship of the Department of State as a subcommittee of the ECEFP with representatives of the following agencies as members: Commerce, Foreign Economic Administration, Export-Import Bank, Tariff Commission, Agriculture, Treasury and Labor.

The following terms of reference are recommended for the subcommittee:

1. The subcommittee should give further study to the ways and means by which the relations between socialist and capitalist

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and capitalist economies may most fruitfully be organized, including a reexamination of the principle of commercial consideration as the fundamental method of assuring non-discrimination by a country with a state-controlled economy.

2. The subcommittee should analyze the prospects of post-war trade of the U.S.S.R. and other factors affecting the ability of the U.S.S.R. to repay long-term credits and should make recommendations regarding the size, terms and method of repayment of credits.

3. The subcommittee should make recommendations with respect to coordination of the program for credits to the U.S.S.R. with programs designed to obtain protection for American interests in the Soviet Union including protection of industrial and artistic property, protection for American citizens and corporations, and assurance of non-discrimination in all phases of commercial relations.

4. The subcommittee should make recommendations regarding the methods of settlement of private disputes arising out of commercial relations between the United States and the U.S.S.R.

5. The subcommittee should coordinate and formulate policies with regard to contracts concluded between

nationals

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nationals and corporations of the United States and organizations of the U.S.S.R.

6. Coordinate programs concerned with informing the American public about trade with the Soviet Union.

CP: HJHilton:mjs
6/14/45

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ECEFP D-8/44

GERMANY:
 POST-SURRENDER PROBLEMS:
 CONTROL OF THE GERMAN ECONOMY
 IMMEDIATELY AFTER SURRENDER:
 POLICIES ESSENTIAL TO GUARD AGAINST INTERNAL COLLAPSE

Immediately after the surrender of Germany, it will be of paramount interest to the United Nations that economic and financial policies adequate to avert the danger of economic collapse, or to ameliorate the conditions of such a collapse if it has occurred, are put into effect.

Although it is not possible to anticipate the decisions that will have to be taken in the light of the conditions then prevailing, it is clear that the occupying powers should, in their own interest and in the interests of the other United Nations, so coordinate their policies in various economic and financial fields as to protect the German economy from falling victim to an uncontrolled, or even a serious inflation. An overall anti-inflation policy will be required, and to be fully effective it will have to include prompt and vigorous action

1. to retain, strengthen, and where necessary to restore the price control machinery of the country
2. to reduce the pressures on the system of controlled prices.

In general it will be necessary to prevent great volumes of monetary purchasing power, already accumulating dangerously in Germany and certain to increase greatly before the moment of surrender, from pressing on the system of price control with overwhelming force. This can be accomplished in part by restricting the supply of actively employed currency, both notes and deposits; by restoring confidence in and at the same time preventing the abuse of public and private credit; by shutting off avenues of speculation; and by preventing substantial undervaluation of the reichsmark in terms of other currencies.

Such

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Such financial measures will be inadequate to prevent inflation unless (1) a breakdown in the system of distribution is prevented, (2) strict allocation and rationing of available supplies both to producers and consumers is effectively continued, and (3) the supply of goods and services offered for money is increased by stimulating production and reviving to some extent at least the foreign trade of the country.

In order to develop such an over-all attack upon the problem of inflation and to avert other forms of economic demoralization which will threaten an exhausted and defeated Germany, the occupying authorities should be prepared to see that an economic program is carried out of which the following are the principal elements:

I. MEASURES ESSENTIAL TO PREVENT FINANCIAL DISORDER

The occupation authorities should not allow the powers now exercised by the Price Commissioner to lapse, but should utilize all appropriate and available administrative and enforcement agencies to continue a rigid system of price control. The elaborate machinery now being effectively used in Germany to control the basic elements in cost of production, --wages, interest, and profits-- should also be utilized so far as possible to minimize various strains and maladjustments in the structure of prices.

In this field the occupying authorities should make paramount the single aim of maintaining the purchasing power of the currency as long as the danger of inflation is acute. They should not, however, even for this purpose, allow the special discriminations in wages, insurance protection and other conditions of labor to which foreign workers in Germany have been subjected to be continued. It is the policy of this Government that, as long as they are obliged to remain in Germany, such workers should in these respects be assimilated to the employment conditions governing other workers in the country. The occupation authorities, moreover, should be so organized as to detect and eliminate price manipulations of all kinds heretofore used to promote the political and economic aims of the Nazi State.

It will

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It will be necessary to maintain and extend monetary, banking and fiscal measures of an anti-inflationary type. These should be as drastic as is necessary in the judgment of the occupation authorities to accomplish their purpose. It is suggested that they should include

A. Restrictive measures such as:

1. the blocking of deposit and savings accounts at the outset in order to be in a position to prevent an indiscriminate and dangerous flight from money into goods, and the establishment of weekly or monthly maximum limits on withdrawals from various types of accounts adequate to meet legitimate and normal needs for living and business expenses until more liberal and flexible control measures can safely be introduced;
2. the impounding of Nazi party and other special funds;
3. the devising of restrictions on the rights of holders of government securities of all kinds to use such securities as collateral for bank advances or to sell them to or discount them at commercial banks and at the Reichsbank and other central institutions for freshly created deposit currency;
4. the compulsory refunding or extension of large masses of short-term government debt which, under the conditions to be expected after surrender, will constitute a standing menace to the stability of the currency;
5. the withdrawal from circulation, if necessary, of notes of large denominations.

B. The continuation and rigid administration of the control of bank credit.

C. Control of security prices and trading in securities.

D. Continued

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D. Continued withdrawal of liquid funds from active circulation by taxation.

The occupying authorities should strictly control the fiscal policies of the national government and of its political subdivisions, not only because the maintenance of a high level of taxation will be desirable to check the inflationary dangers already present in the country, but because the obligation of the German Government to pay the costs of occupation will subject the German authorities to a standing temptation to resort to central banking credits or currency issues to meet these costs. It is not the policy of this Government to repeat in Germany the inflationary methods of financing occupation costs practiced by the Nazi regime in occupied countries.

This policy is consistent with the reestablishment of government credit and the sale of government securities under carefully supervised conditions.

It will be necessary to surmount serious difficulties in relation to the German foreign exchanges. It is suggested that the occupation authorities should be prepared, if necessary, to freeze immediately all outstanding credit balances in the German clearing accounts, and to open new accounts for the settlement of such foreign trade transactions as they deem essential for the provisioning of the country and desirable for assisting in the economic recovery of liberated territories and of the European continent in general. Such transactions should be at uniform but strictly controlled rates. This suggestion is put forward to protect the German price system against the inflationary impact of a depreciating exchange pending a systematic revision of the whole German clearing system and some more permanent disposition of existing clearing claims against Germany as part of the reparation settlement or otherwise.

It is the policy of this Government that the German foreign exchange rate should be fixed on the basis of objective economic considerations and in such a manner as to fit as nearly as possible into a continental and world exchange rate structure which will contribute rather than obstruct the development of multilateral international trade. It is recognized that the development

of such

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of such a system of rates will have to be gradual and experimental as conditions change, but it is believed that from the beginning the long-run effects on the future peace-time rate structure of the tentative rates fixed by the occupation authorities should be borne in mind. The deliberate undervaluation of the German exchange in order to impose adverse terms of trade on Germany would be contrary to this policy.

II. MEASURES NECESSARY TO PREVENT A BREAKDOWN OF INLAND TRANSPORT--LAND, RAIL AND WATER, AND COASTWISE SHIPPING

In so far as may be consistent with military necessity and the conduct of the war against Japan, excessive removal of transport equipment from Germany should be avoided and the German transportation system should be coordinated with the continental network by the occupation authorities.

It will be of the utmost importance to guarantee the most prompt and effective allocation of manpower and materials for the urgent maintenance and repair of transport facilities. The problem of labor supply for this essential purpose could be met partly by selective demobilization of the armed forces, and partly by directives issued to the appropriate German agencies. For this and other purposes determined by the occupation authorities the Employment Service Board might continue to exercise labor-allocating functions for the immediate emergency period. A technically effective plan for the allocation of material should also be worked out by the occupation authorities, in the execution of which they should commend the services of the appropriate agencies in the German Government.

In order to free the German transportation system to carry out the most urgent tasks of the period immediately following surrender, it will be necessary to maintain, with appropriate revisions, a stringent system of priorities for freight and passenger travel. It will be of the utmost importance to prevent general uncontrolled population movements which might menace the orderly progress of demobilization, the return of prisoners of war, repatriation of foreign workers and other displaced persons,

and the

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and the return home of evacuees and bombees. Although it is not intended permanently to countenance the prolongation of the Nazi practice of depriving workers of the right to select and terminate their employment and to move from place to place freely, it will be necessary to continue to limit the free exercise of these rights until the great movement of people displaced from their ordinary occupations in civil life has been organized and largely carried through, and otherwise to restrict the movement of individuals in so far as military necessity may require.

III. MEASURES ESSENTIAL TO PREVENT A BREAKDOWN IN THE DISTRIBUTION OF FOOD AND OTHER ESSENTIAL SUPPLIES TO THE CIVILIAN POPULATION

It will be necessary initially to preserve intact the German rationing system, both for industry and for the consumer. One of the first duties of the occupation authorities, however, should be to pay especially detailed attention to necessary changes in personnel of the rationing agencies and to enforce the immediate elimination of all discrimination in rationing on political or racial lines. They should take drastic measures against the black markets and continue strict control of inventories of food and such other goods as they deem essential for the provisioning of the country, the prevention of hoarding, and the disclosure of surpluses that may be required by them for relief and other purposes. In particular they should encourage farmers to bring their produce to market by authorizing the production and distribution of manufactured goods needed by the agricultural population, but if necessary they should take steps to compel the delivery of farm products.

At the first meeting of the Council of the United Nations Relief and Rehabilitation Administration, decisions were taken to the effect; 1) that the Director General shall consult with military and control authorities "with a view to securing information as to any surpluses of supplies from time to time available in ... enemy and ex-enemy territories from which relief and rehabilitation import requirements of liberated areas might be met" and 2) that Germany must pay for all relief

supplies

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supplies received through the United Nations Relief and Rehabilitation Administration. Consequently the German economy will be required to provide relief supplies to other countries. A special obligation also rests on Germany for the maintenance and welfare of foreign workers and prisoners of war as long as they remain in the country. Germany must furthermore discharge as fully as possible her obligation to bear the costs of occupation by supplying goods and services within Germany. It should be recognized, however, that if the occupation forces are large, it may not be possible for Germany to provide more than a part of the supply of these forces at the outset.

One of the first responsibilities of the occupation authorities therefore will be to weigh these special demands on Germany's food production and national reserves against those of the civilian population, and to establish priorities between them.

IV. MEASURES TO PREVENT INTERRUPTION OF PRODUCTION

It will be vital immediately after surrender to prevent any interruption in the production of food, essential consumers' and industrial goods, and export goods urgently needed by the liberated countries and exchangeable for essential imports.

It will be necessary for this purpose to carry out as quickly as possible urgent repair and rehabilitation work. Advantage should be taken of the existence in Germany of specialized organizations whose function in the war economy has been the provision of a mobile labor force and the concentration of a high degree of technical and engineering skill on large projects of an emergency character. It may be desirable, for example, not to allow the purely economic and technical functions of the Labor Service and the Speer Organization to lapse, but to utilize these organizations or their equivalents for a short period at least in the work of internal rehabilitation. Selective demobilization of soldiers, and the continued strict allocation of raw materials and capital to German industry, agriculture, and public works will be essential for the effective carrying out of this work.

In so far

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In so far as may be consistent with the needs for prosecuting the war against Japan, the occupation authorities should carry forward the earliest possible conversion of war industries to the production 1) of consumers' goods, and 2) of those articles of export which are necessary to pay for essential imports and which are needed by the United Nations to implement any program of reparation and replacement in kind which may be laid down.

V. MEASURES TO PROMOTE
THE REVIVAL OF ESSENTIAL
FOREIGN TRADE

In as much as the problems of provisioning Germany immediately after surrender may prove to be both difficult and complex, special stress is laid on the need for an early resumption of essential foreign trade between Germany and other countries. Such forms of import control as are established should be so administered as to provide the minimum level of economic activity and consumption in Germany which is required to prevent a repetition of the situation created after the last war by the continuation of a rigid economic blockade after the armistice. They should also help to make it possible for Germany to meet the reparation obligations imposed on her and to carry out the general economic directives of the occupation authorities. It is suggested that the occupation authorities should utilize the existing foreign trade control mechanisms to the extent necessary for these purposes and for the essential financing of foreign trade transactions.

In administering these controls the governments of the occupying powers should consult with the authorities of the liberated countries and of Germany's other continental neighbors in order 1) to be in a position to direct the internal productive activities of Germany toward the production of such commodities as will be in urgent demand in such countries and which the German economy will be able to supply, 2) to establish rigid control over imports of those goods which it is desired to exclude for reasons of military security, 3) to prevent the development of severe pressure on Germany exchange rates as a result of excessive imports of all sorts as compared to exports, and 4) to provide a series

of temporary

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of temporary international arrangements to replace Germany's existing commercial agreements with her clearing partners

These agreements should be concluded as far as possible on a multilateral and nondiscriminatory basis, and should have, in general, an emergency and short-term character--in order to facilitate a later and thorough-going revision of the German system of foreign trade controls.

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ECEFP D-5/44

RECONSTRUCTION FINANCING AND RELATED PROBLEMS

Summary of Conclusions and Recommendations

(1) It is the policy of the Government of the United States to engage in a properly conceived program of foreign investment to aid in financing the reconstruction of war-torn areas and for related purposes including facilitating the export generally of capital goods from the United States and the economic development and industrialization of the less developed areas of the world.

(2) This policy includes the elimination of unnecessary obstacles to the flow of private foreign investment and the regulation of private foreign investment to the extent necessary to eliminate abuses detrimental to international relations.

(3) Adequate provision does not now exist for financing reconstruction and development programs which it may be anticipated will arise during the next year or until the United Nations Bank for Reconstruction and Development is established. Moreover there exist areas for financing inappropriate to the United Nations Bank but appropriate for unilateral and bilateral arrangements involving United States Government institutions.

(4) In general reconstruction financing should take the form of loans with expectation of eventual full repayment.

Recommendations

1. Export-Import Bank - request immediate Congressional action to extend the powers of the Export-Import Bank:

a. Increase lending powers by one billion dollars or so at this time.

b. Eliminate default (similar to Johnson Act) limitations.

2.

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2. Johnson Act - request its repeal, preferably in connection with extension of the powers of the Export-Import Bank, in order to permit private participation in the extension of credits to certain European countries.

3. Securities and Exchange Commission -

a. By amendment of the Securities Act bring all foreign loans and investment, whether publicly offered or privately placed, within the jurisdiction of the SEC, thereby providing a basis for regulatory procedures as to all such foreign transactions through financial institutions. By a similar amendment to the Investment Companies Act, bring the foreign activities of private investment trusts under supervision similar to that already existing with respect to publicly owned investment trusts.

b. Urge the Securities and Exchange Commission to adopt a rule requiring registered corporations to file with it current reports of loans made to foreign enterprises or foreign governments or of investments in foreign plants or subsidiaries.

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 etc.

FOR DEPARTMENTAL USE ONLY

December 3, 1948

To: All Economic Officers

From: Paul H. Nitze

Subject: Relations Between the Economic Offices and the
 Division of United Nations Economic and Social
 Affairs

The attached paper sets forth a procedure for handling matters of mutual interest to the economic offices and the Division of United Nations Economic and Social Affairs, which is agreed to be acceptable to both E and UNE.

The necessity for this clarification of our respective responsibilities stems in part from the fact that no uniform method has been followed by officers handling matters affecting our relations with the United Nations, and that in some cases those officers have failed to assume positive responsibility for preparing material on schedule and for obtaining proper clearances, etc.

By your cooperation with Mr. Stinebower or Mr. Dort in E, Mr. Coppock in ITP and Mr. Pearson in OED it is hoped that we may be able to perform those functions for which we are responsible in the most efficient, systematic and expeditious manner.

E:AGStevens:mnd:vca

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c.

Procedural Memoranda, Clearances
etc.FOR DEPARTMENTAL USE ONLY

November 29, 1948

WORKING AGREEMENT BETWEEN E AND UNE WITH RESPECT TO
CERTAIN ECONOMIC, SOCIAL AND LABOR MATTERS RELATING
TO THE UNITED NATIONS AND THE SPECIALIZED AGENCIES

With respect to economic, social and labor matters relating to the United Nations and the specialized agencies, E and UNE have agreed upon the following procedures governing the preparation, clearance and transmittal of instructions to U.S. delegations and representatives, position papers, policy statements, communications, inter-departmental relations, choosing of delegations and representatives, and related matters. (The word "papers" is used hereinafter to cover all of the above matters.)

1. Expediting and Coordination of Action.

(a) Responsibility for expediting and coordinating the preparation, clearance and transmittal of papers will rest with UNE, acting in accordance with the procedures set forth below.

(b) All papers from international organizations and other U.S. Government agencies affecting the responsibilities of E will be routed by UNE through the appropriate office or division of E for appropriate action. Transmittal of such papers to other agencies will be cleared by E and UNE and other appropriate units of the Department.

2. Assignment of Responsibility.

(a) Position papers will be prepared on all matters of consequence. Papers will be assigned to the appropriate offices or divisions in the Department by agreement between E (Mr. Stinebower or in his absence Mr. Dort or someone designated by one of them) and UNE (Mr. Kotschnig or someone designated by him), and in appropriate cases the interested political officer(s). UNE will confirm assignments by memoranda to units concerned. Substantive issues within the jurisdiction of E will generally be assigned to E and matters relating to administration, budget and organization, including relations among UN bodies, the specialized agencies and other international organizations, will generally be assigned to UNE. (See 4 below for assignments to other agencies.)

3. Development of Department Positions and Clearance.

(a) The officer to whom a paper has been assigned will be responsible for developing the paper and for assuring its clearance within the Department. He may call such meetings as may be required for the purpose. Clearance will, to the greatest extent feasible, be

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by ordinary clearance procedures rather than by meetings. All papers will be cleared within both E and UNE.

(b) If, in connection with the development or clearance of positions, it appears desirable to hold intra-departmental meetings to cover matters beyond the scope of the assignment to any particular office or division, UNE shall be responsible for calling such meetings. These meetings will be chaired by persons agreed upon by Mr. Stinebower or Mr. Dort for E and Mr. Kotschnig for UNE, or by persons designated by them.

(c) Officers in E assigned papers will keep the interested UNE officer currently informed and, similarly, officers in UNE assigned papers will keep the interested E officer currently informed. Specifically, both E and UNE will provide each other with copies of papers on all matters covered by this memorandum.

4. Inter-Departmental Relations.

(a) In general, departmental positions should at least be tentatively agreed upon before discussions are held with outside agencies.

(b) Informal discussions of a position with persons in other agencies will be by the officer assigned responsibility for the position, and not by other officers except by agreement with the responsible officer. Efforts will be made to keep the points of contact within State on these matters to a minimum.

(c) Papers may be assigned to other agencies for preparation. Such assignments will be made by the office or division assigned the paper in accordance with 2(a) above, which office or division will also perform any necessary expediting functions.

(d) Formal inter-departmental clearance will, except in unusual circumstances, be through the appropriate inter-departmental committee.

5. Other Matters.

(a) The executive secretaryship of the UNE subcommittee of the ECEFP will henceforth be drawn from UNE.

(b) Delegation lists will be prepared by UNE after consultation with Mr. Stinebower, or in his absence Mr. Dort or someone designated by one of them.

CS/R

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ITP - Mr. Martin

11-12-48

ITP - Mr. Coppock

Preparation of U. S. Positions on Matters Involving International Economic Organizations; Relation of Economic Offices to USA, to other Departments and the Inter-Departmental Committees.

I understand that Mr. Stevens is attempting to resolve some of the differences and difficulties currently existing in the subject field. I am fairly well acquainted with the problems in this area and my general position is this: The economic offices should have the main substantive responsibility on these matters and the organizational arrangements should be designed to implement the proper exercise of power necessary to carry out these responsibilities.

Many, if not most, of the problems involved arise in connection with the economic work of the United Nations, including its functional and regional economic commissions and the specialized agencies. Most of these problems come to the Department of State from an outside source and the proper first point of contact is USA (UNR). The first important question then is where the "action document" should go. In theory at least it could stay within the Department or could go to some other department or agency of the Government, and within the Department it could theoretically stay in USA, go to a political office, or to an economic or other functional office. There will no doubt be cases when the responsibility should be assigned to outside departments and to offices within the Department other than the economic, but the general rule should be that the major substantive responsibility for preparations of positions should be in the economic offices. (There was no question of this as long as Mr. Stinebaker performed the general coordinating function.)

The access problem is the one of clearance, intra- and inter-departmentally. My view on this matter is that intra-departmental consultation and clearance, other than that through formal committees, should be through the regular economic officers who have regular working contacts with their counterparts in other agencies. Considerable administrative and professional time and energy has been wasted straightening out these lines of contact with other agencies and we should not

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set up new and confusing lines in this field. As for formal inter-departmental clearance I think the ECEFP and ISP structure is generally satisfactory.

If the economic offices are going to take the substantive responsibility for this work, it is obvious that particular persons must be designated to do parts of the work and they must actually do it. Otherwise, it will not be done or be done inadequately or drift off to other parts of the Department.

My proposal is, therefore, for a departmental committee of international economic matters, which would be chaired by somebody on the economic side and with a secretary from USA. It would probably be desirable for this committee to have a rather fluid composition from the various interested offices in order to handle the various problems, rather than to have an elaborate array of sub-committees. There are two reasons for this view: (1) Many of the people in the Department deal with a number of international organizations involved, and (2) Many of the same problems are involved with respect to the different organizations. The chairman of this committee would be empowered to make assignments of work outside the Department and to offices or divisions within the Department; to designate working groups for the various projects. The secretary would perform the customary secretarial duties.

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PD-9

9. Statement Regarding United States Policy with Respect to the Disposal of Surplus War Property (D-40/44), approved September 1, 1944

Recommends the sale of surplus industrial equipment abroad as being both beneficial to this country and in harmony with established policy even though such sale might give rise to foreign industry which would compete for markets against American export industries. 458

The statement was transmitted by the Department of State to the Surplus War Property Administration, and subsequently to the chiefs of all United States missions.

May 1, 1945

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UNITED STATES POLICY TOWARD INDUSTRIAL DEVELOPMENT
 ABROAD WITH PARTICULAR REFERENCE TO FOREIGN DISPOSAL
 OF SURPLUS WAR PROPERTY

A letter from Mr. Will Clayton July 22, 1944 to Mr. Acheson, Chairman of the Executive Committee on Economic Foreign Policy, inquired regarding Government policy on the disposal abroad of surplus industrial equipment.

Mr. Clayton expressed the opinion that while such disposal would in many cases facilitate the establishment of industries competitive with United States industries, it would nevertheless contribute to the expansion of our foreign trade and should be encouraged.

This view of Mr. Clayton's is in accord with this Government's accepted policy as set forth in recent memoranda prepared in the Department and approved by the President. One of these memoranda entitled United States Foreign Investment Policy (FI-2; ECA 3) states that the utilization of American funds to finance the export of surplus equipment would be of substantial benefit to this country. In reviewing the benefits from foreign investment it says:

1.(b) During the immediate post-war period it (i.e. foreign investment) would provide an outlet for surplus equipment and excess capacity, thereby facilitating an orderly adjustment toward peacetime patterns of production.

4. (b) Exports of all types of capital goods (with the exception of items directly related to the production of armaments and munitions if appropriate restrictions can be developed by national or international action) should be permitted to take place freely, as soon as wartime scarcities permit.

A memorandum entitled Reconstruction Financing and Related Problems (D5), approved by the Executive Committee and by the President, says:

It is the policy of the Government of the United States to engage in a properly conceived program of foreign investment to aid in financing

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the reconstruction of war-torn areas and for related purposes including facilitating the export generally of capital goods from the United States and the economic development and industrialization of the less developed areas of the world. *

A Memorandum in Reply to the President's Letter of April 9, 1943, says:

Furthermore the export of capital goods and the extension of technical and managerial cooperation on industrialization and other economic development of foreign countries will tend to produce an improvement of the levels of living and consumption of those areas and of their purchasing power in international trade. The fuller employment of factors of production throughout the world and the increase in their efficiency and productivity necessarily must result in a relative decline in real costs, and consequently an increase in each country in consumption, thus raising the living standards of both the capital exporting and importing countries.

This same memorandum also says:

Two types of argument have been advanced seeking to demonstrate that if we assist in increasing the productivity and incomes of

workers

* This memorandum continues, "This policy has been established in the following documents or statements, among others: Letter of the President to the Secretary of State dated April 9, 1943; memorandum of an inter-agency group transmitted to the President by the Secretary of State under cover of a letter of November 22, 1943; letter of the President to the Secretary of State of January 14, 1944 acknowledging and approving the said memorandum; memorandum of the Department of State (ECA-3) approved by the President in February 1944; memorandum of the Secretary of State and the Foreign Economic Administrator regarding the war and post-war needs of the U.S.S.R. for reconstruction, approved by the President on March 7, 1944; reply of the President of May 3, 1944 to the Secretary of the Treasury regarding a credit to the Netherlands; and radio addresses of the President and the Secretary of State."

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workers in foreign countries, we shall lower our own. The first and more usual argument relates to the competition that such encouragement stimulates between the newly developed foreign industries and our own, whether in the market of the country in question, in markets of third countries, or in the market of the United States. From the specific industry point of view, this argument may have some weight.

The industrialization of a previously non-industrialized country, of course, may adversely affect United States exports of certain commodities to the country industrialized, although the effect, in any case, on total United States production of the commodities so affected would likely be small; in fact under conditions of an expanding economy stimulated by lending, such exports, far from declining, might merely fail to increase as much as other exports. The rising living level which is intended to be the result of industrialization is likely to cause an increased importation of certain other American products. On balance, American export industries may well realize a net gain, unless indeed the industrialization of the foreign country should be accompanied by excessive import restrictions. However, in so far as the influence of this Government is concerned, every effort should be made not only in connection with investments but also in agreements involving questions of commercial policy, to prevent such restrictions.

Industrialization obviously will not adversely affect American exports to third countries unless some of the newly established foreign industries should in time develop to such an extent as to obtain a competitive advantage in neutral markets over the older American industries. Developments of this kind ordinarily come about slowly so that ample time is available for the necessary adjustment of the American industry. Such changes are continuously taking place in the world economy and in almost any period some American industries will be found to be gaining, at the same time that others will be found to be declining, in competitive position in world markets.

Industrialization

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Industrialization as the result of American investments abroad is even less likely to injure United States industries in the United States market than in third-country markets. To invade the United States market foreign goods must overcome transportation, tariff and other competitive disadvantages. If despite these handicaps, any long established readily efficient American industry should be threatened with sudden serious injury, there is ample authority to take such action as may be deemed necessary in the public interest.

The above described policy of this Government is the outgrowth of studies, made within the Department and in other agencies, which conclude, as indicated in the above quotations, that industrialization abroad would tend to expand foreign incomes and therefore foreign ability to buy American goods. They show that this country's best customers are those countries which are the most advanced industrially, where general productivity and incomes are relatively high.

It is of course true, as mentioned in these memoranda, that certain American industries may feel increased competition as a result of foreign industrialization. Latin America, for example, might buy fewer shoes and textiles in the United States as a result of industrialization, which is taking place there whether aided by this country, or not, but the market in Latin America for tools, heavy machinery, automobiles, luxuries and other American goods should be expanded.

The industrialization of Germany a few generations ago was greatly feared in England, yet the actual result was an increased demand in Germany for British products. The industrialization of Japan led to increased trade of Japan with all parts of the world. Lowered costs abroad, moreover, permit the United States to acquire imports more cheaply.

Industrialization abroad will doubtless continue to take place regardless of actions by the United States, and if we do not supply foreign countries with the equipment they desire, other countries will no doubt do so. Moreover, the country that initially supplies equipment ordinarily tends to receive replacement orders and orders for further expansion.

On several scores it is to the interest of this country to aid in the development of the world's resources

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and to promote balanced economic growth. Economic health and prosperity throughout the world are especially helpful from the standpoint of general security. The sale of surplus industrial equipment abroad, therefore, is both beneficial to this country and in harmony with official policy.

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Mrs. Dennison
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Approved June 23

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The Minutes of the Meeting of
THE EXECUTIVE COMMITTEE ON ECONOMIC FOREIGN POLICY
held June 16, 1944 at 4:30 p.m. in room 446
State Department Building

APPROVAL OF THE MINUTES

1. The minutes of the meeting of June 9, 1944 were approved without amendment.

INTERNATIONAL CARTELS

2. Mr. Mason, Chairman of the Committee on Private Monopolies and Cartels, presented to the Executive Committee his committee's reports on "Basic Alternatives for United States Policy Toward International Cartels" (D-10/44) and "Tentative Program for Dealing with International Cartels" (D-11/44). In reviewing briefly the contents of these documents (see covering summaries thereof), he called attention to the following points, which were subjects of later discussion:

A. The program recommended in respect of cartels is regarded as lying within the framework of the liberal commercial policy set forth in Article VII of the Mutual Aid agreements. The possibilities of carrying out that policy and consequently the cartel program depend on the establishment of a sound international security system and on measures for maintaining high levels of economic activity.

B. One problem troubling the Cartel Committee involves the question of where cartels leave off and intergovernmental commodity agreements begin. The dividing line cannot be determined by distinguishing between private and governmental agreements, for there has been a growing tendency of governments to participate in international industrial and commodity arrangements in one form or another, as owners (German and French potash), as policing authorities (export quotas on tin), or as sponsors (governmental pressure on British firms to enter into the international steel cartel). However, the problem of surpluses in the case of

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such commodities as cotton and coffee, involving a large number of producers and small scale operations, is quite different from that in the case of tin or copper where control is highly concentrated. The distinction, therefore, between cartels and commodity agreements might be based on the number of producers involved. Any international arrangement involving, say, less than 1,000 producers might be regarded as a cartel whether or not it is inter-governmental. A more fundamental problem, however, is the effect which a commodity agreements program might have on a cartel program. Manufacturing countries, such as the United Kingdom, which import principally raw materials, would argue that if international arrangements are warranted for the purpose of controlling the prices of commodities which they import, such arrangements are warranted also for the purpose of controlling the prices of manufactured goods which they export.

C. The proposed International Office for Business Practices would constitute a part of an international commercial policy organization if and when such an organization is established.

Cartels and Full Employment

3. Mr. Hinrichs referred to the statement on page 2 of D-11, which recognizes that pressures to organized cartels arise in large part from depression, trade barriers, and maladjustments in production and that the prospects of eliminating restrictive cartel practices would depend on the success of measures for coping with such matters. He believed that this statement should be added to the recommendation on page 1 of document 10 regarding cartel policy in order that the cartel problem might be viewed in perspective. Even though the cartel report is not intended for publication, Mr. Hinrichs thought that a recommendation to the President on cartel policy should stress the importance of maintaining high levels of economic activity.

4. Mr. Mason doubted the desirability of submitting to the President the recommendation regarding cartels apart from considerations of commercial policy and related fields. These considerations, however, are the concern of other committees, and he did not feel that it was

appropriate

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*Approved
was amended*

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The Minutes of the Meeting of
THE EXECUTIVE COMMITTEE ON ECONOMIC FOREIGN POLICY
held June 29, 1944 at 9:30 a.m. in room 235
State Department Building

APPROVAL OF MINUTES

1. Note: The minutes of the meeting of June 27 will be submitted to the Committee at its meeting on June 30.

ECONOMIC RECONSTRUCTION OF
EASTERN AND SOUTHEASTERN EUROPE

2. Action: With reference to "Economic Reconstruction of Eastern and Southeastern Europe" (D-16), the Committee decided that before considering the question of establishing a subcommittee and the terms of reference therefor the document should be referred, with a request for a report within two or three weeks, to the Committee on Liberated Areas for its views and comment. Mr. Hawkins was requested to draft, in consultation with Mr. Currie, a statement referring the matter to the Liberated Areas Committee. Mr. Currie had pointed out that the questions raised in the document involved consideration of the interests and plans of other Allied countries, activities of UNRRA, problems of financing and other matters of particular concern to the Liberated Areas Committee on which its advice might be helpful.

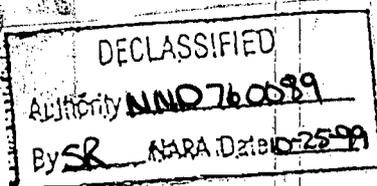
3. With reference to point 5A on page 3 of the document, regarding terms of loans, Mr. Hinrichs suggested that provision should be made for consideration of minimum labor standards.

4. With reference to point 4 on page 3, regarding types of reconstruction which might qualify for assistance, Mr. Englund suggested the addition of a sub-point: Agricultural projects for the improvement of production and distribution of agricultural products and of human nutrition.

INTEREST RATES ON FOREIGN
LOANS

5. The Committee took note of "Interest Rates on Foreign Loans by Government Agencies" (D-14), prepared

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for the information of the Committee in response to a question raised by Mr. Hinrichs (see M-5/44, page 3, paragraph C). It considered that the document required no action at present. Mr. Hinrichs and Mr. Englund indicated that they had reservations regarding the document. Mr. Hinrichs thought that interest rates on government foreign loans were of greater significance to the level of employment than indicated by the document, especially in an economic depression when a capital export program is needed to supplement a domestic program of public works. Mr. Englund pointed out that government loans for the development of backward areas, not initially attractive to private investment, would result in opportunities for private foreign investment and in increased employment in the lending ^{both} ^{and borrowing} countries. This aspect of the problem should receive in the document more consideration than it has.

REPARATION

6. Mr. Ellsworth presented the Report of the Committee on Reparation, Restitution and Property Rights, Parts I - IV (D-17 to 21). He indicated that these documents had been approved by the Postwar Programs Committee of the Department of State with some reservations. The part of the report on labor services had been remanded to the Reparation Committee for further study and revision. He wished to indicate briefly the direction of the thinking in the Committee on this subject:

A. The United States should not oppose labor service should it be proposed by other Allied powers. It can serve an important economic function in reconstruction.

B. A distinction should be made, however, between two types of service, i.e., that which has entirely an economic function and that which has other functions:

(i) In the first case, workers might be recruited by the German Government on a voluntary basis or by conscription. The present Todt organization might be maintained, provision being made for wages and conditions of work, possibly supervised by the International Labor Office.

* Amended M-15

(11)

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(ii) In the second case, the workers would consist of members of the S.A., S.S., and the Gestapo, organized in labor battalions for service in foreign countries. Thus, persons constituting a threat to stable government could be kept out of Germany until it was in a position to handle them.

7. Mr. Ellsworth stated that the Reparation Committee was of the view that any opposition by the United States to reparation would likely cause deep resentment among other Allied powers. The United States had suffered no war damage, whereas devastation in other Allied countries had been great. Furthermore Germany under economic controls would be in a position to make substantial reparation. The object of reparation, however, should be economic reconstruction. The period of reparation should not be more than ten years. Innocent young Germans should not have to bear the burden and Germany should be permitted as soon as feasible to become integrated into the world economy. The Committee suggested that roughly two-thirds of the total reparation might be paid during the first five years, the principal period of reconstruction, and one-third in the second five years. The transfer in the early part of the period was to be in the form of scheduled deliveries in kind, together, later on, with cash payments increasing as the development of an export surplus permits.

8. The committee had no specific amount to suggest as the total reparation. The chief guide would be German national income in relation to a tolerable minimum standard of living. A guess had been made, Mr. Ellsworth said, that Germany might be able to pay from 20 to 30 billion dollars. Of this amount 15 to 20 billions would be collected in the first 5 years and 5 to 10 billions in the second 5 years. The apportionment of total reparation available to claimant governments would be in accordance with the destruction of physical non-military property and, with less weighting, occupation costs (in order to take care of the countries with relatively slight physical destruction, such as Holland, Denmark, Czechoslovakia, and Greece). Some account might be taken, however, of the amount of resistance made against occupation.

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9. Mr. Ellsworth pointed out that his committee wished to emphasize that the commissions established to deal with the German economy and reparation would need to be very closely coordinated, and that it was recommended that in the reparation commission plural votes be given the U.S.S.R., the United Kingdom, and the United States.

10. Restitution and replacement were considered as related parts of reparation. The former term relates to identifiable stolen or looted property. Restitution would not be deducted from reparation claims. Although there was no time limit set, it was assumed that it would be carried on as rapidly as possible. Replacement relates to looted property which has been destroyed or cannot be found and is distinct from reparation in kind. The committee envisaged that replacement categories would be narrow, limited to such things as gold and objects of art. In the case of gold some members of the committee had preferred the establishment of a European pool for all gold found in German hands, Germany being permitted to participate therein in connection with the stabilization fund. This would permit the most economical use of the gold. The replacement plan would probably leave Germany with no gold, since its estimated stocks about equal the amount of looted gold. The majority of the committee, however, believed that the proposed pool would not be politically feasible.

11. In regard to the third section of the report (D-20), Mr. Ellsworth pointed out the omission of a point which appeared in the commentary of Section IV:

"In the event that German property in a United Nation is retained, the amount of reparation to be received by that country should be reduced by the realized or fair value of such property, up to the total of its reparation claim, whether the proceeds of this property is used in the settlement of reparation claims or not."

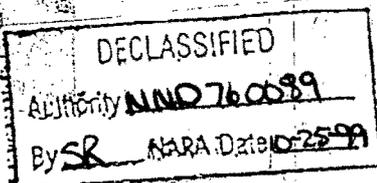
Thus, German property in the United States could be used to offset this nation's claims against reparations.

QUESTIONS FOR FURTHER STUDY

12. On the subject of pre-war debts, the committee had merely reported that much more study is necessary

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and that such debts should receive a low priority rating among other claims against Germany. More study is also needed on the subject of compensation to be granted to persecuted religious, racial and political groups. Such compensation might take two forms: a contribution to a fund for resettlement and lump sums for individuals. Attention was also called to the possibility that a part of reparations might take the form of a contribution for the maintenance of peace, depending on the nature of the provisions made for international security. It should not be proposed, however, that Germany contribute to the support of armies of individual powers. One problem presenting great difficulty is the restoration of securities. There has been a great deal of looting in this respect and it would be extremely difficult to determine the ownership.

13. Mr. Ness inquired whether consideration had been given to the possibility of dealing with reparation in a manner similar to that followed in reverse lend-lease. Payments in kind could be made to the various claimants as the needs therefor arose. Mr. Ellsworth replied that although the committee had not considered such a proposition, it was generally agreed that it was important to decide, as soon as possible after the war, what the total claims on Germany would be and what proportion thereof should go to each country. A definitive settlement, if within reasonable limits, would induce Germany to dispose of its reparation obligations as soon as possible and would thus facilitate reconstruction.

14. Mr. Englund pointed out that a heavy burden of reparation immediately after the war would preclude an early restoration of German commerce and thus restrict Germany's capacity to pay reparation and delay the establishment of German economy on a liberal trade basis. Why, therefore, not defer reparation payments for a few years? Mr. Ellsworth replied that reconstruction would take place largely during the first four or five years immediately following the war and that whatever Germany could pay in that period would contribute more to reconstruction than a larger amount received later.

SUGGESTED

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**SUGGESTED QUESTIONS FOR
DISCUSSION ON REPARATIONS**

15. The Chairman asked each member what points he would like to raise for discussion in following meetings on the subject of reparation. The following questions were presented:

A. In view of shortages of materials, how can production in Germany required for reparation be obtained prior to the time when exports will be adequate to pay for imports?

B. Should funds be loaned for the purchase of the materials or should the materials be furnished to the Germans for fabrication, the fabrication costs being charged against reparations account?

C. What claims in respect of social security rights of forced labor should be admitted for reparation?

D. Should not requirements for labor service be related to specific projects in order to obtain the maximum efficiency?

E. With reference to labor service, how would selection of workers, minimum labor standards, safeguards, etc. be determined?

F. Can not the total reparation sum be determined now on the basis of what Germany will be able to pay during a given period of time, the amount of damages, affecting merely the allocation of the total sum, being left for determination later?

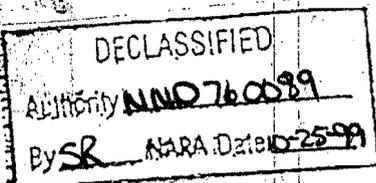
G. In as much as the Reparation Commission must be guided in its operation largely by developments, should not the problems which will confront the Commission under different conditions be indicated?

H. Should not the report emphasize more than it does the fact that the total reparation is not related to the total damage done?

I. Should the word "reparation" be discarded because of the unfavorable connotations due to

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experience after the last war and the word "restitution" be substituted?

J. How does the committee propose that the sums of money involved in the flight of German capital to neutral countries should be used for reparation?

K. Should the United States waive its reparation claims on Germany?

L. Should not the "tolerable" minimum standards of living for Germany be sharply defined?

M. Instead of restoring the old European economic balance might it be better to shift the balance in favor of neighboring countries?

N. Because United States claims on Germany for reparation would be largely cash instead of goods, would the United States have a very low priority rating in the initial reparations period?

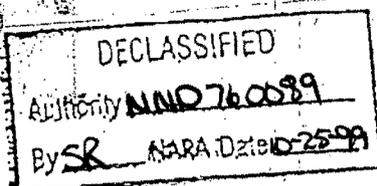
ATTENDANCE

16. Those present at the meeting were:

Mr. Dean Acheson, (Presiding) Department of State
 Mr. Harry C. Hawkins, Department of State
 Mr. Norman T. Ness, (Alternate) Department of the Treasury
 Dr. Eric Englund, (Alternate) Department of Agriculture
 Mr. Amos E. Taylor, Department of Commerce
 Mr. A. F. Hinrichs, Department of Labor
 Mr. Oscar B. Ryder, United States Tariff Commission
 Mr. Lauchlin Currie, Foreign Economic Administration
 Mr. Walter Laves, (Observer) Bureau of the Budget
 Mr. Robert M. Carr, (Executive Secretary) Department of State
 Mr. James Q. Reber, (Recording Secretary) Department of State

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Mr. James K. Angeli, Foreign Economic Administration
 Mr. Paul T. Ellsworth, Department of State
 Mr. Donald Hiss, Department of State
 Mr. Alexander M. Rosenson, Department of State



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Approved July 14 (see p. 14)

The Minutes of the Meeting of
THE EXECUTIVE COMMITTEE ON ECONOMIC FOREIGN POLICY
held July 5, 1944 at 2:30 p.m., in room 285
State Department Building

APPROVAL OF MINUTES

1. The minutes of June 27 were approved without amendment.

WAR PRODUCTION BOARD
REPRESENTATION ON WOOL
COMMITTEE

2. It was reported that the War Production Board had raised informally the question of its representation on the Wool Committee, established by the Executive Committee on June 2, 1944 (M-6/44). Action: Since the War Production Board had been active in the Government's stockpile program for wool, it was decided that the Board should be invited to designate a representative to serve on the Committee on Wool.

SECOND REPORT OF THE
SUBCOMMITTEE ON COMMITTEES

3. Action: Consideration of the Second Report of the Subcommittee on Committees (D-2) was completed and the following action taken:

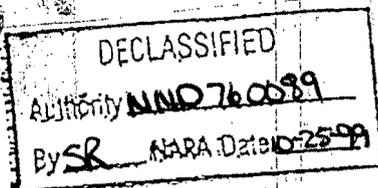
A. Section 5, Part I, recommending the termination of the Special Committee on Inland Transport, was approved.

B. Section 6, Part I, recommending the termination of the Special Committee on Metals and Heavy Industry, was approved. It was pointed out, however, that there were important problems to be dealt with in this field and that it might be desired to establish later a subcommittee with more specific terms of reference than those of the committee in question.

C. Section 7, Part II, recommending, as in the case of other related committees, the establishment

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Telecommunications with a view to bringing them to the attention of the Executive Committee.

REPARATION

Basis for Determining Amount of Reparation

5. Mr. Currie thought that the reparation report should emphasize more the fact that the total amount of reparation to be paid by Germany should be determined on the basis of Germany's capacity to pay and not with reference to admissible claims for damages which would serve merely as a basis for allocation of reparation among claimants. Instead of attempting in this connection to determine a fixed amount of reparation (the difference between a tolerable minimum level of living in Germany and total possible production), would it not be preferable to determine merely the tolerable minimum living standard and, in the first five years (which would end with, or not long after, the period of occupation) to take, as reparation, production in excess of that required to maintain the minimum living level.

6. Mr. Rosenson suggested that a specified amount of reparation, if reasonable, would provide some incentive to Germans to meet their obligation in the shortest time possible.

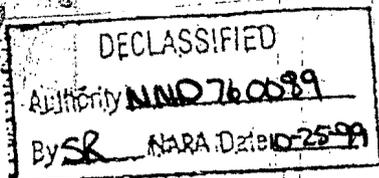
7. Mr. Currie believed that the amount of surplus production or reparation which could be obtained would depend largely on the administration of German economic control. The pressure of such control would operate on the economy as a whole and not on individuals. Orders for reparation account would be placed with factories and workers would have full employment and receive steady wages. Orders for production of goods for German consumption would, however, be restricted. None would be permitted for building up German capital equipment except possibly to a limited extent in certain selected cases related to payment of reparation.

8. Mr. Hinrichs pointed out that, in order to get maximum production, Germany and also Russia had in the past exerted pressure directly on the individual worker, resorting to punitive measures, such as the withholding of ration cards. We should not impose on Germany conditions which would result in a continuation of such

practices.

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practices. It would be opposed by American Labor which looks forward to the rise of a free labor movement in Germany. It might be avoided by providing incentives, in form not only of a limitation on the reparation period, but also of fixed annual reparation amounts. Production in excess of such amounts would be divided with the Germans, part being added to reparation, and part being used by the Germans to shorten the reparation period or to increase the German level of living in the form of increased output of food and clothing.

9. In considering the subject of a minimum standard of living for Germany in the period of reparation, the question was raised as to whether Germany should be permitted a higher standard than that of surrounding countries, victims of German destruction, such as Poland and Russia, and what the attitude of such countries might be toward permitting Germany in the period of reparation an increase in living standards. The view was expressed that the imposition on Germany of a living standard as low as that of Poland would not only adversely affect Germany's ability to pay reparation but would also result in instability which might jeopardize attainment of the ultimate objective of re-integrating Germany with the world economy.

10. It was pointed out that one important factor affecting the capacity of Germany to pay would be the capital equipment that it was permitted to have. Mr. Currie was of the view that reparation should be limited to what could be produced with existing machinery. Germany should not be permitted to emerge from reparation with the advantages of a modernized industrial plant. Mr. Ryder questioned whether a prohibition against increase in Germany's capital equipment was consistent with the objectives of obtaining the largest possible contribution of reparation to economic reconstruction and of integrating Germany as soon as possible into the world economy, and of developing a German export trade which would be adequate for these purposes. Neither should Germany be permitted to grow too strong economically. A middle course should be possible. In this connection, Mr. Hinrichs proposed the following formula:

"Capital expenditures beyond maintenance shall be authorized only after they promise to

increase

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increase output per man-hour to such an extent that the quantity of labor saved by the end of the reparation period and hence applicable to increase reparation deliveries exceeds the labor that is needed for plant and equipment."

Mr. Currie thought that this formula might be satisfactory if the reparation period were short, so that only the most urgent capital improvements would pay out.

11. With reference to Mr. Currie's suggestion of shortening the period of reparation from 10 to 5 years, Mr. Hinrichs pointed out the need of a tapering off period, as recommended in the report, to avoid in Germany a problem of sudden reconversion. Mr. Currie replied that with a fixed termination date for reparation Germany could work out its reconversion problem in advance. Although Mr. Taylor favored a reparation period of less than 10 years, he doubted that it would be possible to fix now a definite period, at least not a five year period in view of the probable reaction of other countries with the memory of devastation still vivid. Mr. Currie felt that more than 5 years of reparation would prejudice the establishment of democratic government and the maintenance of peace. He pointed out that hope of limiting the period depended on the position of the United States.

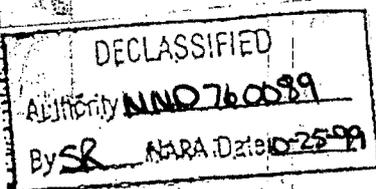
Reparation vs. Restitution

12. Mr. Currie suggested that the term, "restitution", be substituted for that of "reparation". The latter is associated with the unfortunate experiences with reparation after the last war. Furthermore, restitution would preclude many claims that might be justified by the term, reparation. Mr. Rosenson replied that in the terminology of the last few years, reparation, restitution, and replacement had taken on specialized meanings and that substitution now would be apt to lead to considerable confusion. Furthermore, restitution would preclude occupation costs as a claim against Germany which, it was believed, was warranted.

Relation of Reparation and Germany Documents

13. Mr. Englund suggested that the Committee might be in a better position to judge the reparation report after it had completed its consideration of D-22, setting forth the general objectives of United States economic policy with respect to Germany. He thought that there

might



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might possibly be certain inconsistencies between them. For instance, in the reparation report Germany's capacity to pay appears to be related to a physical situation obtaining at the termination of hostilities whereas, in D-22, some stress appears to be placed on economic development in Germany as a factor in its capacity to pay. Mr. Currie observed that criticism of the reparation report seemed to involve matters of emphasis and approach more than matters of substance. Mr. Ryder suggested that this might be rectified largely by a revision and elaboration of the summary (D-17).

14. Action: Mr. Rosenson was requested to compare the reparation report with D-22, "General Objectives of United States Economic Policy with Respect to Germany" and to report to the Committee at its next meeting any inconsistencies discovered.

AGENDA

15. It was agreed that discussion of reparation should be continued at the meeting scheduled for Friday, July 7, and that consideration of the Report of the Commodity Agreements Committee should be deferred until the regular meeting on July 14.

ATTENDANCE

16. Those present at the meeting were:

Mr. Harry C. Hawkins, (Presiding) Department of State
 Dr. Eric Englund, (Alternate) Department of Agriculture
 Mr. Amos E. Taylor, Department of Commerce
 Mr. A. F. Hinrichs, Department of Labor
 Mr. Oscar B. Ryder, United States Tariff Commission
 Mr. Lauchlin Currie, Foreign Economic Administration
 Mr. Walter Laves, (Observer) Bureau of the Budget
 Mr. Robert M. Carr, (Executive Secretary) Department of State
 Mr. James Q. Reber, (Recording Secretary) Department of State

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Mr. Arthur Burns, Foreign Economic Administration
 Mr. Lauren W. Casady, Department of the Treasury
 Mr. Otto Nathan, Department of the Treasury
 Mr. Alexander M. Rosenson, Department of State

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5. Germany: Report on Reparation, Restitution, and Property Rights (D-37/44), approved August 4, 1944

Recommends a program of restitution and reparation transfers and payments designed to facilitate the attainment of political, economic, and security objectives of the United Nations.

Transmitted (with D-36/44) by the Secretary of State to the Secretaries of War and Navy.

The question, as part of the broader question of economic treatment of Germany, has been under consideration at the Cabinet and White House levels. Decisions on reparation were reached at the Yalta conference, and a new policy program is being elaborated in the Department of State on the basis of these decisions.

FINAL REPORT*

*Since this document is now only one of many currently under consideration with respect to this subject and cannot, therefore, be identified as a basis of policy decisions, reports of future developments will be discontinued.

March 15, 1945

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Box 77 2. BUFFER STOCKS:
Economic Objectives with Respect
to Germany, Japan, Rumania, etc.

STANDARD FORM NO. 64

Office Memorandum • UNITED STATES GOVERNMENT

TO : Mr. Stinebower - ECA
FROM : Mr. Carr - ECA
SUBJECT:

*File
Pmc*

DATE: July 18, 1944

It is desired to bring to your attention in connection with the revision of D-22 the following excerpt from the minutes of the July 7 meeting of the Executive Committee on Economic Foreign Policy:

"12. Mr. Rosenson pointed out that the Germany document stipulated for a "reasonable settlement of German debts to governments and nationals of the United Nations, whether such debts are in the form of blocked balances, clearing accounts, or any other forms, and of proper claims which may be advanced by foreign workers and other displaced persons in Germany". The reparation report merely recognizes the existence of pre-war debts, places them in a low priority position relative to reparation payments and recommends that the question be given further study. With reference to the question of claims which may be advanced by foreign workers and other displaced persons in Germany, Mr. Rosenson recalled that the subject of social security claims had already been discussed in the Executive Committee and that it had been decided that the minutes of the discussion should constitute an appendix to the reparation report.

13. Action: The Committee agreed with Mr. Rosenson's view that the Germany document (D-22) should be made consistent with the reparation report by inserting, as indicated below, the word "identifiable", in the following phrase contained on page 7 of the Germany document:

"Replacement of identifiable objects stolen by Germany and of identifiable productive facilities dismantled or moved by her...."

14. Mr. Rosenson called attention to the fact that the Germany document provided for the return of property to, or the economic rehabilitation of, minority groups whereas the reparation report provided, not for the return of property, but for indemnity up to some moderate maximum per person. The Reparation Committee had decided

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Economic Objectives with Respect
to Germany, Japan, Rumania, etc.

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against the full return of property within Germany to minority groups mainly for two reasons. The first was the tremendous administrative difficulty involved in executing such a program because of loss of proof by claimants, absence of claimants, and varying circumstances under which property was lost. The second was the belief that the full restoration of property to the groups in question at a time when the German public in general was passing through a period of great difficulty would have unfortunate social consequences.

The Committee agreed that the Germany document D-22, should be revised in this respect to conform to the point of view expressed in the Reparation Report."

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The reparation document is silent on the question of claims which may be advanced by foreign workers and other displaced persons in Germany.

3. The Germany document speaks (page 7) of the

"replacement of identifiable objects stolen by Germany and of productive facilities dismantled or moved by her...."

The reparation document limits replacement of objects which are not identifiable to a very few categories, the most important of which are gold and works of art. To make the two documents consistent the word "identifiable" should be inserted before the term "productive facilities" in the above cited passage.

4. Among the objectives of policy as given in the Germany document there appears (page 10) the following:

"To enforce as far as possible the return of property to, or the economic rehabilitation of, minority groups within Germany which have been systematically despoiled."

The reparation document does not provide for the return of property to the groups in question. Instead it recommends that individuals belonging to such groups receive an indemnity up to some moderate maximum per person.

Mr. Alexander M. Rosenson
Department of State

July 7, 1944

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ECEFP D-37/44

Reparations

SUMMARY: REPORT OF REPARATION, RESTITUTION, AND
PROPERTY RIGHTS - GERMANY

(As finally revised and approved by the Executive
Committee on Economic Foreign Policy at its meeting
on August 4, 1944.)

1, 3, 4,

*5 year period of
reparations*

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ECEFP D-37/44

(Cf. D-17 through D-21,
D-30, D-31) August 12, 1944SUMMARY: REPORT ON REPARATION, RESTITUTION, AND
PROPERTY RIGHTS - GERMANYI. Interest of the United States in German Reparation.

The problem of German reparation is immediately related to the broader question of a general peace settlement, through which the United Nations hope to attain certain political, economic, and security objectives. While not in itself a major means of achieving these objectives, a reparation program can, depending upon its nature, greatly help or hinder their attainment. This Government has approached the problem of German reparation with a view to reaching a solution which would facilitate the attainment of these objectives. The "direct" interest of the United States in German reparation, i.e. in the amount of reparation which this country may receive, is small. The claims of other nations which have suffered severely from German aggression are direct and substantial. The main concern of this Government with respect to German reparation is that the program aid in the attainment of (or interfere as little as possible with) its economic, political, and security objectives and policies.

Broadly stated, the general economic and political objectives of this Government are as follows:

1. The preservation of peace by a system of collective security and disarmament of the aggressors.
2. The early return to a multilateral system of international trade and finance through the removal of excessive barriers to the movement of goods and funds.
3. The rapid reconstruction and rehabilitation of war-torn areas.
4. The maintenance of high levels of employment and standards of living.
5. With respect to Germany: 1/

a) The

1/ Based on General Objectives of United States Economic Policy with Respect to Germany. (ECEFP D-22/44)

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- a) The control of German economic war potential. This, however, is not assumed to imply a large-scale and permanent impairment of all German industry.
- b) The elimination of German economic domination in Europe.
- c) The eventual integration of Germany into the world economy.
- d) The establishment of democratic institutions, including a free trade union movement.

II. Need for Special Arrangements for the Immediate Post-Surrender Period.

It is unlikely that agreed decisions regarding all of the basic policy questions can be reached during the immediate post-surrender period. It is essential, however, that a program of restitution and reparation transfers be initiated promptly, both in order to hasten European reconstruction and to avert an undue imposition of European requirements upon the American economy while the war against Japan is still in progress.

In order to bridge this gap, immediate discussions looking toward agreement among the claimant states or, in any event, among the United States, United Kingdom, and Union of Soviet Socialist Republics should be inaugurated. Preliminary agreement must promptly be reached on

1. certain minimum basic principles;
2. an interim reparation organization and the relation of this organization to the machinery of Allied economic control of Germany;
3. the development in advance of the military collapse of Germany of an ad hoc program for reparation deliveries which will meet the immediate needs of claimant countries. Such an advance program is essential to the orderly reconversion of industry and labor to post-war production.

The purpose

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The purpose of such an interim arrangement would be to initiate and develop a large program of restitution and reparation transfers even before the terms of a final agreement had been settled.

A temporary arrangement of the kind contemplated would remain in effect until a more comprehensive program, based on a final agreement, could be inaugurated.

III. Résumé of Recommendations on the Final Reparation Agreement.

The essential elements of the program recommended in the Reparation Report may be summarized as follows:

1. Time Period.

The reparation period should begin as soon as the United Nations have the power to impose economic controls on Germany. It should be limited to a minimum of about five years from its inception but perhaps may have to be extended to ten. Both political and economic considerations emphasize the need for a short reparation period.

The urgent needs of the devastated areas for relief and rehabilitation and the desirability of restoring normally functioning economies in these areas as rapidly as possible demand quick and decisive action. Moreover, unless the United Nations stand ready to exploit fully the opportunity for cooperative action during the early period after the surrender of Germany, it may prove difficult to accomplish the aims of the program.

The one-way movement of goods and services which takes place under reparation is artificial and necessarily different from normal trade. The longer it continues the longer is deferred the full resumption of regular multilateral trade and the desired integration of Germany into the world economy.

From the political point of view, it must be remembered that the humiliation and cost of reparation will almost inevitably be associated in the mind of the German public with the regime in power at the time. For

this

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this reason, long-continued reparation would prejudice the establishment of democratic government in Germany and, indirectly, the maintenance of peace.

The collection of substantial reparation from Germany will probably be impossible without fairly extensive controls over the German economy. Since this Government has taken the position that enduring controls of this nature are undesirable ^{1/} the length of the reparation period will need to be correspondingly limited.

It is realized, however, that the countries which have been devastated by Germany will probably demand a much longer reparation period. The long-range objectives of this Government make a five-year period preferable to a longer one. If it is found necessary to extend this period, however, reparation deliveries should in no event continue beyond ten years. In case a period in excess of five years is adopted, deliveries should taper off toward the end of the extended period.

2. Amount of Reparation.

In view of the numerous uncertainties surrounding the post-war situation of Germany, no useful purpose would be served in attempting to estimate at this time the amount of reparation Germany will be able to pay. These uncertainties relate especially to the amount of damage to physical plant in Germany, the degree of disorganization or disruption of the country's working force, the nature and extent of economic disarmament, and territorial adjustment.

This much may be stated with confidence, however:

- a) Barring dismemberment or extremes of devastation, Germany will be capable of paying, in absolute terms, a very substantial amount of reparation. This has been made manifest by the proportion of national income devoted by Germany (as well as by other countries) to war purposes.
- b) Large as it may be in absolute terms, the amount recoverable from Germany will, in all probability,

be

^{1/} See ECEFP D-22/44, cited, p. 2.

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be but a small fraction of the total admissible claims, and a much smaller fraction still of the total direct and indirect damage caused by Germany to the claimant countries. It would be highly misleading and dangerous to let the notion gain currency that Germany can be forced to make good all or even a large part of the damage she has wrought.

- c) Reparation deliveries by Germany will be limited both in character and amount by the goods and services the claimant countries are willing and able to take.

Certain general principles regarding the amount of reparation are recommended as follows:

(1) As between the amount, on the one hand, and the time limit on the period of reparation on the other, the time limit should be the governing factor. This means that instead of beginning with the assessment of a definite amount of reparation and adjusting the time period accordingly, the maximum time limit should be defined from the outset and the greatest possible amount of reparation should be collected during that period.

Provision should be made for extending the time period in the event the Allied authorities believe the reparation program is being sabotaged. Conversely, in the event the reparation period is determined to be more than five years, it may be desirable to hold out to the Germans the possibility of reducing the duration of the period by fulfilling their obligations energetically. The decision as to the duration of reparation should not be made known to Germany until an appropriate time in the light of political developments.

(2) During the period of reparation the German people should be permitted to retain such part of their production as may be required to maintain a minimum prescribed standard of living. It is clear that the execution of such a program will require effective controls over the economic life of the country, perhaps similar to the wartime controls now in force.

During the control period Germany's production will

consist

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consist of that required:

- a) to maintain the prescribed minimum standard of living.
- b) to furnish such exports as may be necessary to pay for essential German imports.
- c) to furnish reparation.

The composition of German output and the reparation schedule should be so fixed as to utilize all German production above that required for (a) and (b) above.

All foreign exchange proceeds of exports should be utilized by the Allied control authorities to pay for necessary German imports and, if there is any surplus, to provide cash reparation. Imports should be restricted to the amounts necessary to effectuate the above types of German production.

3. Form of Reparation Payments.

The bearing of form of payment on the long-range political and security objectives of this Government is regarded as an important consideration. The most important question that arises in this connection is whether payment should be made predominately in kind or in cash. It is agreed that a policy of requiring payments in kind with allowance for cash payments only in exceptional cases should be adopted.

A. Reparation in Kind.

Payments in kind can be made from the following sources:

- a) Stocks of goods 1/;
- b) Existing capital equipment 1/;
- c) Current production of goods and services;
- d) Direct labor services.

Stocks

1/ Other than those subject to restitution which would not be credited against reparation.

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Stocks of raw materials and food above certain minima for German use will, no doubt, be taken immediately from Germany and transferred to the most needy surrounding countries. In regard to other classes of goods to be included in payments in kind, deliveries should consist of the widest possible range of goods needed by the claimant countries for rehabilitation and reconstruction purposes. Reparation in kind should include machinery, electrical equipment, and any other types of manufactured goods that Germany is fitted to produce and the claimant countries are willing to accept, as well as coal, fertilizers, chemicals, et cetera. Only in this way can Germany make its maximum contribution to the European recovery.

One major question, however, remains to be answered: To what extent should reparation come out of existing stocks of goods and capital equipment and to what extent out of current production?

This question involves consideration of the following factors:

(1) To what extent should deliveries be made out of existing stocks of goods and capital equipment for the purpose of satisfying immediate post-surrender needs in the claimant countries?

Deliveries of this nature should be confined to the early years of the reparation period, first, because they will make their maximum contribution to European reconstruction in these years, when the need will be most urgent, and secondly, because such transfers in the later years might impede the reintegration of Germany into the world economy. The transfer of equipment, particularly of equipment for capital goods industries, should be subject to the condition that the ability of such equipment to contribute the net reconstruction of Europe is not thereby seriously impaired.

This policy of taking reparation deliveries in the form of existing goods and equipment might be objected to on the ground that it will have the effect of reducing German productive capacity and will result in a reduction of reparation deliveries below the maximum obtainable over the total reparation period. It is believed that the long-range security objectives and the contribution to immediate reconstruction in the claimant countries outweigh this objection in many cases. It is recognized, however, that the great bulk of reparation deliveries over

the entire

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the entire period must come from current production since the reparation which could be derived from the transfer of capital equipment would, in any case, be relatively small compared to that available from current production.

(2) To what extent should German industry be rebuilt and operated for the purpose of maximizing current production for reparation deliveries?

It should be the policy of this Government to maximize reparation deliveries in so far as this is possible without extensive rebuilding of German plant and equipment. This kind of capital formation should be kept to a minimum in Germany and should be permitted to the maximum extent in the claimant countries. In general, Germany should be permitted only so much capital expenditure as may be necessary to maintain reparation schedules and the prescribed standard of living. It would be undesirable to leave Germany at the end of the reparation period with plant and equipment much newer and more modern than that of her European neighbors.

Qualifications to this principle would arise in instances such as the following:

- a) In case of extreme devastation of German industry it would be necessary to allow some rebuilding before substantial reparation could be delivered.
- b) A limited quantity of capital equipment of a "bottleneck" nature will have to be provided so as to permit German production to get under way.

It is clear that decisions in regard to capital formation in Germany will depend not only on the extent of destruction but also on the types of plant and equipment destroyed in both Germany and the surrounding countries.

B. Reparation in Cash.

Cash payments depend on the commercial policy and the readiness to import of Germany's potential customers. A program of heavy reliance on cash payments is accordingly vulnerable to the same difficulties that plagued the reparation program of the twenties. It will be possible to make use of cash reparation to the extent

that

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that a commercial cash market exists for German exports and to the extent that the control authorities decide in exceptional cases to permit such exports to exceed those required to pay for necessary imports. The gold and net foreign exchange assets available to Germany after the restitution program has been completed will be limited.

In a five-year reparation period there will be relatively little need for cash payment. Cash payment, however, can serve a useful purpose in taking care of exceptional cases and in lending flexibility to the reparation program provided the total volume is kept down to a relatively small figure.

If the period is extended to ten years, it may be desirable to increase the proportion of cash payment in the latter half of the period. With reconstruction substantially complete, the claimant countries will be less needful of German goods. As German resources are released from satisfying the wants of surrounding countries, they can be turned increasingly to the production of export goods for other markets on a commercial basis, thus creating foreign exchange for reparation purposes and beginning the process of reintegrating Germany into the world economy.

Reparation whether paid in kind or in foreign exchange should be strictly related to the export surplus of goods and services actually obtained from Germany. Any significant accumulation of external indebtedness by Germany during the period of reparation transfers is contrary to the objectives of this Government. This precludes both commercialization of reparation through the floatation of new German securities abroad and any other substantial extensions of credit to Germany.

Commercialization or other borrowing would in effect mean the financing of German reparation payments primarily by the United States and Great Britain. The continuance over a long period of years of payments by Germany may well become an internal political issue and thus create repercussions which would interfere with the long-range political and security objectives of this Government. Moreover, at present Germany's credit worthiness is virtually nil. An estimation of Germany's future credit worthiness cannot well be made until such time as the essential changes in her political and economic structure have begun.

4. Apportionment

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4. Apportionment of Reparation.

It is recommended that the principal basis for the apportionment of reparation among claimant states should be the amount of damage to and loss of non-military property caused by or incident to hostilities.

This basis of admissible claims does not necessarily favor property owners over other classes of claimants such, for example, as those suffering personal injury since reparation payments will be made to governments, not to individuals. Governments may dispose of the proceeds of reparation and make such compensation to their injured nationals as they see fit.

A precise audit of property loss will be impossible. The total of admissible claims will have to be reached on the basis of reasonable estimates as determined by the appropriate Allied authorities.

It is recognized that the relative impact of property losses on different countries may not be accurately reflected by even the most careful computations. The hardships imposed depend on the circumstances surrounding the loss and on the wealth of the country concerned.

As a supplementary basis for the apportionment of reparation it is recommended that occupation costs levied by Germany also be allowed as an admissible claim but at a lower weighting than property losses. Occupation costs for this purpose should include clearing balances built up in Germany during the period of occupation. Some occupied countries have suffered relatively little physical damage but have undergone many other types of injury at the hands of the Nazis. It is felt that it will be difficult to deny the claims of such countries for some compensation.

In recommending the foregoing two bases for reparation claims, it is intended that all other claims should be excluded.

5. Restitution and Replacement.

The principal recommendations with respect to this subject may be summarized briefly as follows:

a) In

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a) In principle there should be an unlimited obligation on Germany to restore identifiable looted property, even though in practice official efforts to locate such property will have to be confined to a limited number of categories.

b) Restitution should be restricted to identifiable property in existence prior to German occupation. Looted property should be restored to the existing governments of the territories where the property had its situs and not to the former owners individually.

c) Looted property should be returned in the condition in which it is found. The return of such property should not count as a credit against Germany's reparation obligation nor should it be deducted from the reparation claim of the recipient.

d) All property transferred to Germany during the period of German occupation (except for current output) should be presumed to have been transferred under duress and accordingly treated as looted property.

e) The right to restitution is not absolute. The Allied authorities should have the discretionary right to prevent or postpone restitution of vital equipment (such as, e.g., rolling stock) whenever such equipment is deemed essential to assist the revival of a seriously disorganized country.

f) It has been suggested that, in addition to restitution and reparation, countries having suffered property losses be entitled to "replacement", meaning the receipt of an equivalent piece of property for property lost or destroyed. It is believed that the "replacement" category would be a source of confusion and that it would serve no purpose that could not be served equally well by reparation in kind. It is, therefore, recommended that no claims for replacement be allowed except in the cases of (1) gold and (2) works of art and other cultural treasures, these exceptions being justified by the peculiar importance attached to those categories of goods.

g) Replacement of gold means that stocks of monetary gold found by the Allied authorities in Germany should be prorated in proportion to gold losses among the

Allied

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Allied countries whose gold stocks were looted. In no case, however, should there be transferred to any country gold in excess of its losses.

6. Labor Services (Tentative).

No final conclusion has been reached on this subject and it is receiving further study. In principle it is agreed that under appropriate conditions and to a limited extent labor services can be a proper and useful form of reparation. The chief problems relate to the method of selection of the laborers, their treatment and length of service, and the valuation of their services.

One suggestion receiving consideration is that there be two classes of laborers, one to consist of extreme Nazis such as members of the Gestapo, S.S., etc.; and the other to be recruited, on a voluntary basis if possible, from the general German public. It is contemplated that the former class, which would receive punitive or semi-punitive treatment, would be selected on the basis of previous political affiliation or activity and not, like the latter class, on the basis of the needs of claimant countries for labor services. The latter class should be protected by more or less normal labor standards.

7. Reparation Commission.

It is believed that questions of policy such as those discussed in this summary are outside the proper scope of a Reparation Commission. The Commission should be an administrative body whose function, broadly speaking, would be the supervision and management of the program of reparation and restitution. Within the broad limits of policy laid down by the Allied governments, it would be granted wide discretionary powers to determine the amounts of reparation to be paid periodically, to schedule deliveries in kind, to make adjustments in the schedules of payments, to determine whether Germany is complying with the provisions of the reparation settlement, etc.

The Reparation Commission should act in cooperation with the supreme Allied control authorities in Germany, which authorities should have the power to review and veto any of the Commission's acts.

The Commission should consist of representatives of all
claimant

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claimant states, but equal plural votes should be provided for the United States, the United Kingdom and the Union of Soviet Socialist Republics.

IV. Resume of Recommendations with Respect to Subjects Closely Related to Reparation.

1. Treatment of Property.

a) German Property Abroad.

Each member of the United Nations should reserve the right to retain and dispose of all German property and rights within its territories, and to use the proceeds to pay off reparation claims, and possibly pre-war debts owed by Germany or its nationals to the country in question or to its nationals. The value of property so retained or disposed of, regardless of the claims which it goes to satisfy, should be counted as payment against the reparation claim of the holding country. Germany can be left to compensate its nationals for property so retained.

The problem of obtaining control over German property in neutral countries is a much more difficult one, since from a strictly juridical point of view there is no way of compelling the neutrals to transfer ownership. The matter thus becomes one for treatment on the political level.

b) Allied Property in Germany.

The German Government should be required to return to the owners Allied property in Germany where such property was sequestered by German authorities or seized in any other manner. Such return shall not be deemed to prevent German authorities from subsequent exercise of the customary governmental rights over private property. In the event that industries in which foreign owners have an interest are required to be dismantled for security reasons or are subjected to other measures impairing the value of their assets, consideration shall be given to the question of appropriate compensation. Where the property consists of liquid funds, such return should not carry with it the right to transfer the funds out of the country except in accordance with the exchange regulations established by the Allied authorities.

Countries

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Countries should have the right to present reparation claims for damage to or destruction of property in Germany belonging to them or their nationals.

2. Pre-War Debts and Claims.

American citizens have outstanding substantial amounts of pre-war claims against both the German Government, and German nationals. These claims consist of short-term, long-term, and commercial obligations. While the problem has not been thoroughly investigated, it is believed both politically impossible and economically undesirable to leave American creditors of Germany entirely to their own devices in protecting their interests. The matter should receive further study.

It is recommended, however, in view of the urgent need of reparation for reconstruction purposes, that pre-war debts and claims receive a priority below that of reparation.

3. Compensation for Injuries to Persecuted German Minority Groups.

It is considered appropriate for several reasons that the German Government be required in some way to compensate the minority groups persecuted by it. The moral basis for such compensation is self-evident. Moreover, it is now recognized that minority baiting and persecution is a potent weapon in the hands of totalitarian demagogues both for gaining political power at home and for spreading anti-democratic doctrines abroad. Finally, it is felt that since Germany was responsible for a situation in which many thousands of former German nationals needed to be rehabilitated or resettled, she should contribute to the solution of that problem and not be permitted to leave the entire burden to the outside world.

The restitution of property located in Germany is, on a number of grounds, regarded as an unsatisfactory answer to the problem:

- a) Most of the individuals involved are either dead or outside the country and many would not find it worthwhile to return in order to regain their property;
- b) Large-scale transfers of funds abroad in full satisfaction of these claims would be out of the question;
- c) The full

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- c) The full return of property to members of these groups at a time when the general German public was passing through a period of great difficulty would tend to create strong social tension in Germany.
- d) Lack of proof by claimants, and the varying circumstances under which property was lost or sold, would make the administrative problem of restitution extremely difficult.

A two-fold contribution by Germany is, accordingly recommended:

(1) Resettlement Aid, i.e. payments in cash or in kind, to an international agency, to aid in the settlement of individuals belonging to persecuted minority groups. Such payments would be akin to reparation, but their amounts would be related to the needs of the resettlement schemes rather than to the property losses of the individuals concerned.

(2) Indemnity for Property Losses. In addition to the foregoing payments, Germany should also be obliged in lieu of restitution, to provide an indemnity, up to some moderate maximum per person, to individuals who have suffered property losses since the inception of the Nazi regime through discriminatory measures. Transfers of such indemnities abroad should be subject to the availability of foreign exchange but should receive a priority equal to that of other reparation payments.

The foregoing recommendations apply to German nationals, or former nationals, situated outside Germany 1/ who have been subjected to discriminatory laws by reason of their racial, religious or political status.

While the racial and religious categories are susceptible of fairly precise definition and do not involve unmanageable numbers, a moment's reflection will show that the political category offers formidable difficulties in both respects. In spite of this fact, it is considered both impolitic and unjustifiable to deny compensation to those Germans who have suffered loss because of their political opposition to Nazism while granting it to persons discriminated against on other grounds. The problem of defining the political category so as to keep within reasonable bounds the number included is now receiving further attention.

1/ and to stateless persons resident in Germany on or before September 1, 1939.

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June 24, 1944

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FINAL REPORT
OF THE
INTERDIVISIONAL COMMITTEE
ON
REPARATION, RESTITUTION,
AND PROPERTY RIGHTS

Part Two: Recommendations With Respect to a Final
Settlement of German Reparation.

Introduction

The paramount concern of the United States in dealing with the reparation problem should be the attainment of its political, economic, and security objectives. The Committee believes, (1) that other means are better calculated than reparation to serve as major instruments for the attainment of these objectives; and, (2) that by comparison with these considerations, upon which, the Committee believes, the happiness and welfare of the American people in the long run depend, the national interest in reparation payments to the United States is of a lesser order of importance.

The Committee assumes that both the security and the political objectives of this Government call for the establishment of a system of international security and that the reparation settlement should not be permitted to jeopardize this objective. So far as possible reparation should be used as a positive instrument for the rebuilding and rehabilitation upon which any general system of security will depend. The Committee recognizes, however, that only to a limited extent can reparation be a positive instrument to that end.

This Government should not favor a reparation settlement so crushing that it would have the effect of strengthening the elements in Germany bent upon aggression or revenge. On the other hand, this Government should not advocate a reparation settlement which would be very favorable to Germany. The Committee is convinced that a very light reparation burden would lack the deterrent elements of a moderately heavy one, would fail to provide substantial aid to

reconstruction,

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reconstruction, and might detract from the cordiality of the relations between the United States and other claimant nations. The Committee believes that the role played by the United States in arriving at the settlement will be important in determining the attitudes of the claimant nations toward this Government.

The Committee assumes that the economic objectives of this Government include an expansion of international trade after the war, and the integration of Germany into a progressive world economy. It recognizes that a reparation settlement that is excessive or unduly prolonged may militate against these ends. The recommendations advanced in this report are to a very considerable degree interdependent. While the degree of this interdependence is not such as to compel acceptance or rejection of the report as an integral whole, nonetheless changes in sections dealing with critical items would be likely to necessitate reconsideration of other closely related passages.

I. Purpose of Reparation

The reparation settlement should serve primarily as a means of speeding physical reconstruction in the United Nations, though the payments need not be narrowly confined to this purpose.

II. Extent of German Responsibility.

It is the view of the Committee that Germany should be required to pay compensation for whatever losses and damages and in whatever amounts the United Nations may determine. The Committee feels that no useful purpose would be served by linking German responsibility for compensation with general responsibility for the war, as was done with respect to reparation after the last war in Article 231 of the Treaty of Versailles. It is regarded as preferable to state Germany's responsibility for reparation as a simple fact rather than to raise in this connection the exacerbating issue of war guilt.

III. Compensation

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III. Compensation for Losses.

1. General

Germany should be required to make substantial reparation payments. The climate of opinion in countries which have been overrun by Germany is such that they will expect and demand reparation. This Government would run the risk of arousing profound suspicion and resentment if it were to take a stand in opposition to this demand, and all its objectives might thus be jeopardized. On the other hand, a serious attempt to collect reparation to the full amount of the demands would surely wreck the political and economic stability of Europe and the world, and equally jeopardize the objectives of this Government. It will be necessary, therefore, to temper the demand for reparation to Germany's capacity to pay and to the possibilities of receiving it.

It is recognized that the extent of compensation which Germany can be expected to pay will depend largely upon the willingness of claimant countries to receive reparation goods and services, and that this will be greatest in countries dominated by social control and centralized planning. Nonetheless shortages will be so great in the period of reconstruction that even in countries where private interests might constitute growing obstacles, willingness to receive should not, during this period, constitute a serious limitation to the payment of compensation. Only if reparation payments were maintained in large volume for a considerable time after the main task of physical reconstruction has been completed is it believed that serious difficulties, in the shape of disruption of trade through normal channels, might occur.

2. Individual Versus National Interests in Respect to Compensation.

Individual claimants should look for satisfaction of their claims solely to their national governments. The extent to which their claims should be met need not be determined by the amount of the total receipts credited against Germany's reparation obligation.

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The several members of the United Nations should not be bound to distribute reparation received by them to any particular class or classes of claimants, but should dispose of any receipts from Germany in such manner as they see fit.

IV. Admissible Claims.

The principal basis for the apportionment of reparation among claimant states should be the amount of damage to and loss of property, other than military material and works, caused by or incident to hostilities or to acts of Axis occupying forces. In the interest of countries occupied by Germany which have suffered relatively little physical damage or loss, however, occupation costs (including clearing balances built up in Germany during the period of occupation), weighted at substantially less than claims for damage to or loss of physical property, should be admitted as an allowable claim. It is recognized that a precise audit will be impossible, and that the total of admissible claims will have to be reached on the basis of reasonable estimates.

V. Period, Form, and Scheduling of Reparation Payments.

1. Period of Payments.

Reparation payments should not be required for more than a short period after general controls over German economic and industrial life have ceased. Even if controls extend over a protracted period, payments should continue for no longer than is necessary to permit Germany to make a substantial contribution to reconstruction. A period of payment of not more than 10 years might satisfy both these conditions.

2. Form of Payments.

With willingness on the part of reparation receiving and third countries to take German goods and services, payments can be made either in the form of free foreign exchange or in the form of scheduled deliveries in kind. If German exports are not subjected to discriminatory treatment or unreasonable trade barriers, effective control over Germany's imports, together with a sizeable

expansion

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expansion of her exports, should provide (after three or four years of necessary readjustment) sufficient free foreign exchange for substantial cash payments. If, however, an adequate export surplus failed to develop, the Reparation Commission would have to review the question of cash payments to be required and determine the measures to be taken.

To facilitate prompt and predictable transfer of reparation, deliveries in kind, or specific purchases against reparation accounts, should predominate, particularly where they can be closely related to the reconstruction, relief, and rehabilitation programs of the recipient countries. Deliveries in kind should include the widest possible range of goods needed in connection with these programs. Satisfaction of the varying needs of the different claimants, it should be added, will require that the form of payment, whether made in cash, in kind, or as a purchase against reparation account be flexible.

3. Possible Difficulties in Delivery.

It is expected that careful scheduling of deliveries in kind, and integration of these schedules with production plans in Germany and with construction programs in the recipient countries, would result normally in deliveries according to plan. Circumstances might arise, however, under which Germany might be unable to make the deliveries called for, or recipient countries might find it difficult to accept them. In general, inability on the part of Germany, through the operation of causes beyond her control, to make deliveries of specific commodities within any given year should not result in the imposition of a greatly increased burden in the following year. Under such conditions, the deficit should be spread over an equitable period, say the following three years. The Reparation Commission should be given discretionary authority to set the duration of this period, or to make any other adjustment which in its judgement is equitable.

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As for difficulties which might confront a claimant state with respect to the receipt of specific deliveries in kind, even if due to causes beyond its control, the general rule should be that the schedule of deliveries should remain in force whether the reparation goods with respect to which difficulties arise have already been produced or not. Any exceptions to this rule, such as arranging for the transfer of particular deliveries to another claimant, or for the storage in Germany of the articles in question until physical delivery becomes possible, will have to be dealt with by the Reparation Commission in the light of particular facts.

VI. Amount of Reparation

Essential facts are at present lacking to permit formulation of a concrete estimate of the total reparation obligation which should be imposed upon Germany. Therefore this problem can be approached only in terms of general principles.

As already indicated, Germany's reparation obligation should be large enough to constitute a substantial contribution to reconstruction, yet not so large as to undermine the German economy to a point where attainment of the basic economic and security objectives of the United Nations would be endangered.

In determining the total reparation burden to be imposed on Germany, the country's national income will be the primary limiting factor. Some proportion of estimated income, though probably not a constant one, will constitute a reasonable burden. As a guide in determining this proportion, regard may be had to estimates of (a) the consumption requirements of the German public at a tolerable level of living, (b) necessary governmental expenditures, (c) the minimum maintenance and expansion of capital equipment to be permitted to Germany, (d) supportable levels of taxation, and (e) the average portion of her income Germany has devoted to war and preparation for war over an agreed period.

Regardless of the extent of damage to Germany, the program adopted should be designed to maximize German payments during the period of active primary reconstruction.

It is

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It is recognized that even though the total compensation will be substantially smaller because of the delay to reconstruction in Germany, the supplies and equipment delivered are more valuable than later payment when the need is less.

VII. Restitution and Replacement

A. Restitution

1. General Principles

There should be an unlimited obligation upon Germany to restore looted property within German territory or territory otherwise subject to German control, and German authorities should be obliged to assist in the execution of the agreed restitution program of the United Nations. In practice restitution will be subject to limitations required by the needs of European reconstruction and by considerations of administrative feasibility. In particular, restitution should not be permitted seriously to interfere with the work of restoring the economy of Europe to a functioning basis. The principles which it is believed should be followed in dealing with the problem of looted property are set forth in greater detail below:

2. Property Removed to Germany

German governmental agencies under the direction of the Allied control authorities in Germany should restore whatever looted property they find to the then existing governments of the territories where the property had its situs and not to the former owners individually. These governments will be responsible for the equitable disposition of the property under their national law, subject to the rights under international law of nationals of third countries.

In general property transferred to Germany during the period of occupation should be presumed to have been transferred under duress and treated as looted property.

Restitution

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The Restitution Commission would supervise and co-ordinate the overall task of restitution. As the recovery of different kinds of goods would involve in each case special problems of identification, location, inspection, et cetera, the actual work of searching out and effecting the return of looted goods (or their replacements) should be entrusted to groups of experts, designated in the text as Executive Commissions. If the recommendations of this Committee are adopted in the final reparation settlement, and a serious effort is made to locate only a few categories of looted goods, then the number of Executive Commissions which it will be necessary to create will be correspondingly small. In the last reparation settlement, the bodies analogous to the Executive Commissions suggested herein were both inter-allied and national. To avoid duplication and possible conflict, it was suggested that they be exclusively inter-allied.

Considerable difficulty was encountered in carrying through certain phases of the restitution program after the last war because the drafting of the relevant protocols left the German Government large loopholes for evasion. This experience emphasizes the need for meticulous care in defining the obligations laid on the Germans. The general Restitution Protocol mentioned in the text as a possible guide was suggested because it was based on two years of experience; the supplementary protocol on industrial materials was mentioned because in practice it was found to be very satisfactory.

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APPENDIX

A. Details of Organization of the Reparation Commission

I. Number of Delegates

Text of Recommendation

Each of the states represented on the Commission shall appoint one delegate and also one alternate who shall take his place in case of his absence.

Comment

In addition to the official delegates, the Commission will undoubtedly need the advice and services of experts. These experts would be in a better position to frame policies and to draft provisions in accordance with the decisions of the Commission if they were allowed to participate in the meetings.

The Treaty of Versailles (paragraph 2 of Annex II following Article 244) provided that delegates to the Commission should be nominated by the United States, Great Britain, France, Italy, Japan, Belgium and the Serb-Croat-Slovene state; that only the representatives of five of these powers should have the right to take part in the proceedings and to record their votes and that the delegates of the first four should have this right on all occasions, the delegates of the three other states being given the right on certain occasions only. Other Allied and Associated Powers were given the right to be represented by an Assessor without the right to vote.

II. Officers

1. Presiding Officer and Deputy

Text of Recommendation

At its first meeting the Commission shall elect from among the delegates referred to above a presiding officer and a deputy, who shall hold office for one year and shall be eligible for

reelection.

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Restitution should not be applied to current output, however; it should rather be restricted to property in existence prior to German occupation for the reason, among others, that in peacetime a considerable trade with Germany would normally be taking place.

The right to restitution should be recognized for all movable property, but official efforts to locate looted property would have to be limited, of necessity, and should be concentrated on relatively few categories of property, such as archives and records of the occupied countries; works of art, books and other cultural and educational treasures; securities; major means of transport, mostly rolling stock and ships; industrial equipment; registered livestock and agricultural equipment. It is felt important to return property in kind wherever that may be done, except where security and reconstruction policy indicate otherwise. Among the reasons for this are the deep-seated and widespread feeling that stolen property should be returned to the original owners and the desirability in the case of art objects of preventing any permanent impoverishment of the cultural heritage and educational facilities of the looted countries.

The return of property as restitution should be made apart from and in addition to any deliveries made by Germany as reparation. Looted property should be returned in the condition in which it is found. Compensation for damage or deterioration can best be made in the form of reparation.

Allied authorities will presumably be given wide powers to move rolling stock, machinery and equipment from enemy areas where they can best be spared to liberated areas where they are most needed for reviving the economy. These authorities should, in addition, have the necessary discretion to prevent or halt restitution of rolling stock and other vital equipment wherever this is found necessary to aid in the revival of the economy of a seriously disorganized country or to prevent collapse within Germany itself.

3. Property Remaining in Occupied Countries.

The governments of the liberated countries will have jurisdiction over whatever looted property remains in the same country. These governments will undoubtedly

take the

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the necessary steps for invalidating transfers made under duress. In cases where looted property was removed from one occupied country to another or where looted property situated in one occupied country belonged to a national of another occupied country, the dispossessed party would presumably have the customary judicial remedies. It might be well, however, to consider the possibilities of an inter-Allied agreement to provide simpler and quicker means of recovery of looted property.

4. Property Removed to Neutral Countries.

Looted property that has been transported to neutral territory should not thereby acquire immunity from the general obligation of Germany to make restoration. The enforcement of that obligation is, however, more difficult. To the extent that the property stands in the name of the German Government or persons within German or Allied territory, it may be possible to transfer it to the appropriate Allied control authorities under assignments by that government and by those persons. Every effort must be made to prevent the neutral States from defeating the restitution program by permitting their territory to be used, in effect, as a refuge for stolen goods.

5. Securities

The problem of disposition of looted securities is complicated by difficulties in determining the fact of looting and in establishing ownership. In so far as securities can be identified as looted, whether or not individual owners can be identified, they should be subject to restitution. In general, the rule of return to the country from which they were looted should be followed. Subsequent determination as to final distribution could be made in the country receiving the securities.

In various situations, conflicts of jurisdiction may arise which will have to be settled by international agreements, as, for example, where individual owners are not found; where there is a claim of partial or total compensation; or where conflicts arise between countries having jurisdiction over the looted securities and those having jurisdiction over the issuing corporation or its properties. Re-registration of securities formerly held in occupied territories may help to solve this problem.

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(For further discussion, see Comments.)

B. Replacement1. Relation of Replacement to Reparation in Kind.

The establishment of "replacement" as a separate category of payments distinct from reparation in kind is not recommended except in the case of looted gold, works of art, books, and other cultural treasures.

2. Gold

Stocks of monetary gold found by the Allied Control authorities in Germany should be pro-rated among the Allied countries whose gold stocks were looted by the Germans. The pro-rating should be done in such a way as to divide the available gold in Germany among the looted countries in proportion to their losses. If gold taken by Germany and clearly identified as belonging to any of the occupied countries is found intact outside enemy territory and restored, this should naturally be taken into account in computing the amount of gold to be restored to such countries. The available gold in Germany may not be sufficient to make up for all the looting losses, but in no case should gold in excess of losses be transferred to any country. Any remainder after losses have been compensated in full should stay with Germany. Special treatment is warranted for looted gold because its identifying marks can easily be changed without diminishing its value and because of its peculiar importance.

3. Works of Art, Books, Archives, and Other Cultural or Educational Treasures.

Wherever feasible, Germany should be required to make replacements for works of art, important books and manuscript collections, archives, and other cultural or educational treasures looted, destroyed or otherwise lost through German action. These replacements should be closely similar to the items looted or destroyed and should come from existing German holdings. Special treatment is warranted for looted

cultural

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FINAL REPORT
OF THE
INTERDIVISIONAL COMMITTEE
ON
REPARATION, RESTITUTION,
AND PROPERTY RIGHTS

Part Three: Recommendations with Respect to Matters
Related to but not part of a Reparation
Settlement.

I. Treatment of Property

1. Disposition of German Property in the United Nations

Each member of the United Nations should reserve the right to retain, liquidate, or otherwise dispose of, all German property, rights and interests, public or private, direct or indirect, within its territories, colonies, possessions, and protectorates, and utilize the same or the proceeds thereof for the payment of, or as security for the payment of, (a) losses of its nationals for which Germany is liable or (b) such debts or other claims owing by the German Government or its nationals as the member of the United Nations may determine. Germany should compensate its nationals in respect to the sale or retention of their property by the United Nations.

2. Treatment of Allied Property in Germany Subjected to Exceptional War Measures or Otherwise Seized by the Enemy.

The German Government should be required to return to the owners Allied property in Germany sequestered by its authorities. In cases where the sequestered property has been transferred, the German Government should be placed under specific obligation to reacquire the property by whatever means are necessary and to return it to the owners. It should not be deemed sufficient for Germany simply to turn over the proceeds from Allied property sold by the enemy property custodian.

In cases

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In cases where Allied property in Germany was not subjected to exceptional war measures in the regular way but was looted in some fashion, the German Government should be required to take whatever measures are necessary to undo what was done, and restore the property to the owners. If, for example, American or Belgian owners of industrial or residential property were forced to sell at an inadequate price, the former owners should be enabled to gain repossession of the property by payment of the same amount at which it was sold in the first instance. This program should be carried out under the direction of the appropriate Allied authorities.

II. Pre-War Debts and Claims

The Committee recognizes that the problem of settlement of pre-war debts is a complicated one, raising questions of law as well as of policy. On the one hand, it may be suggested that private debts of this sort be allowed to lie as and where they are found, subject to such post-war bilateral or multilateral agreements as may be later made by the interested States. On the other hand, a variety of positive proposals may be suggested as programs to be put forward: programs for abolition of all private claims of this sort, with governmental assumption of liabilities and responsibility for settlements; clearing house proposals, compulsory or voluntary; exchange control proposals, assuming claimants are free to sue in German courts; controls to be exercised in and by other countries; etc. ^{1/} It therefore appears desirable to pass this vexatious problem in favor of further study, and to recommend at this time that no choice be made between governmental action or not (aside from the action recommended in section I) or between the various types of governmental programs which may suggest themselves.

The Committee recommends that a Committee be established to study the problem of German debts, possibly on an interdepartmental basis. It appears that non-war claims are relatively so small in amount as not to require special attention.

III. Compensation

^{1/} Moreover, it may be argued that the question of these debt settlements interlocks with questions of debts between the United States and other neutral or Allied States, and that the entire question is therefore one to be settled by other considerations than those governing reparation problems.

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III. Compensation for Injuries to Persecuted German Minority Groups

A Memorandum from Mr. Berle, dated February 17, 1944, suggested that "Committees of the Department that are considering the terms of the peace settlement, be instructed to prepare appropriate recommendations, in addition to the repeal of discriminatory legislation that is now contemplated, looking toward the imposition upon Germany and the other Axis powers of specific responsibility for the persecution of religious and racial minorities, and for the participation of such minorities upon some reasonable and practicable basis, by means analogous to reparation, in payments made available by such powers." The Committee, therefore, makes the following recommendations, recognizing that the problem is not strictly a reparation problem, and that other administrative machinery than that of reparation will probably have to be used. These recommendations apply to German nationals, or former nationals, whether situated inside or outside Germany, and to stateless persons resident in Germany on or before September 1, 1939, whether or not still resident there.

1. Addition of groups discriminated against on political grounds.

The terms of the memorandum of February 17, 1944 included only persecuted religious and racial minorities. Nevertheless, the Committee recommends that the categories be extended to include persons who have suffered property losses by reason of discriminatory Nazi acts directed at anti-Nazi political activities. It does not seem consistent or desirable to make specific provision for a person who may have lost his property by reason of racial laws, and none for a person who has suffered the same damage because of his belief in and actions on behalf of democratic government.

The Committee recognizes that it will be necessary at a later date clearly to define the types of political discrimination which will be compensated. It will be necessary that definitions be so worded that loss of property because of discrimination be compensated at least to the extent suggested below. The group

provided

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provided for, however, should be kept within reasonable bounds. The larger the group of German residents included, the smaller would be the net economic and psychological value of the indemnity accorded to each, in view of the effects of taxation and of possible inflation. In addition, excessive or indiscriminate generosity to Germans, whatever their moral or political desert, would be considered highly invidious by inadequately indemnified nationals of countries that have been victims of German attack and oppression during the past decade.

2. Distinction between Groups inside and outside Germany

The Committee wishes to point out that different problems may arise, at the termination of hostilities, with respect to persons in these categories inside and outside Germany. Those who have suffered property losses for racial reasons will, in the main, be outside Germany; for religious and political reasons, inside Germany. Moreover, while the problem of compensating persons outside Germany bears a resemblance to reparation (despite the German or stateless nationality of these persons), the compensation of persons remaining within Germany is a part of the reorganization of the German economy, of the abrogation of discriminatory laws, and is closely related to legal and economic reform. Thus such projects as resettlement aid, discussed hereinafter, will apply to groups outside Germany; and, in so far as indemnity provisions concern persons within Germany, they must be closely correlated with recommendations to be received from the Germany Committee, and perhaps from other groups.

3. Resettlement Aid

The German Government should be required to make a payment or series of payments in cash or in kind to aid in the resettlement of individuals, dispossessed or deprived of their means of livelihood, belonging to groups subjected to discriminatory laws by reason of their racial or religious (or, perhaps, political) status. The amount of the payments should be related not to the losses suffered by the members of these

groups

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groups but to the requirements of the resettlement scheme. The payments should provide assistance for all persons belonging to such groups for whom there are organized resettlement schemes. The persons in question will mostly be refugees at the war's end, but some may still be found in Germany.

The funds should be paid to and distributed by an international agency organized to assist in resettlement projects. The timing of the payments should be related to the need for an early completion of the resettlement program and therefore should be independent of the length of the reparation period.

4. Indemnity for Property Losses

In addition, it is also recommended that the German Government be obliged, in lieu of restitution and reparation, to provide an indemnity up to some moderate maximum per person, which maximum should apply to all payments, even if the loss claimed is in excess of the limit, to persons who have suffered losses of the types admitted since the inception of the Nazi regime through discriminatory measures relating to racial, religious, or political minorities. Refugees should not be obliged to return to Germany to obtain benefit of this provision. Germany on the other hand should not be required to convert these funds into foreign currencies until appropriate authorities agree that sufficient foreign exchange is available. Their transfer should then receive a priority equivalent to other reparation payments. Persons who have remained in or returned to Germany as residents should receive the amount of their indemnity in marks within a reasonable period after their claims have been approved.

The commission administering this program should probably be distinct from, though coordinated with, the Reparation Commission. It will be desirable to fix responsibility for administration of such a program on German representatives. The determination of the amounts to be paid to individual claimants should be made by a mixed claims commission. Other aspects of the indemnification process should be under the supervision of the Reparation Commission. It will probably

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prove necessary to establish some body to give dispossessed refugees the legal information and aid necessary to permit them to file claims without prohibitive expense.

No person should be barred from receiving the indemnity described above because of the fact that he is or has been a beneficiary of a resettlement project to which Germany has contributed, nor should any deduction be made from his indemnity for that reason.

5. Other Measures

The above recommendations are made on the understanding that Germany will be required to repeal the discriminatory legislation of the Nazis against Jews and other racial, religious or democratic political minorities. Since these recommendations would not necessarily operate to deprive of their gains those persons who benefited from the discriminatory measures directed against persecuted minorities, measures in the nature of an unjust enrichment tax against Germans who have benefited at the expense of others are necessary and should be required of the German Government.

It is assumed that a small group of "stateless persons" other than former Germans or former German residents may face grave difficulty in placing their claims through government channels. The committee recommends that the question of the desirability of providing machinery under the Reparation Commission for considering some or all of these claims be decided in the discussions which determine the general principles and nature of the settlement.

IV. An Allied Charge on Germany for Peace-Keeping

It has been suggested that Germany should be required, after the reparation period, to make continuing contribution to the financial cost of keeping the peace, on the ground that Germany will be disarmed and thereby relieved of the burden of maintaining a military establishment. This question is one which is closely related to the whole security problem, and cannot be decided until the nature of security arrangements is determined. In particular, the type of military establishment to be used to maintain the peace will be directly relevant.

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G E R M A N Y

GERMANY'S POSTWAR PLACE IN THE WORLD ECONOMY

(With Appendix)

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Prepared in the

Bureau of Foreign and Domestic Commerce
Department of Commerce
Washington

August 1944

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SUMMARY

1. Most serious plans for the treatment of German economy after the war imply or definitely state that demands on Germany for reparations and restrictions on the German economy for reasons of international security must be limited by the necessity for restoring Germany to her central economic position on the continent of Europe and to her old economic dependence on foreign markets and sources of supply. This limitation is largely responsible for the contradictory policies of collecting reparations, which will have to consist mainly of capital goods, and of restricting German heavy industry for reasons of international security.

2. The assumption that Germany must be preserved as a major economic power is based largely on Germany's traditional position before the First World War. In the light of changes which have taken place in the world economy and in Germany during the interwar period and the present war, it is doubtful if Germany can resume her old economic position. This is due largely to the industrialization trend among the foodstuff and raw material countries, the growth of economic restrictions and controls, Germany's loss of economic resources, and the increased productivity in the other industrial countries of Europe, the United States, Canada, and the United Kingdom.

3. Under the economic conditions of the postwar period, which may persist for some years, it would be more logical to let Germany retain some features of the planned economy and self-sufficiency, especially as regards foodstuffs and synthetic raw materials, and for the Allies to apply such restrictions on German industry as may be necessary for international security. The net loss in trade involved in such a policy should be evaluated in the light of the far greater economic changes that will follow as a direct or indirect result of the war.

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Box **2**

MEMPHIS, TENN. 38
APR 16, 1952

PREPARED BY COMMISSIONER OF INTERNAL DEBT

SOME TRANSACTIONS AND OBSERVATIONS WITH REGARD TO THE DEBTORS' CREDIT COMMITTEE (DECO)

The attached document, prepared from creditors' side, has been received by the U.S. observer in Committee A. It is circulated for information of interested U.S. officials.

Doyle A. Walker
Documents Officer

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CONFIDENTIAL - Security InformationENCLOSURESOME IMPRESSIONS AND OBSERVATIONS WITH REGARD
TO THE DEUTSCHE GOLDDISKONTAK (DEGO).

The German side (Mr. von Schelling of the Dan. Deutscher Lander) has provided a survey of the present position of the Degeo, in particular with respect to foreign debts and other foreign interests (e.g. foreign-held preferred shares of the Degeo).

This survey has given a number of valuable details hitherto unknown outside Germany. But it has not, and obviously could not, provide a clear-cut picture of what the foreign interests might expect from a liquidation of the Degeo. Matters are too complicated and as in very many respects German public interest has been responsible for the largest figures in the survey given. Mr. von Schelling has already indicated that in some way or other the German Bund would have to cooperate in order to make an orderly liquidation possible.

The non-German side has the impression, which is stated with all due reserve, and with the hope of obtaining still fuller information, that the Golddiskontbank, formally a subsidiary of the Reichsbank, during the thirties and the war years developed into a special bank institute for unusual and special tasks and needs of the Reich-tasks which could not be carried out either by the currency bank, the Reichsbank, or by the two Reich-owned banks, the Reichskreditgesellschaft or the Prussian State Bank, both of which were managed by their old-established boards along the lines of orthodox banking. This point, which might well lead to a general backing of the Degeo liquidation by the Bund, would require a more thorough investigation than could be provided in a short statement like this, the more so as the factual information available is still not sufficient. What follows can therefore serve only as some indication in this direction on which German supplementary information or correction would be welcomed.

According to Mr. von Schelling's statement the biggest asset of the Degeo balance sheet appears to be RM 3,000 mill. bills against the Reich as debtor. It seems that this enormous amount results mainly from the discounting of the so-called Mefo-bills, which was the well known method of financing the German war-machine before and during the war. If that is so (the German side may give information), then the German industry which actually received the moneys has been discharged (unusual in private banking practice) and the Reich remained as the sole debtor of the bills. These were obviously transactions which no private bank would and could ever have made, indicating that the Degeo acted as a mere instrument or an agent of the Reich to a phantastically high amount.

The further asset of RM 464 mill. consisting of debts of the Governments of Roumania, Japan, China, is presumably also the outcome of politically coloured transactions made in the public interest, and on the Reich's responsibility.

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A third item, the equivalent of RM 30 mill. in German bonds, etc. which is said to be of much higher value, may also be regarded as the outcome of business as governmental agents. For the Deigo had been granted, apart from the Konversionskasse, a near-monopoly position by the Reich for the buying of and other foreign currency bonds at bottom prices prevailing in the thirties. Hardly anybody else, except some debtors of foreign bonds, was granted permission to transfer RM's into \$'s in order to make such cheap purchases.

On the liabilities side are the RM 3,228 mill. debts, of which RM 2,000 mill. debts to the Reich (i.e. Ministry of Economics) are doubtless the lion's share of transactions on behalf of the Reich, as mentioned above.

There is furthermore the big liability for its own bills (Sola-Wechsel) to the amount of RM 916 mill., which presumably also resulted from the transactions made on behalf of the Reich.

Compared with these big items, all of them presumably the outcome of governmental business, most other items appear negligible, apart from a RM 51 mill. (possibly on gold basis) debt in bills to the Bank for International Settlements in Basle.

But as a further foreign interest it should not be forgotten that an amount of many millions of Deigo preference shares is foreign held, resulting from an exchange of Reichsbank shares under German pressure. While these of course would rank after the liabilities in a liquidation, it may be kept in mind that there existed some public guarantee with respect to the transfer of their dividends. In 1937 about RM 26 mill. Reichsbank shares were known to be held by foreigners and as the exchanges into Golddiskontbank preference shares were made at the ratio 1:2, an amount approaching RM 52 mill. of preference shares might be held outside Germany at present. The German side seems to assume a foreign held amount of some RM 40 millions.

To these indications (as derived from the survey given by Mr. von Schelling, it may be added that the Deigo board consisted in 1937 exclusively of officials of the Reichsbank (including Dr. Schacht as chairman) and 2 high Government officials (the Secretaries of State of the Treasury and of the Ministry of Economics). Furthermore the following circumstances may be considered:

In the 1920's the Deigo played the leading part in discounting Russian bills, executing thereby a part of the respective governmental contract for big deliveries to Russia.

The so-called "Abwertungsgewinnabgabe", which was charged in the thirties to a German debtor who could manage to repay a currency

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debt with less RM's than he originally received (as a consequence of devaluation of creditor currencies), was paid to the Degeo, although it was a kind of tax by the Reich.

Furthermore: A good number of would-be emigrants had concluded contracts with German exporters, manufacturers or shipbuilders by which they paid RM's to them against the promise of receiving from future exports, etc. relatively small amounts in foreign currencies, most of which were ultimately not paid, the war intervening. Here also the Degeo was concerned as paying agent, mostly receiving a large part of the exchange profits.

Although the Bund will be primarily liable for indemnification towards such emigrants, large claims from them may well be expected against the Degeo, based on civil law.

The same may apply to the special export levies (Ausfuhrabgaben) which were arbitrarily but quite generally charged to would-be emigrants in the thirties, when they were allowed to leave the country. These levies were also cashed in by the Degeo.

According to the above the business of the Degeo seems to have been almost wholly done in the interest of and on behalf of the Reich. It appears to have served the Nazi-Government as a kind of unloading place for unusual business quite remote from normal banking.

It is already evident that a more or less decent liquidation of the Degeo cannot be achieved without considerable material assistance by the Bund. The internal circumstances are furthermore so complicated that no creditor can up to now form a substantiated opinion of the outcome, and a number of legal questions will probably arise and prevent any conclusion of a liquidation for years to come.

The German Government should therefore contemplate taking up responsibility for the debts as well as for the foreign held preference shares of the Degeo (which would mean for the preference share holders a compensation at par or more). Such arrangement would entail the consequence, obviously desirable for the German side, that they could arrange the liquidation of the Degeo in such a way as they please and would avoid any interference in it by foreign interests, which might in many ways prove embarrassing with respect to certain unusual financial transactions. It would be welcomed if the German side would provide a comprehensive memorandum clarifying the position, the more so, as all that is said above should be taken more as indications or questions to the German side than as precise statements, for which the relevant facts available at present are not quite sufficient.

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