

Return to Mrs Osnes

Letter left behind in care
of Loyd Steere. Please
regard as Berlin No. 11.
Note addendum

August 13, 1946

Dear Ken and Ed,

I started this letter yesterday to Ken alone, since I had not heard that Ed was coming until this afternoon. The change of salutation, moreover, gives me an opportunity to try to do better than I had been doing.

Enclosed please find two memoranda. That on property has no bearing on the positive aspects of your problem. It does, however, relate to the lines of activity which the US does not want to allow in Germany. If your final statement is made public, you may want to include a passage or two on carpet-bagging, both by the soldiery and by the business man. If so, I commend ~~you~~ the memo to you.

The second on reparation has been discussed with General Draper who is inclined to oppose it. The reasons for this opposition are partly ideological and strike at the heart of your problem; he thinks that these steps to make bizonal unity a greater success would hurt the chances for quadripartite unity, since they would involve violating ACA procedures for designating, allocating and removing reparation, as well as suggest to the world that we had abandoned the level-of-industry plan and Potsdam. The remaining reasons are practical: the British are considering a plan of this sort; the excess of steel, fabricating capacity, etc lies in their zone, not ours, where only a long string of mostly small war plants would be affected. Finally he adds a reason expressed by General Clay but of possible dual interpretation: failure to satisfy the smaller nations keeps the heat on them to keep the heat on the world for zonal unity. The gimmick in this is that the longer the smaller nations are delayed in getting reparation in capital equipment the less they want it and the more they incline to the Russian position and want reparation out of current output.

So much for the enclosures. At this point I shall force on you, unsolicited, my hasty reflections on 12 busy days in this fascinating headquarters. I doubt whether I can order these thoughts into any sort of shape. Perhaps the most convenient device is to number them to give them the appearance of coherence.

1. Economic and Political unification - You will have to decide a) whether the Soviets are likely to go through with unification at the next CFM meeting on any terms, since if economic unification is postponed beyond then, its

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chances of materializing at all are very slim; b) what terms the Russians will demand; c) what terms we will be willing to accept. There is no agreement on these points here. General Clay thinks that by playing the bizonal game to the hilt to achieve economic prosperity for the Germans, or the threat of it, we can get the Russians in on our own terms. Don Humphrey is convinced that the Russians are going to insist on reparation out of current output as the price of coming in, and thinks that Generals Clay and Draper would advise against acceptance. Humphrey put the chances of the Russians coming in at 50-50 early last week; he is inclined now to revise the chances downward.

2. Bizonal unity vs the open door - There seems to be practically unanimous sentiment upon the necessity to maintain the door open at the same time we proceed with bizonal arrangements. This is not shared by the British. But we shall handicap the success of bizonal unity by keeping the door open, not only in the matter of reparation on which a memorandum is enclosed, but in all kinds of ~~economic~~ matters such as coal and steel allocation, interzonal trade (which is to be expanded still further), the necessity to operate the bizonal area within the framework of quadripartite agreement so far as that covers prohibitions. A further example; the proceeds of past exports are held by the zone commanders in trust for ACA. Can the bizonal area spend these funds for imports into the area, or would that violate the quadripartite agreement? If you agree with Clay that the way to force the Russians into quadripartite unity is to make for prosperity, how many quadripartite corners are you willing to cut to achieve that prosperity? How many need to be cut?

3. Reparation out of Current Output - Humphrey can make out a strong case, on the basis of the Molotov speech and his evening with Kopakov shortly thereafter, that the Russian price for unity is reparation out of current output. To achieve this, they are prepared to revise the level of industry agreement. If achieved, they will of course have acquired removals of capital equipment, current output, and possibly ownership of the remaining plants. In their drive for current output, they are of course supported by the smaller countries of Europe which thus far have raised no voice, except Yugoslavia's, on the subject of stopping reparation. Can we concede on this, as we did in Italy? My judgement is that we cannot, and I think this is shared by the high command here. I should be prepared to give concessions on how great a part of the deficit of the bizonal area they would be required to pay, and possibly to throw away reciprocal deliveries which are a deduction from interzonal trade anyhow (since we cannot maintain the case that these should come from outside Germany). But the reparation out of current output would have to stop in the eastern zone, as well as never start from the western zones. But you will form your own views.

4. Present Soviet strength - It is fashionable to interpret Russian demands for current output as a sign of their present weakness in the economic sphere. I worry about this, ~~which may be a subtle~~ There does, however, seem to be evidence to support this conclusion, partly in the recurring stories from the Soviet press as to confusion and difficulties being encountered in reconstruction, partly in the fact that

They can live
from foreign
trade surplus

they have decided to announce the unpleasant (to Germans) news about taking over the industrial plants of any size left in their zone. Russell Hill of the Herald Tribune (who is writing a book to Ed) said that the Pieck (Communist) line had changed in the last few months from "The Elbe is no barrier to the SED" to "Economic unity is the device of the western adventurers to penetrate the eastern zone." But what is the real rate of interest in the Soviet Union? And what are present shortages of goods as compared with Soviet strength five or ten years from now?

5. Trade vs Economic Warfare - Interzonal trade in Germany is today conducted between eastern and western zones on the basis of barter. Fred Winant tells me that a certain Col. Mott called on him after the acceptance of the Byrnes invitation to bizonal unity, saying "Now we scrap the level-of-industry plan; now we scrap Potsdam; now we conduct trade interzonally outside the bizonal area for dollars." Winant contradicted him on steps 1 and 2, but hesitated on step 3 since the same thought had occurred to General Clay. The Russians are trading in Europe much along Schackian lines - credits out of Sweden; tough terms of trade on a raw cotton for cloth barter deal in Czechoslovakia; preclusive purchases in SE Europe of what is left over ~~after~~ after reparation. Moreover they withhold food from Austria, while bargaining surpluses of sugar for deficits of cattle in Germany. Should we try in interzonal trade not only to maximize our advantage but to minimize his, to withhold iron ore and steel, which the Soviet Union and Eastern Europe need, even when we can get soft coal for it which we temporarily need? Should we expand the range of preclusive buying, in Sweden, Czechoslovakia, etc?

6. German German policy vs German third country policy - Clay is running a German show; the State Dept tries to tell him from time to time to pay attention to the consequences on third countries. Especially has this been true in France where our policy has been to baby the government along, because of fear of Communist capitalizing on our toughness, while the French have stabbed our German policy in the back. Our failure to resolve the Ruhr-Rhineland last fall is still bitterly resented here (and in the War Department). When we applied the pressure, it was too late, and we failed to carry through on our threats to link the French policy on Germany to the loan, because the loan went to buy elections. On a number of things, - restitution, reparation, international waterways, DPs, division of scarce goods between German consumption and export, German policy is also third country policy.

Clay would be willing to agree wholly, however, with the proposition that German policy is Russian policy, though he might not be willing to go as far as Joseph Alsop who says that the only foreign policy is Russian foreign policy, and it must be dealt with simultaneously now in Germany, the Middle East, and China and ultimately, if we lose any one of these, in Latin America, ~~the~~ Africa, and the Far East as a whole. I sent a telegram shortly after my arrival here urging the necessity of distinguishing between US foreign policy on Germany as such, and US foreign policy through Germany elsewhere. I

am more than ever convinced of the necessity to make the distinction; I am still at a loss as to how to do it.

7. Bizonal unity - This subject is in a fuzzy state. There is no agreement as to the extent we are reverting to the SHAEF period. The asymmetry in the way we and the British have organized our zones and our Germans is indicated by the decision to place the six agencies in the field of economics in Minden, the British headquarters and Stuttgart, the home of the Laenderrat, 3 in each. British Germans will represent the British; American Germans will represent the Laenderrat. Clay counts on getting the British to adopt our type of system. Litchfield, whom you should see, feels that we shall retrogress to the point of adopting more of theirs. The exercise may be profitable, however, if it leads to prosperity and thence to quadripartite unity, since the task of adjusting to the Soviet administrative system will be far more difficult.

8. Prospects for Economic Recovery - I doubt whether it is possible to get useful impressions on this subject in Berlin. I have none. The Trade and Commerce people are moderately pleased with the progress in exports thus far made, and think that if the hurdles of organization, communications, etc can be overcome they are on their way. General Draper writes the British that they should plan to increase coal production from 40 per cent of pre-war on June 30, 1946 to 60 per cent by December 1946, 80 per cent by June 1947 and 100 per cent by December 1947. This of course is impossible. There is further talk of getting exports to balance imports at the level of the March 26 plan in 18 months. This seems unlikely. Coal and food are the twin keys of the problem.

There is a grave question whether the Germans will be able to produce much work next winter on account of the general level of feeding. Right now, labor vanishes from a large scale project when it learns that this is not an Army venture with the 1200 extra calories in the noon-day meal that that entails. It may be necessary, as Horst Mendershausen suggests, to move to a position of factory canteen feeding for all workers, but unless more food gets here, which now means a deficiency appropriation, the possibilities in this direction will be small. Food and agriculture are now planning to squeeze an extra 100 calories a day out for working normal consumers, on the ground that the anticipated ration for the normal consumer - close to 1350 calories on the ration - does not permit the consumer to work. It may be that a deficiency appropriation in November would speak fairly loudly at the CFM.

But I have run dry on the big picture.

Sincerely yours,

Addendum: *for JAW*

Two or three items which I have noted down to pass along:

A lot depends in the feeding line on the type of winter. Last year's was unusually mild. The difference between a mild winter and a severe one can be reckoned at 200 calories. This is quite a bit.

The British are urging us to buy Greek tobacco for the German tobacco ration. Winant heard about this some time ago, from the fellow going to Greece to replace Rankin, going to Vienna. The Greeks normally sold tobacco to the Germans. They have a surplus. Britain likes Greece. We have no money. We think the Germans don't have to smoke. The issue will be settled Saturday at a meeting. It is interesting that the Germans who get an opportunity to smoke US cigarettes, as was the case at least of two ladies at lunch chez Horace Smith on Sunday, were doubtful whether they should let themselves cultivate the taste. Or this may be merely a polite begging technique.

Humphrey tells me that Wagenfels (not sure of name but not Wagemann) of the Institut für Konjunkturforschung worked for the Russians last spring on measuring the effect of their removals on their zone. He came out with 25 per cent and this was prior to the March-April wave. Humphrey is inclined to agree with my 35-45 per cent estimate, in contrast to Clay's 15. I have not been able to find the report General Clay referred to. You may be interested to know that Wagenfels now works for the British. He shopped around, would have preferred to work for the US, but got no encouragement here.

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