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FOR GERMANY

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Handwritten notes and initials:
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M. O.

Dear John et al.

This is my last day in Berlin. I leave for Vienna by plane tomorrow morning at 9:15 flying via Nuremberg and Munich. Unfortunately, Clay, Murphy and Draper are all away today so that I cannot get anything more from them. I may get a chance to see Clay if he gets back early enough.

My discussions today have been with Rockwell of Legal, Werts and Myers of Manpower, and Fred Winant again in Trade.

Rockwell tells me that General Clay has asked him, Col. Jerfferson of Property Control and Humphrey of Economic to be prepared to hold forth on Saturday at the staff meeting on the subject of compensation. As I wrote you before, the law to vest and divest title to reparation equipment, ~~xxxx~~ which included, at our suggestion a provision for "adequate and effective" compensation from the German economy has been dormant in the Legal Directorate but can be brought up by us during our month of occupancy of the chair. This law, however, should be related in Clay's judgement to the French proposal for compensation in the form of shares of German enterprises before the Economics Directorate, on which Umphrey and Jefferson are both buying my line, with the inclusion, if approved by Clay of the 50% limitation by industry. I wondered whether we ought not to consider qualifying adequate and effective to read to the limits of the capacity of the German economy, or some such limiting phrase which indicates that Germany is bankrupt and cant pay off in full.

One interesting angle appeared. Rockwell's draft law, copy of which was telegraphed to us last spring but which may have been altered since, provides for the ~~xxxxxx~~ vesting and divesting of ~~xxxxxx~~ title of such plants as are allocated for reparation by ACA. Presumably clear title doesn't pass when ACA has not acted to allocate. I suggested that he consider changing that language to conform with the phrase we used in the note to the Soviet Government on removals of allied property, which read in terms of asking each country to specify to ACA wat plants had been removed as reparation, and having ACA approve same. The intent of both papers is the same: to settle title to and enable a claim for compensation of United Nations property ~~xxxxxx~~ removed ~~xx~~ against Germany only for Russian removals which are bless by ACA. The difference in language however may turn out to be confusing. Horace Smith will attend the staff meeting on Saturday and presumably inform us on the outcome. (If I have done nothing else over here, and I don't think I have done anything else) I have gotten General Clay stirred up a little sooner on the property question.)

I assume Jack will have told you further to the above that IARA wanted to take title to reparation property only at the German border but that ACA, the Legal Directorate, turned them down and will turn over title for a specified type receipt at the plant site. The risk of the journey to the border will then be borne by the recipient country. I assume that the cost of transport to the border, however, is a charge against Germany on reparation account.

I am afraid I stimulated Werts and Myers more than they me by talking to them about food and its relation to productivity. See para. 8 of letter No 11 to Ken and Ed Mason, plus earlier remarks on conversations with Pancoast-Canning and Wilkinson-Draper. Werts has been interested in the subject of using food as an incentive to production; and Myers has been thinking about the viability, if the C-D-G plan doesn't come into play at all and the monetary system breaks down, of developing a system of using rationing of food and clothing to get work done. I raised the question whether it wasn't necessary to worry not only about food as an incentive but also food as energy and the basis for getting work out at all. If the problem presents itself as Pancoast thinks (and in the terms it is beginning to appear to Wilkinson), the question will be rather one of getting them enough food to work at all rather than the provision of incentives to heightened work.

Werts said that some of the labor unions are beginning to push military government on the subject of food, and that he wants to get them to work now studying food incentive programs. Mendershausen's memo which I sent you this morning recommends feeding of meals at all factories with priority work. The difficulty is, however, getting the food. If Canning and Hester divide the normal consumer into those who are working or ~~have~~ are housewives with more than one child, and all others, they will be able to differentiate between them only to the extent of about 100 calories, which is not a meal, or even a bowl of soup. The adoption of a program with this limited degree of differentiation therefore would require the issuance of new ration cards for home use with fewer calories, and factory feeding of all those calories taken off the card plus 100 more. A tough operation, which is hardly worth carrying out on the basis of 100 calories.

Pancoast is studying the effects of loss of food on the conscientious objectors in Minnesota who let themselves be used as guinea pigs. This information will now be studied as well by Werts and Myers. I suggested that they try to get some doctors to assemble what records exist on concentration camps where hard work was obtained from men being starved to death in a relatively short space of time - 3-6 months depending upon initial physique and strength. It seems to me that the SS must have gone about this pretty coldly, collecting figures and charts on the best calory level to obtain their twin goals of eliminating the people but getting a maximum of work out of them. These studies, if they could be found, might throw some considerable light on the problem of work and energy intake. It may be that kind of a winter.

You will recall that I wrote of Pancoast's fear that \$17 millions of the 1947 fiscal year budget had been spent in 1946, and the lack of information which these people had on the subject. Winant, as I said goodbye to him, showed me some startling figures which should be investigated right away by Sam Schurr, on army purchases of food for OMGUS during June. As of June 1, if I have got the initial date straight, purchases of food in the US for civilian supply in Germany had amounted to \$168 million. As of July 31 the cumulative total was \$317 million. What gives? It would seem that the Army had unspent funds appropriated to them for fiscal 1946, and couldn't quite see the good of letting these revert unspent to the Treasury. In addition, they probably had a large surplus of food stocks, which they were happy to get rid of at full prices, or maybe even at current (June) prices, as contrasted with a lower purchase price. This extra food did not take the form of wheat, which couldn't be purchased ~~if~~ during June. Some of it is dehydrated potatoes, some dried eggs, some dehydrated milk which the British have been trying unsuccessfully to get for ~~themselves~~ ^{ch.} themselves. Lots of canned goods were included, including spina

Several questions will blow up from this deal. One: you will remember how we made the British knock \$10 million off the food they sold to UNRRA out of Army stocks. How will they like to divide up the proceeds of exports with us on the basis of past imports of food when we slough off our excess Army stocks of food to the German economy? Two: How about price? If we let the British sell olives to Austria, we at least make them sell at prices of surplus goods, not at purchase or much less market? Is this extra food, especially canned goods sold at the price of its calories in wheat? Evidently not since wheat used to be figured at \$100 a ton, whereas the dried eggs were \$3000 a ton, and of course have far less calories. Three: how do we get by telling the ~~British~~ Dutch we don't want any fresh spinach for the Germans, at the same time we sell them canned spinach which has fewer vitamins and an equal lack of calories.

I think Sam should get cracking quickly on this issue which smells to high heaven. I am sure OMGUS will pop off really loud on the subject, so if you could get the facts together quickly it would help.

Winant was also disturbed at our letter to GM, which, I explained, was based on the first telegram but not on the successive ones which we did not get in time. I don't know whether this was our fault or War Dept fault, or whether the telegrams following the first were so far behind that our slow letter to GM beat them in. But Graeme Howard has been burning people around here, failing, however, to see Winant who really knew about the deal. You will be interested to know - Don and Frank - that there is no compensation in the loan agreement, since its theory is a shift of assets from one subsidiary to another, which is not done on a rental basis in most companies - but then of course most companies do not lie athwart zonal boundaries, with the Russkis on one side.

And so we say goodbye to beautiful Germany and hello to beautiful Austria.

As ever,

epic