

~~SECRET~~

5TH MEETING

MINUTES

SECRETARY'S STAFF COMMITTEE

WEDNESDAY MORNING, JANUARY 3, 1945

IN ROOM 285

II-14/1

*See P. 1
Rec. 3*

Present: The Secretary (presiding)

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|--------------------------------------|-----------|
| Messrs. Grew | Hackworth |
| Acheson | Edwardt |
| Clayton | Lynch |
| Dunn | - - - |
| Gen. Holmes (for part
of meeting) | Rothwell |
| Messrs. MacLeish | Yost |
| Parvolsky | Brown |
| Rockefeller | |

Mr. Bernard Baruch was the guest of the Committee

The Secretary welcomed Mr. Baruch and presented him to the members of the Committee.

Mr. Baruch referred to previous talks with the Secretary and also to a conversation with another member of the Government who had said that the United Kingdom would need \$7 billion from us in order to get started after the war. Mr. Baruch had demurred on this. He felt that the misunderstanding between the United Kingdom and the United States was most unfortunately growing wider, and that it was very important that the United Kingdom should not yield to a spirit of defeatism with regard to her own future and that of the Empire. Mr. Baruch gave this information as the background leading up to his coming to this meeting of the Committee.

Germany,

Germany, Mr. Baruch said, cannot win, but can prolong the war. After the war her ability to make good some of the injury done, and the method and manner of payment are all mixed up with the solvency of the United Kingdom and the other Allies. Germany must never be able to recover industrially to such a degree that she may again be a menace to world peace. She has "scorched" the countries she has entered politically, economically and spiritually. As a result of the spiritual injury done we now have a rear to protect.

Mr. Baruch recalled the devastation of northern France twenty-five years ago and the estimates then made of Germany's capacity to pay, ranging from the \$3 billions of Keynes to the \$120 billions of Lord Cunliffe. (He expressed in passing a strongly adverse opinion both of the character and abilities of Keynes who, instead of helping the situation had written "The Economic Consequences of the Peace", but had lived to see the day when Germany was able to spend about \$200 billions to destroy us.) At that time also Mr. Baruch had heard how "broke" the United Kingdom was, and had participated in devising many controls to be imposed on Germany.

These controls, Mr. Baruch said, had been only partly carried out. In doing the same thing again we must see that the restrictions we put on Germany are carried out. He felt it would be hard to get the American people to maintain, for any long period, control over another country. If, however, we keep always before them the bad consequences of not maintaining this control, and the good consequences of maintaining it, it may not be so difficult.

Mr. Baruch said that all the countries surrounding Germany will demand territorial adjustments and reparations. The USSR will demand labor and reparations and a cordon sanitaire. These Russian demands are right.

He felt that all the countries which had been dependent on German coal should get it, (e.g., Norway, Denmark, Switzerland) but not for re-export. Germany should not be allowed to have coal for making chemicals or steels. German exports should be cut off except for the things that other countries need, such as potash. But there should be no other German exports that would enable Germany to compete in the world markets.

Cutting off German exports would keep the German standard of living as low as the standard she has imposed upon herself, and it would also give vast new markets to other countries by eliminating the competition of German sweated labor. This, he said, was particularly important for the United Kingdom. It is said that the United Kingdom can only survive with our help, but that will only drag us down with her. What we do for the United Kingdom we must do for all the others. What is needed for all of us to succeed is for the United Kingdom to modernize her industry. How badly this is needed is shown by the British Textile Committee Report. For this purpose United States engineers are available, and Great Britain must cancel her Orders in Council of 1914 which prevent United States from freely engaging in industry and commerce throughout the Empire. In this respect Canadian and Australian policy is more liberal. She must stop her cartels, quotas and compensatory trade arrangements. Then commerce will be free and the United Kingdom will gain more, or as much, as any country by development.

Mr. Baruch stressed that the basic reason for cartels is overproduction, and the consequent need for restriction of output. We have such cartels, and under the Webb-Pomeroy Act our exporters can agree with foreign exporters to carve up the world export markets among themselves. By the removal of excess German exports many cartels will fall. We all agree that the rubber cartel is already beaten on account of the development of synthetic rubber. With regard to tin the Japanese are reported to have destroyed all the dredging machinery. We have no substitutes for tin, and the replacement of this machinery will cost about \$150 millions. We have the machinery and we can furnish it. On this point Mr. Baruch left the Committee to draw its own conclusions. That situation, he felt, will develop very advantageously not for ourselves alone, but as a means of breaking down the cartel system.

Mr. Baruch said that he had not come to these conclusions lightly. He had discussed them with members of the Tariff Commission and referred to a remarkable document by Julius Nirsch which buttresses these conclusions. Mr. Baruch suggested that the Department should discuss these points with Mr. Nirsch and members of the Federal Trade Commission.

Mr. Baruch concluded by saying that we have to treat this problem as surgeons and he hoped that the State Department would pay some attention to the mistakes we made last time.

Members of the Committee then took advantage of Mr. Baruch's willingness to answer questions.

Mr. Dunn said he felt that purely military control will prove satisfactory. He said the phase after that is the one that gives us concern. He asked Mr. Baruch for advice as to how we should put in the necessary controls. What kind of machinery should we have? We must assume that large forces will not be maintained in Germany long enough. Mr. Baruch said he thought of a sequence of three phases. First, military control; second, a period when a certain number of civilians would take part; and third, civilian control. We made a mistake last time in having a civilian authority over the military in the Rhineland. This was headed by Mr. Noyes. Mr. Baruch felt that a military man must be the figure who appears first before the Germans. Military control over Germany should last for at least 10 years before Germans are given any voice and only a limited one until the present generation has been educated.

The difficulties, Mr. Baruch added, will be much increased if Germany is divided into three parts. There would be competition between the three parts by the controlling countries as to how "kindly" to treat the Germans. In passing Mr. Baruch expressed some regret that in assigning the three parts, the "yodelling" area appears to have gone to us.

Mr. Baruch then returned to the example of the last peace. He enumerated some of the numerous restrictions placed on Germany, and described some of the reasons why they were not vigorously enforced. He cited the internal influences in various countries responsible for this which caused people to cease taking an interest in enforcement. For example, when the Labor Government came in in the United Kingdom, it reflected the deep-seated fellow-feeling between labor in England and in Germany. So when Hitler went into the Rhineland, nothing happened. Mr. Baruch observed that in these matters the French are more adept than we are but they are dominated by big steel and cartels.

Mr. Dunn asked whether Mr. Baruch did not feel that in the civilian phase following the purely military phase controls would have to be simplified. Should we not know which controls are the essential ones? Mr. Baruch replied that it is easy to control raw materials. He emphasized the need for strong controls by referring to the fact that we are on the verge of discovery of one of the most extraordinary explosives the world has ever seen. He is

often fearful, in reading about some new German V-weapon that they may have discovered it before we have. It is something that can be made secretly and destroy much of civilization before we could get in a position to stop it.

Mr. Baruch then referred to his own feeling after the last war when he thought that if the Germans were treated fairly they would respond, only to find he was wrong. Many people, like Lord Cherwell and Lord Halifax, say to him, "How about the Germans?" His reply is that we must first see what we can do for ourselves. He has twice seen our civilization nearly destroyed. We cannot let this happen again, and to prevent this we must be as stoney-hearted as is necessary. The Germans should be given as a maximum the standard of living which they imposed on themselves when they were preparing to destroy us. To do this we can cut off their exports.

Mr. Mackworth then asked whether we can occupy Germany for ten years. Mr. Baruch replied that the American people have to make up their minds one way or the other. Shall we have another war or not? All we can do is to put it up to them. Mr. Mackworth observed that it is a matter of educating our people as to the seriousness of the situation, and Mr. Baruch said more people were ready to go through with it than we think. We have, nevertheless, to fight desperately every inch of the way.

Mr. Grew said that, though now interested in Germany, we shall eventually have an exceedingly difficult problem with Japan. We shall take away all her gains, and drive her into her own islands. We shall destroy her weapons of war and ability to manufacture them. Before Japan industrialized the population was 35 million, now it is 75 million. What is going to happen to the 40 extra million? They can't be supported on that space. What sort of economy will solve that problem? Will these people starve? Mr. Baruch replied that the German people and the Japanese had an economy that allowed them to get both butter and guns. He has no desire to strangle the Germans, and they will have to have some sort of an economy, but we must never let them have a chance to endanger us again until there is a profound change of heart.

Mr. Parvelsky assumed that when Mr. Baruch speaks of the control of German exports, he meant control of production, both as to amount and kind. What sort of...

control of production we impose depends on how we want to control exports. He then asked whether there was any short-cut to production control in Germany. Mr. Baruch replied that we can set up control of German imports. We can control exports at Germany's borders. It is a matter of the will to do so. Unquestionably it will be difficult.

Mr. Parvolaky then asked if this control would be selective, and Mr. Baruch said it might be. For example, we might not want to control the export of potash. We could limit the export of coal to the surrounding countries. The problem is not insoluble. Mr. Parvolaky said he could see how we can control Germany's imports, but we have to remember that these are the exports of other countries. Germany is the third largest importer in the world. Where are we going to place these exports? Mr. Baruch said that a break-down of British exports would be helpful in answering this question. If the United Kingdom can modernize itself, it can do everything that Germany has done with imports of raw semi-finished products from the Empire.

Mr. Baruch then observed that economic arrangements with other countries are of no avail unless we raise their standards. We must either raise theirs or lower ours. We have been bedevilled by the Germans and Japanese selling products made by subsidized industry and sweated labor. With that competition removed we shall be able to raise standards. We can take the place of Germany, but we cannot compete with German subsidized trade and compensatory payment devices. Mr. Baruch said he would try to sell to the United Kingdom the idea of modernizing her industry and taking Germany's place. If Germany is allowed to export only her specialized products she will still get the kind of standard of living she has imposed on herself.

Mr. Parvolaky remarked that the Relfore Textile Report is a most revealing document, and Mr. Baruch said he wanted the British to make things cheaper than they now do.

Mr. Acheson who had already talked to Mr. Baruch about these matters, suggested that it might not really be true that there will be two phases in the control of Germany. If we do what Mr. Baruch wants us to do we may not have any second or civilian phase. Mr. Baruch's plan calls for complete control of every phase of German life. It does not plan the destruction of German business, but the detailed

control of all its industry. This will require a supervisory force larger than we have in the United States, for our controls are not nearly so complete. All of this control will be very distasteful to the Germans and we can expect no cooperation whatever from them. Therefore to make it effective we must have soldiers to enforce it. Mr. Baruch replied that he presumed some force would be necessary to see that our orders are obeyed. He would not withdraw the military until we have civilians with whom the Germans will work. Nothing will change until the Germans show some appreciation of the fact that they must follow the rules. Consequently, Mr. Baruch does not know how long the military will have to stay in Germany.

Mr. Clayton said that Mr. Baruch proposed a long-term detailed economic control over Germany and Japan. He then asked Mr. Baruch whether his position springs solely from a belief that this is the only way to prevent a new war, or partly from a wish to shelter us from German and Japanese competition. Mr. Baruch said he was influenced principally by the first consideration. The second flows from it as a by-product. He said he was also, however, influenced by the second. He was anxious to sell this view to the British. It would lift their morale to have turned out two unfair competitors.

Mr. Rockefeller referred to a third factor in the situation--German penetration into other countries. In view of this he asked whether Mr. Baruch would add another form of control--financial control? Mr. Baruch said he would root out any German interest anywhere. We must be ruthless in this matter.

Mr. MacLeish said that some time he would like to ask Mr. Baruch how he interprets the statements of Mr. Roosevelt and Mr. Hull which say that this is a war against the philosophy of Nazism and Fascism. Both have said we could not live in a world in which these philosophies continue to live. But we also say that we shall not interfere with the internal affairs of other countries, and certainly will not interfere with their education. Mr. Baruch said he had some views on this subject, but the Secretary said this would require a special session.

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The Secretary then thanked Mr. Baruch and asked him to stay with the Committee for the remainder of its meeting.

General Palmer joined the meeting during the discussion with Mr. Baruch, having come directly from his plane. He made a brief report on the situation in France before leaving for home.

DEPARTMENT BUDGET

The Secretary said that the budget officers were very anxious to make a presentation to the Committee relative to our budget for the next financial year. This is urgently needed to prepare for budget hearings beginning January 1st.

The Committee agreed to call a special meeting for this purpose at 4:00 P.M.

SURVEY OF DEPARTMENTAL SECURITY METHODS

The Secretary reported that a survey is being made of the distribution of the documents which appear to have gotten into the hands of Mr. Sulzburger of the Times and to have been the basis of his recent articles. Instructions have also been despatched to Cairo and Ankara asking a report on how he obtained this information, and a general instruction has been sent to all Missions requesting a tightening up of security procedure.

The Secretary also reported that an Aide-Memoire from Lord Halifax to Mr. Hull of last August dealing with civilian supplies for Italy was in the hands of Drew Pearson and would be published immediately. The Attorney General and Mr. Hoover of the FBI had talked to Pearson and had pointed out the damage that would be done to best interests of the country by publication, and had appealed to him not to proceed. The Attorney General advised the Secretary that there was no legal way of stopping it.

The Secretary said that we must ask the FBI to come into the State Department and examine its security methods. We was unwilling to go another day without taking action. Mr. MacLeish said that if we do have this investigation immediately after publication of this despatch by Pearson, Pearson will play the role of exposé or martyr. He was sure the investigation could not be kept private. The

Committee

AMERICAN WATER TREATY

Mr. Rockefeller reported the background of this Treaty. The basic fact underlying it is that Colorado river water is becoming tight for irrigation and power purposes. The states immediately concerned have gotten together to divide it up. The Colorado river flows into Mexico. If an agreement is not reached an unbalanced situation will be created because Mexico will in future find that she won't have water for irrigation projects planned but not developed. California has already advanced her projects more than other states and finds finds that under the agreement now reached she will not have as much additional water as she wants. Therefore California is opposed to going ahead with the Treaty. There is very little opposition outside California. Mr. Rockefeller added that the whole agreement is equitable.

The Secretary asked how we should handle the California Attorney General who has been protesting, and Mr. McQuirk, who had joined the meeting for the discussion of this item, said that a letter had been already drafted for him.

Mr. Acheson said the Hearings are scheduled for January 22, and the Committee agreed that he should go ahead with the interested Senators. The Committee approved giving full Department support to the Treaty.

WAR-TIME AGREEMENT WITH SWITZERLAND

Mr. Dunn said that the revision of this Agreement comes up this month. The War and Navy Departments are pressing for a hard attitude, on the ground that it is imperative to stop all Swiss exports to Germany and to stop the North-South through coal traffic. On the other hand the Department feels that consideration should be given to broad political and humanitarian considerations. Switzerland is playing an important role in the protection of our interests and in looking after our prisoners of war. We have, in addition, not very much of a club to use in putting pressure on Switzerland.

Mr. Dunn said that he had stated in the documents the political reasons for not being too hard on Switzerland, and that he would like to have Mr. Clayton and Mr. Acheson, who had been studying the question, take up the purely economic side. If the military can cut off Swiss trade

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with Germany by military action the Department is wholly in favor, but the question is how we should deal with the Swiss Government. Mr. Drew emphasized the importance of the protection of our prisoners of war in the Far East.

Mr. Clayton said that Switzerland had partially met our demands with regard to "loot", which has become a broad category. They have not met our demands on coal, but have met most of our demands on exports. He did not think we should take extreme action against them.

Mr. Lehmann agreed and Mr. Clayton added that the Joint Chiefs of Staff are willing to have the Department work out the problem. Our Legation at Berne is in favor of the Department's position.

Mr. Clayton then referred to a letter from the Navy Department taking an extreme position, and the Secretary said he did not agree with this letter.

Mr. Dunn then referred to an article in the Washington Post, which seems to have come from the FEA in spite of an agreement with them that there should be no publicity. The Secretary suggested that Mr. Dunn take this up with the Army-Navy-State Coordinating Committee.

The Committee approved the position on this question taken in the documents.

ALLIED COMMISSION FOR ITALY

Mr. Dunn said that the report before the Committee (Document C-14) was for information. There will not be any real difficulty and we shall be able to work out the problem with the British.

INFORMATION POLICY REGARDING DUMBARTON OAKS

Mr. MacLeish said there was great public confusion as to whether the Dumbarton Oaks proposals were in fact a sort of trial balloon to sound out public opinion, or were actual agreements serving as a basis for negotiation. Some of this appears in the Department's own publicity. Mr. Pasvolsky agreed that this matter should be discussed and the Committee placed it on the Agenda for the next meeting. The Secretary reported that an article written by himself on the whole Dumbarton Oaks proposal would shortly appear in the Readers Digest.

STANDING

STANDING COMMITTEE ON INTERNATIONAL CONFERENCES

Mr. Acheson referred to the Committee on International Conferences of which he, Mr. Pasvolsky, and an Assistant Secretary to be designated later, are members. He suggested that the third member be appointed in rotation so that the Assistant Secretary with special interests in each Conference could serve. This was agreed to and Mr. Rockefeller was asked to serve while the Mexico City Conference was under consideration.

The Committee adjourned at 11:20 a.m.

EBC - (W.D. Bryson, Jr)