ALL HONORABLE MEN

All Honorable Men

by James Stewart Martin

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To my children,
members of a generation
entitled to ask,
"What did you do about it?"

Preface and Acknowledgments

ANY man has a right to stop after a chain of harrowing experiences and to ask why things happened as they did. Our generation has had its share of harrowing experiences and therefore the peculiar chain of circumstances that kept me enmeshed for five and one half years was not unusual.

It is not simply the rebirth of German nationalism and Nazism that occasioned the writing of this book, nor even the return to power of the industrialists who put the Nazis in. These events in themselves are significant. But more so is the fact that, along with them, action was aborted on other questions in Germany: questions of the treatment of organized labor, the improvement of agriculture, the reform of public education, the public ownership or control of industry, and others just as basic. As the postwar pattern unfolded, this chain of events in Germany became more and more of a piece with a larger pattern.

In this book I have tried to tell the story of an important problem and some of the things that happened when we tried to deal with it. Though many of the events occurred in Germany, before and during the military occupation, they seemed in an increasing degree to be echoes of something more fundamental that was happening back in the United States. For whatever reason, the larger pattern is a repetition of what followed after World War I; but the pace has been quicker, as though greater powers were moving more rapidly toward a more catastrophic result.

Some people assume that everything is somehow connected with the cold war, and that any other course than the one we are pursuing has been rendered impossible by disagreements with Russia.

This is surely an oversimplification. Disagreements with Russia have been a major issue for only twenty or thirty years, whereas the pattern I have traced in this book has been unfolding for a much longer period.

If this work has any lasting value, acknowledgment is due to the men and women who staffed the Economic Warfare Section of the Department of Justice and the Decartelization Branch of Military Government, and whose reports of their researches and investigations brought together the fabric of this story. Mention should also be made of the many factual materials furnished to us in Germany by the Foreign Funds Control Division of the Treasury Department and the Finance Division of Military Government.

For her help in the preparation of this book I owe a debt of gratitude to my wife, Caroline Collins Martin, who not only worked with me during the last strenuous year in Berlin, but also cast a critical eye on the manuscript at every stage of its development. For help of various kinds I owe thanks to Johnston Avery, Charles C. Baldwin, Stringfellow Barr, Scott Buchanan, Norman Bursler, Francis W. Laurent, Russell Nixon, Alexander Sacks, Peter Weiss, and others too numerous to mention. Special thanks are due to Virginia Marino, who returned from Germany to work tirelessly on every phase of the book from first rough draft to finished page proofs. Many of the highlights are the result of the thoughtful suggestions of these people. The faults are my own.

For the necessary time away from other employment to do the writing, I am indebted to the generosity of Leon and Sonia Mohill; for time to prepare the manuscript for the press, to my present employers, the Foundation for World Government; and for research facilities, to the Library of Congress.

JAMES STEWART MARTIN

Annapolis, Maryland
June 6, 1950

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PART I

Private Worlds

CHAPTER I

The Fraternity House

THE day I started to write this we discovered termites in the basement. We were preparing to build a wing on our old house and found a colony of them in the heavy timbers.

Termites are able organizers, and thoroughly attached to their way of life. The area they occupy is small in relation to the house — just the heavy underpinnings. They object vigorously to outside interference from the people who live in the other parts of the house. They object especially to structural changes, which they are bound to consider unwarranted. They have two good reasons for objecting to changes. In the first place exposure to light and air kills them. In the second place any movement of the underpinnings ruins the whole structure of tunnels and channels which their enterprise has built within the framework of the house.

We hated to disturb them. They looked busy and enterprising. They seemed to want nothing more than a comfortable existence in accordance with their way of life.

We cleared the termites out to save the house, but I think I know how they looked at the whole matter. At the end of the Second World War I spent two and a half years in Germany dealing with some people who must think pretty much the same way.

My story goes back to 1938, when I was a lawyer recently turned college professor. I was serving as general counsel and treasurer, as well as teaching, at St. John's College in Annapolis, the "Great Books" college. Between reading the famous list of one hundred great books and untangling the college finances I found only occasional opportunities for the pastime of studying international affairs and the movements of international business. Certainly I had no intention at the time of becoming actively involved with international monopolies or with the Germans who backed World War II.

My introduction to the specific problem of the German cartels was casual, almost accidental. On my infrequent days off I usually took a busman's holiday and went to Washington to listen to arguments in the Supreme Court or to visit friends, most of whom were government lawyers. Washington was a happy place in 1938. Except for a lawyer's usual concern to keep the details of pending cases confidential, the exchange of fact and opinion between citizen and public servant was normal. The talk with my friends was about law. I swapped stories about our troubles in carrying a half-million dollars in debts without throwing the college into bankruptcy, for stories about their troubles in enforcing the Securities Exchange Act and the antitrust laws.

Throughout this period there were occasional rumblings in the press from Thurman Arnold, who was complaining about the international affairs of some American corporations. These companies were often mentioned in connection with the German dyestuffs and chemical trust formed about twelve years earlier, known as the I.G. Farbenindustrie. Other foreign companies too were mentioned. Most of them would have been familiar to constant readers of the financial pages, but they were not as well known among the general public as their American counterparts would be.

Later on, during the war, the subject of private international arrangements among business firms, especially when they took the form of cartel agreements, got a considerable amount of public attention. But in those earlier days it was different. Many people could see no important principle at stake when the government announced some new antitrust suit against a group of American and foreign firms. On the surface these international cases appeared to be no different from any other government lawsuit such as one involving a monopoly of Wisconsin cheese or California hardwood.

At first the only remarkable feature of the operations encountered in the international cases was their size and scope. Even judging from the brief summaries in dispatches from Washington something in the giant stature of the companies involved, some hint of the vast sweep of their arrangements, reminded one of an ancient Greek epic. I began to piece together a story from a growing collection of newspaper clippings. The cases Arnold and his men were talking about had to do with a series of arrangements dating back for a decade or so, to 1926 and 1929, when international agreements among some of the biggest American, British and German firms had quietly divided up the world.

What I heard and read of these antitrust cases and the new sort of international brotherhood they implied — a business brotherhood more solidly built than the "international finance" of past generations — began to bring other events closer to home. In mid-March 1939, when a group of some of the largest British and German industrialists gathered at Düsseldorf to map plans for the economic collaboration between their two countries, the press barely reported the meetings. I might have skipped the news items entirely had I not been already familiar with the subject matter. It was impossible to overlook the fact that the industrialists who were meeting at Düsseldorf were from the same groups of companies which ten years earlier had arranged the three-way split of the world's markets.

The growing conviction that these private international arrangements were important was brought to a head by my encounter with the German ex-chancellor, Heinrich Brüning, early in 1940, during the period of the "phony war." St. John's College invited Dr. Brüning to give a lecture about the last days of the German Republic and how he had been deposed to make way for Hitler. His lecture was largely a description, by hindsight, of his own blindness during the time he was chancellor.

Dr. Brüning's story was one of being always a step behind the events. By his own account he never knew what hit him until after he had been deposed and was hiding out in the mountains of Austria. While gangs of Nazis combed the countryside looking for him, he spent his days reading and for the first time understanding Thucydides's classic history of the Peloponnesian War: a work that generations of British diplomats have used for a teething ring, and that Dr. Brüning had carried with him from his early youth. As he reread Thucydides's story of ancient power struggles, he suddenly began to realize what forces had been combined against him in Germany: how under the pressure of administration he had assented to decrees that weakened the "equal protection of the laws," and how large-scale economic forces had made inevitable some developments he had tried to stem by "voluntary" agreements among business interests.

Even in the retelling, however, it seemed to me that Dr. Brüning again showed some of his former blindness. The main point in Thucydides's history was the discovery of the large part that economic forces play in bringing nations into conflict. Yet, even when pressed by questions, Dr. Brüning showed no particular concern over the role of the large German industrial corporations. He related the entire story of Franz von Papen's intrigues, his posting of gunmen to prevent Brüning from seeing the aging von Hindenburg, and the other events of the last days, without once alluding to von Papen's conferences with the bankers and the Rhineland industrialists who agreed to back Hitler and who put up the funds. It was, throughout, a story of politics without economics: a story of a man who had felt that no harm could come from temporary dictatorship so long as the laws and the courts protected civil rights, who showed no feeling for the ways in which great economic power and unlimited funds could get around an inconvenient legalism.

In Dr. Brüning's view it was the refusal of groups like the German winegrowers to improve their export markets that had curtailed Germany's export trade and intensified the depression. His talk would be comparable to an American's blaming an economic depression in the United States on the activities of the Farm Bureau Federation, with scarcely a word about our industrial firms, or the level of industrial employment. This was quite puzzling, in view of all that had happened in the preceding seven years. I knew that before he was ousted, Dr. Brüning's political enemies had called him the "I.G. Chancellor"—a suggestion that the gentlemen of I.G. Farbenindustrie had got pretty much what they wanted under his administration. Yet the man himself was far from presenting the appearance of a person likely to be influenced by or to have much influence with "big business." He looked a great deal like Woodrow Wilson. He had risen to the chancellorship from

the post of Minister of Education, not from the board of the Deutsche Bank. Even his manner was Wilsonian: a combination of professorial bewilderment and amazed indignation at the way the world goes.

This man who had been at the top in Germany when Hitler's Nazi program was put across had seen too little at the time to plan any counterstrokes. Later, sitting in a mountain hideout and reading an intelligent account of an ancient Greek war, he had felt the stirrings of an awareness. Things unknown to him at the time, things he had not even heard about, had been moving under his feet. In the end they had dethroned him and plunged his country and the world into a major catastrophe. Yet still later, in looking back on the events, he seemed to be missing the point.

I thought at the time that I might be just seeing ghosts. It was too easy to draw parallels between what had happened economically in Germany and what could be happening in the United States. Thurman Arnold seemed to be saying, sometimes patiently, but more often with an emphasis reminiscent of Donald Duck, that great forces were at work through the channels of what we in the United States had regarded as ordinary business. Arnold was charging that some of the transactions of ordinary business had crippled productive power in the United States, regardless of the motives that prompted the individual deals.

If Arnold was right, there was something of serious general concern in the private arrangements made in the twenties and thirties among American, British, and German industrialists. Yet Arnold's boss, Attorney General Francis Biddle, did not appear to be impressed by the noise Arnold was making. By 1941 it seemed even that Biddle had become resentful of Arnold's constant baying. A newspaper column by Thomas L. Stokes hinted that Arnold and Biddle had clashed over the investigation of international agreements between Sterling Products, Inc., a drug firm, and Germany's I.G. Farben. Stokes said that Thomas G. Corcoran, late of the Roosevelt brain trust, acting as attorney for the Sterling company headed by Corcoran's brother, had prevailed upon the Attorney General to quash an antitrust prosecution and to accept a "consent decree" instead. This legal move took government investigators out of the files of the Sterling firm and closed the curtain on the details of what had been going on between Sterling and Farben, in return for the Sterling company's promise to clean house and behave in the future.

The newspaper stories of the Sterling case were fragmentary. They stated only that a business arrangement between the two companies had allowed the German firm to keep a tight grip on its overseas markets in Latin America during the war in spite of a tight British naval blockade. By arrangement between Germany's Farben trust and the Sterling firm, drugs manufactured in the United States had been shipped in bulk to Farben agencies in Latin America. These German agencies labeled the drugs "made in Germany" and kept right on supplying their customers while they laughed at the British blockade.

Early in 1942, Washington announced the creation of a new agency to deal with the economic side of the war. The Board of Economic Warfare, consisting of several members of the cabinet under the chairmanship of the Vice President, was to have jurisdiction over this agency, which would have a variety of duties connected with "economic warfare." The idea of economic warfare seemed simple enough. Germany and Japan were enemy nations. To produce war materials and to keep their people alive they had to get some kinds of goods from territory outside the areas their armies controlled. To keep them from getting these items, the nations on our side could resort in the first instance to naval blockade. Beyond blockades there were the possibilities of buying up scarce commodities to keep them out of enemy hands, or of persuading nonbelligerents not to sell to the enemy. These activities would, of course, connect up with the Air Force's "strategic bombing" of important production facilities in enemy territory—the attempt to undermine enemy war production by knocking out key factories.

One night in February 1942 I had a phone call from Edward H. Levi, one of the members of Thurman Arnold's staff. He asked me to leave my post at St. John's College and take a position as special assistant to the Attorney General. I was to help organize a unit in the Department of Justice to work with the newly created

Board of Economic Warfare. Soon after the Board was set up, Milo Perkins, its executive director, had written to the Attorney General asking for reports on the international business ties between American firms and firms in enemy territory, wherever these ties could be expected to work to the advantage of the enemy. Also Mr. Perkins had asked for any information that would give details of industrial plants and industrial production in Germany and Japan. Such information would be useful to the Air Force as well as the Board of Economic Warfare.

A short time later, in conversations with Johnston Avery, administrative assistant to Thurman Arnold, I found out more of the details and agreed to join the team. I worked with members of the Antitrust Division in setting up in the Department of Justice the Economic Warfare Section, of which I finally became chief. We set up field offices in principal cities, the largest part of the staff being maintained at New York, where Robert Wohlforth headed some twenty or thirty lawyers and investigators. Our object was to test the possibilities of viewing the enemy through the chinks and loopholes of international business arrangements.

Once we knew which American companies had agreements with which Japanese or German companies we knew where to find engineers and technicians who had visited, and in some cases even had drawn the blueprints for, plants making synthetic rubber, synthetic gasoline, tetraethyl lead, precision ball bearings, and the like.

This kind of reporting became known as "bombing" work and we found ourselves quickly dubbed the "bottleneck boys." Air Intelligence wanted to find out as much as possible about the industry in all areas where the Air Forces might be operating. They wanted to know the relative importance of different plants, partly to help plan the targets for bombing missions, and partly to help in figuring out what they had hit after the raid was over. We had neither the staff nor the facilities to make sweeping economic studies of German industries. But we could find out, from men who ought to know, which plants producing what materials were likely to be the "bottlenecks" in German production.

We had no way of knowing where all the coal mines or steel plants in Germany were; but we did find out that, by agreement among the biggest producers of precision antifriction bearings, practically all such bearings of any importance in Germany were made in only three factories grouped around the railway yards in Schweinfurt. We could not locate all the gasoline refineries; but we did find out that there were only three plants equipped to make the tetraethyl lead which is necessary for high-octane aviation gasoline, and we found a man who could draw pictures of all three. We did not know where to locate all of the mills producing brass for cartridge cases; but one of our men did find out that there were only two ways of making the special high-grade zinc that goes into this type of brass, both ways being the subject of patents, and he found blueprints and diagrams of all plants in Germany capable of making this zinc by consulting the files of two American companies. While other agencies hired economists and technicians to lay out large studies of the German industrial economy, our men interviewed men from Du Pont, Standard Oil, International Telephone and Telegraph, Anaconda Copper, General Motors, General Electric, and investment bankers and other businessmen who had been to Germany on what turned out to be "bottleneck" deals.

As we worked on the search for bottlenecks in German production, we began to find a close relation between international business agreements for the restriction of production and the kinds of products which were especially critical in wartime. The trouble was that these international arrangements which pointed up the importance of certain commodities in the German economy had also resulted in restriction of production in the United States.

Arnold's men found that one company, Rohm & Haas of Philadelphia, was not able itself to produce enough transparent plastic sheets for bomber noses. But because Rohm & Haas of Philadelphia had Du Pont under a special agreement, as part of a more complex and wider four-way arrangement involving Du Pont and two German firms, I.G. Farbenindustrie and Rohm & Haas of Darmstadt, Du Pont was permitted to turn out only a limited quantity of the plastic sheets. While government expediters were tearing their hair over slow deliveries, Du Pont was writing to Rohm & Haas of

Philadelphia that they would have to tell the government about the agreement unless Rohm & Haas would lift the restriction.

We discovered even more spectacular complications, such as those in the three-way arrangement among the aircraft-equipment firms, Bendix of the United States, Siemens of Germany, and Zenith in England. Under one of these arrangements the American firm in 1941 had stood by an agreement with the Siemens firm of Germany and forbade British Zenith to grant patent licenses so that the British Air Ministry could expand production of aircraft carburetors. Almost a year after Dunkerque, Zenith wrote to Bendix that:

> The Ministry suggested they would prefer to manufacture the carburetors themselves and asked us to waive all our rights in this matter.
>
> We have told them plainly that we are not prepared under any circumstances to agree to this or to alter one item of our contract with you. . . .
>
> You know that we have got to win the war if we are going to survive and it is because we know we shall win and survive that we are anxious that post-war business should not be complicated by departing from the conditions of the contract in the meantime and under the excuse of war conditions. . . .

As the war went on Senate committees probing production bottlenecks in the United States helped to compile and make public the records of a staggering number of similar arrangements, differing in detail but all having the same effect. They were widely denounced but principally on the ground that they represented "business as usual" during wartime. Editorials solemnly pronounced that all such arrangements should be "out for the duration."

These business arrangements operated at focal points where it was possible to turn on and off the main valves in economic pipelines. It was not long before we found that the arrangement of valves and pipelines was a two-way affair. Our elation at the discovery that practically all of Germany's fine optical glass came from one factory, the Schott Works at Jena, was counteracted by the discovery that under the same working arrangement only one such factory of any importance existed in the United States. The pin point for bombing in Germany could be the blueprint for sabotage in the United States.

As if to add point to such thoughts about sabotage, during the summer of 1942 the Justice building in Washington played host to the trial of eight Nazi *saboteurs* who had been landed by submarine to blow up some of the key factories in the United States. Morning and evening the black vans of the United States Marshal trundled the prisoners under our windows and all day long the drawn blinds on a row of windows two stories up and across the courtyard were a reminder that sabotage in the literal sense of the term was not just a theoretical possibility.

But sabotage in its literal sense was not the point. As our piecemeal reports stacked up a picture began to emerge of an enemy that did not need the services of trained, professional spies and *saboteurs*. By agreement between German and American producers of magnesium — needed for aircraft — production in the United States before the war was limited to no more than 5000 tons per year. In contrast, Germany in 1939 alone used 13,500 tons and during the next five years consumed magnesium at the rate of 33,000 tons per year. Here was a case where American "business-is-business" men had, knowingly or unknowingly, helped a German firm to close some valves over here, with far more effect than the eight *saboteurs* could ever have achieved even if they had been allowed to do their utmost. Plants which have never been built are more dead than plants which have been bombed. A bombed plant may still live in its blueprints and in the trained labor force that had been operating it. As the evidence piled up to show German success in negotiating restrictive arrangements, the contrast between the limited possibilities of cloak-and-dagger sabotage and the greater possibilities of safely negotiated business arrangements became more and more heavily underlined with each passing of the Black Marias under our windows.

Unfortunately, Francis Biddle and Thurman Arnold were still like stiff-legged fighting roosters with each other. Some of Biddle's public remarks, including humorous references to the "bombing" work of Arnold and his boys, seemed to confirm our impression

that the Attorney General considered what we were doing to be the product of a somewhat amusing mental aberration.

Finally, combined pressure from the War and Navy Departments and the War Production Board prevailed in suspending the enforcement of the antitrust laws for the duration of the war in all cases affecting industries considered important to the war effort. All that was necessary to stop an investigation or the prosecution of a case was a certification from Robert P. Patterson, Undersecretary of War, James V. Forrestal, Undersecretary of the Navy, and John Lord O'Brian, General Counsel of the War Production Board, that any attempt to press the case would interfere with the war effort. This signaled the end of Thurman Arnold's great trustbusting drive. A short time later Arnold allowed himself to be kicked upstairs. He accepted an appointment as judge of the Court of Appeals for the District of Columbia.

With Arnold's departure the Attorney General showed signs of more serious interest in the evidence of how the German program of economic warfare had been carried out. Biddle called for more and more thumbnail sketches of what we were discovering. By the spring of 1944 the time came to add up the score. In three years, with a staff of less than sixty people, we had prepared thirty-six hundred of these snapshots of German economic power in action; but the Attorney General wanted to know the conclusions of all these findings. We began to summarize our picture of an enemy that could survive a military defeat because it did not need or use military weapons.

This enemy did survive military defeat after World War I. We had in front of us the story of what lay behind the Ruhr occupation of 1923, the runaway German inflation, the Dawes and Young plans, the Dillon, Read and the Schroder bond issues, the growth of the Ruhr as the "industrial heart of Europe," Germany's strange obsession with heavy industry at the expense of consumer goods — "guns, not butter."

As we summarized these findings, the Attorney General took more and more interest, became fascinated, began to speak in favor of doing something to prevent it all from happening again. He talked to President Roosevelt. In the fall of 1944 the President wanted some of these findings publicized, to pave the way for serious postwar policies to deal with the problem. He wrote his famous letter of September 6, 1944, to Secretary of State Hull: ". . . The *history* of the use of the I.G. Farben trust by the Nazis reads like a detective story. Defeat of the Nazi armies will have to be followed by the eradication of these weapons of economic warfare."

We had started out to get a picture of our military enemy and had found a much bigger enemy, of a quite different sort from the popular picture of hobnailed Nazis with guns and tanks.

Late in the summer of 1944 Francis Biddle, the man who three years before had found nothing very important in the Sterling Products case, and who two years before had been amused by Thurman Arnold's "bombardment" of Germany, told a Senate committee what he thought must be done during the occupation of Germany.

> . . . As we approach the occupation of Germany, we will have to decide what is to be done with the great German monopolistic firms. These are the firms that made the contracts in which [we] are interested. The period between the wars was only an armistice during which the firms of Germany conducted war against us. The British representative on the Inter-Allied Commission Supervising German Disarmament stated in a lecture in 1923:
>
> "We, in this country, flatter ourselves that the war ended on January 10, 1920; a future generation may yet describe the period in which we are living as an armistice during which the war was continued by other methods than rifle and howitzer, only to be resumed in all its carnal horror after the lapse of a few ambiguous years."
>
> These firms in reality operated as departments of the German Government. They evaded and violated the peace treaties in order to build up Germany's military strength. It was the theory of the German Government that operating under the guise of ordinary commercial arrangements, these firms could be used to weaken Europe and America so that when the military war was resumed, we would lose. Through the techniques of industrial penetration, they hoped to be able to cripple American production, to gain from us technical know-how, to conduct espionage upon us, and to establish centers of propaganda throughout the world.

The shadow of the Sterling case moved across Mr. Biddle's account. Sterling had taken over the American Bayer Company after World War I and it was what Sterling and I.G. Farben had agreed to do with the business of American Bayer that had been the nub of the Sterling Products case in 1941. Mr. Biddle in 1944 told the Senate committee:

> I.G. Farbenindustrie is the principal combine which has been used by the German Government to attempt to restrict American production. It is the successor to the German dye trust which attempted prior to the last war to keep an independent American industry from developing. The president of the American Bayer Co., which was owned by the German dye trust, was told by his German superiors that his accomplishments in holding down American production before the last war could be compared to the work of an army leader who had succeeded "in destroying 3 railroad trains of 40 cars containing 4½ million pounds of explosives."

After amplifying these conclusions with further facts he pounded home his point:

> I hope, as the years go by, we will not forget . . . not because I wish to have individual American companies condemned, but because these things should not be permitted to happen again. It is the system under which Germany was able to make these cartel agreements that must be broken up.
>
> At the present time it is probably inaccurate to speak of separate combines or cartels in the German economy. They are all linked together — the munition makers, the potash industry, the machine trust, the oil industry, the electrical manufacturers, the steel trust, and the chemical companies. They exist as part of the Nazi government. We may expect, however, that when the government falls they will appear again as separate combines. The companies which were used as instruments to violate the peace treaties, to dominate industry in Europe, to support the Nazi war machine, and to restrict production here will then appear in the guise of ordinary commercial firms.

The Attorney General put his finger on the gist of what we had learned when he underscored the fact that "The pattern of the activity of these firms was established before the Nazis came to power and during the early days of the German Republic. The German Government and the German people as a whole have never accepted the doctrines of economic liberalism which run through American history. The monopolistic firms of Germany have survived in that country through two wars and constitute a definite menace to the future peace of the world. As long as they survive in their present form it will be exceedingly difficult to develop independent industry in Europe outside of Germany."

He called for action. "I propose that we break the power of the German monopolistic firms. The purpose of such a program would not be to destroy German economic life in its entirety, but to put its industries into a form where they will no longer constitute a menace to the civilized world. I do not underestimate the difficulties involved in such a program. . . . Such a program cannot be worked out in any definite form on paper and at this distance from the field of operations. It will have to wait the period of supervision over these companies that should come during the occupation period. But this is a procedure which we did not follow after the last war. It will not be followed in this war unless we make up our minds to do it now and prepare for it . . . [We must] have some picture of what this complicated industrial interconnection is when, after Germany has been conquered, we sit down and say: 'What will we do to break up this industrial domination?' "

CHAPTER 2

The Termites

THE Battle of the Bulge was just over. The German juggernaut was grinding to a stop for the third time since 1870. There was still the possibility that the Nazis would pull out all the horrors of poison gas and bacteriological warfare for a Wagnerian finale. Looking ahead to the end of the shooting war, nearly everyone wanted to know what could be done to keep Germans from starting the same kind of thing all over again.

The United States was in a mood to propose new ideas. This was true especially on the economic side of international relations, where so many troubles begin. We were tired of trade barriers, restrictions, nations playing their cards close to the chest. We were becoming a little ashamed of having farm "surpluses" and industrial "overproduction" in one part of the world while people starved and did without things in other parts. The tremendous wartime production in our own country, outstripping all estimates, had itself been an eye opener. Why not have full production and full employment in peacetime, too? We were beginning to have some feeling for the idea that economic restrictions, depression, and war are not unrelated.

Francis Biddle's demand for curbs on the big German financial and industrial combines was not ignored. The Financial Branch of SHAEF, General Eisenhower's headquarters in Europe, asked for help in planning the necessary steps. They were preparing to investigate the concentration of economic power in Germany. They wanted to discover how the German leaders were smuggling great fortunes abroad to provide a future base of operations after the coming military defeat.

With the approval of the Attorney General and the Secretary of the Treasury, a few of us were formed into a small team sent over jointly from the Economic Warfare Section of the Department of Justice and the Foreign Funds Control Division of the Treasury Department to help the Financial Branch. I was in charge of the Department of Justice contingent.

It was going to be our job to uncover records, and to find and talk to the German masterminds who had laid their plans for turning military defeat into economic victory. We had to find out what they had done and how they had done it. This was no job of criminal investigation. That would be for the war crimes staff. We would not be concerned directly with the intentions or the good or bad faith of the handful of Germans who had shaped the building of Hitler's New Order. Neither would we be concerned with the good faith or patriotism of their helpers in other countries.

The men who turned the policy of France before 1940 toward economic collaboration with the Third Reich have never admitted that they intended digging a grave for France. The men of the Federation of British Industries, who in March 1939, at Düsseldorf, worked out a plan of economic collaboration with the Reichsgruppe Industrie, have denied any intention of helping to set the stage for war. Even the German bankers and industrialists who called in Hitler to bolster their tottering financial empires later denied any intention to produce what followed. Whatever their story might be, we had to know how such men came to have power and what forces determined the use they made of it.

Sitting on the management boards of six large banks and seventy huge industrial combines and holding companies, fewer than one hundred men controlled over two thirds of Germany's industrial system. Their international ties gave them a central location within the framework of European heavy industry and finance. Long before the war these companies and their relations to one another had set the economic pattern for most of Europe. During the German occupation of the neighboring countries they had had new opportunities to strengthen their hold.

Even before we left the United States it took no powers of divination to realize that German finance and industry would have made

the most of these opportunities to set up new vested interests in hands that would appear to be French, or Dutch, or Belgian, or Italian. We could expect to be greeted by these "allied" defenders of the Nazi economic New Order, who would resist our countermeasures by wailing that they had already "suffered" under the Germans.

It would have been hard to maintain any illusion about the job ahead. Finding out what to do would be bad enough. Getting different agencies of our own government to recognize an unfamiliar danger and agree on a course of action might be something else. We had already been through a preview of such difficulties in dealing with a case that came up early in the war. I was reminded of it just as we were leaving for Europe.

On a bleak night in February 1945 I found myself standing with my small party of investigators in the mist at the Washington airport, waiting to take off. As I stood in the gloom, observing all the security measures that shrouded our routine departure — the blackout of the field and plane, the silence, the sudden orders — I remembered our discovery earlier in the war of how easily the "secrecy" of ship sailings had been penetrated by the Germans.

In 1940, 1941 and 1942, ships leaving American seaports had had the same security measures to protect their departure. Yet many of their broken hulls and water-soaked cargoes had washed up onto the beaches of New Jersey, Virginia and the Carolinas, where German submarines had spotted them within sight of shore. In case after case, every man on board had been marked before the captain opened his orders. Though they may not have known it, the cargoes they carried were reinsured with Munich. The routine system of placing insurance had put precise information on their sailing date and destination in the hands of the Germans before the ship left port.

In the summer of 1941, before there was any Economic Warfare Section, several trust busters discovered that while the American public was looking more and more askance at German business connections, insurance companies doing an international business seemed to have no such doubts about their foreign commitments. Insurers of large risks, such as ships, cargoes, and industrial plants, customarily spread the risk among other companies willing to take fractional shares. The big insurance and reinsurance companies in the United States which handle the largest risks have such treaties on an international basis, through arrangements with the Lloyd's group in England, or with the Zurich group in Switzerland.

It had long been the custom of the American companies to place the reinsurance on ships and cargoes with the Zurich group by cabling information to them so that they could accept responsibility for a share of the American insurer's risk. The information cabled would include the name of the ship, the sailing date, the cargo carried, the destination, and the value of the insured property. One detail that should have raised someone's eyebrow, but did not until the government stepped in, was the fact that the Zurich group in turn had a reinsurance treaty with the Munich reinsurance pool in Germany. The result was that during 1940 and early 1941, by the time a ship had cleared New York or Baltimore harbor headed for a European port, the German intelligence service already had the sailing data in hand.

When men from the Department of Justice called a conference of insurance representatives, the companies agreed to stop sending such information by cable. But even then no one realized what an efficient pipeline the Germans had set up. It appeared later that everyone concerned, both government officials and insurance men, assumed that sending the information by mail to Switzerland would be perfectly all right. Nothing was said about stopping completely the transmission of reinsurance information.

In the spring of 1942, after we had started to set up the Economic Warfare Section, we found that reinsurance information sheets, or "*bordereaux*," were still going to Switzerland by mail. We also discovered that the reinsurance business, far from being confined to ships and cargoes, also covered industrial plants, and more especially those very large new plants being built for war production, the ones with security guards at the gates to see that no unauthorized eyes got inside.

In the case of industrial plants, we found that the reinsurance *bordereaux* did not account for the full extent of the leakage. The usual reinsurance treaty on such risks provides that the reinsurance

group has the right to demand copies of a full report by the insurance inspector. This includes blueprints of the installation, description of the fire hazards and risks, and inventory of the contents of the buildings, room by room. We found that, before 1938, the Zurich group had asked for the full insurance inspector's report in only 5 or 6 per cent of the cases. After 1938, the full report was requested with increasing frequency, until the percentage was closer to 90.

It had seemed obvious to us that the government ought to stop this transmission of shipping and industrial information through Switzerland to the Reich. Unlike the United States, the German government as early as 1936 had closed off such information about Germany. As soon as the Germans occupied France, Belgium, and Holland in 1940 they put a stop to all such transmissions from those countries. We proposed to have the Attorney General send a letter to each company warning that transmission of marine and industrial plant information of this type came within the scope of the Espionage Act. Issuance of such a letter in the name of the Attorney General, however, required approval by the Solicitor General, Charles Fahy. Mr. Fahy would not take this responsibility without consulting the other interested departments of the government.

At first, no one could believe that Americans were handing the German intelligence service information on a silver platter. At one of Mr. Fahy's interdepartmental meetings, Joseph Borkin, then of the Antitrust Division, slapped down on the table a stack of insurance inspectors' reports on various prominent buildings. He had purchased these from sources open to anyone in the insurance business without any special "security" clearance. For fifty-five cents he had the plans of the White House, showing the location of fire extinguishers and other protective apparatus. For seventy-five cents he had the plans of a large new magnesium plant. One of the blueprints had an arrow pointing at a valve, with the legend: "Under no circumstances must this valve be closed while the plant is in operation, as an explosion would result."

To complete our case, we had obtained from the Office of Censorship copies of insurance *bordereaux* photographed from the current week's mail destined for Switzerland.

We got other evidence to show that German insurance companies were operating at a loss in Latin America, with the help of a German government subsidy, to capture a larger share of the international reinsurance business. At the same time, to show how informative inspection reports could be to an outsider, another of our men got from the files of American reinsurance firms similar data on important European plants, such as the N.V. Philips lamp and radio-tube factories at Eindhoven, Holland. Months later, the British Ministry of Economic Warfare thanked us profusely for copies of this report, even though it was dated 1939. They told us it had been used in planning the RAF raid on Eindhoven in December 1942, and in assessing the bomb damage after the raid.

Still there were objections. Maritime Commission representatives argued that existing regulations required them to place insurance on all cargoes. If we put any brakes on the insurance companies, they might decline to accept the risks, and ship sailings would be delayed. Besides, enemy agents could get information on ship sailings and cargoes by going down to the docks and watching the ships load and depart.

The FBI resented the implication that enemy agents had the run of the waterfront. Nearly everyone in the end agreed there was no sense in wrapping up marine and industrial information and handing it to the Germans. But the Maritime Commission was still worried about the possibility of not getting insurance placed before ships were ready to sail. Other agencies were bothered about industrial plant insurance. For months they urged us to look for a solution that would permit the insurance business to be carried on as usual. Why not set up an interdepartmental committee of qualified economists and experts to sit in consultation with members of the insurance industry? They could pass upon specific items of information, deciding in each case whether the release of the information would substantially harm the war effort or give help to the enemy.

We stuck to our guns and insisted that the simplest thing to do was to tell the insurance companies that this particular practice had to stop. Let the people in the business, who were already familiar with conditions in their industry, figure out how they could adjust themselves to the new circumstances. We felt that government, wherever possible, should operate through laws, not by setting up more and more administrative tribunals to command or forbid particular acts. We pointed out that the Lloyd's group had solved a similar problem by sending over from England a resident representative with power of attorney to make commitments on behalf of the British companies without sending information out of the United States.

Our stand for a government of laws, not men, got no support from the Solicitor General. Mr. Fahy overruled us again, and discussions continued on how to set up an interdepartmental screening committee. After several months of this, even men from the insurance business began to ask the Attorney General to send his letter so that they could get the bureaucrats out of their hair. In the end the letter was sent out, nearly a year and a half after the leakage had first been brought to the attention of an agency of the government, and over four months after we in the Economic Warfare Section had taken up the case and pointed out what uses the Germans could be making of the information.

Actually the Germans made plenty of use of it. Nearly three years later, in the summer of 1945, in the files of the Munich Reinsurance Company and the German intelligence service, we were to find bundles of photographs, blueprints, and detailed descriptions of whole industrial developments in the United States, many of them obtained through insurance channels. Together they made up the vital statistics of our war economy.

Nothing was ever done to restrict the circulation of insurance inspectors' reports within the industry, inside the United States. A few weeks after Joe Borkin made his dramatic purchases, an FBI agent appeared at Borkin's office in the Justice building and demanded to know why Joe, who is not in the insurance business, had been buying up this type of information. The FBI, with its attention focused on security of information about war plants, had seen nothing unusual until someone outside the insurance field showed an interest in information that was freely accessible to anyone in the business. Like the characters in the Chesterton story who failed to suspect the mailman, even the G-men had a blind spot for "security leaks" that occur in what is regarded as the normal course of business.

This reminder of how hard it can be to warn others about a new kind of danger was a disturbing thought as we prepared that February night in 1945 to take off for Europe. How were we going to fare when we ran up against real demonstrations of German economic power and ingenuity, where the opposition to change would be a lot more formidable because it would be carefully engineered? The answer was not long in coming.

We settled down out of the sky over England into a fog-covered beehive called Bushy Park, headquarters for the future military government of Germany, then known as the U.S. Group Control Council. Brigadier General Cornelius W. Wickersham was in command and it was on our way to report to him that we got our first forewarning of opposition to come. Together with Norman Bursler and Alexander Sacks, I was walking through the hall of a temporary wooden office building when Alex pointed to the name of Colonel Graeme K. Howard over the office door of the Director of the Economics Division. Howard was the author of a book, written in 1940 before the United States entered the war, called *America and a New World Order,* an apologia for the Nazi economic system that might just as well have been titled *You Can Do Business with Hitler.* Now it looked as though we were to be working with him and with others like him in an effort to reconstitute Germany on a new pattern.

Colonel Howard was only the first of many who turned up, riding into Germany with the future military government, helping to deflect the policy back into old grooves. Colonel Howard, it is true, was straightway relieved of his duties before we left Bushy Park for the Continent; in fact, just after General Wickersham received a copy of his book from the Intelligence Division. But trick pennies are the same on both sides. The position of economic director was filled by the assignment from Washington of Brigadier General William H. Draper, Jr., on military leave from his position as Secretary-Treasurer of Dillon, Read & Company. This investment banking firm after World War I had taken the lead

in floating the German bonds which put German industry in a position to fight another war.

The men with whom Colonel Howard had already staffed the Economics Division clearly wanted the occupation of Germany to be carried out along quite different lines from those decided upon by the government departments at Washington. Co-ordination between the plans of the Economics Division and the policies laid down by Washington became more and more difficult. The constant carping and the mounting criticism of the official policies became so open that General Wickersham finally found it necessary to issue a formal order to all officers under his command, requiring them to stop their criticism and to support and "advocate" the policies laid down in the Joint Chiefs of Staff Directive.

Our special team was assigned to work in the Finance Division with Captain Norbert A. Bogdan, a charming fellow who had been a vice president of the J. Henry Schroder Banking Corporation, a firm in whose files the Nazi banking affiliations were still warm when the United States went to war. It was a bit of a relief to learn that our connection was to be only temporary and that, because of the rather fluid state of our mission, we could soon move over to Versailles and be assigned to SHAEF. There I was asked to prepare a staff study that resulted in General Eisenhower's sending out a major policy cable, designated SCAF 239, to the Combined Chiefs of Staff in Washington, stating that he considered it necessary to investigate further the flight of capital assets which German industrialists were spiriting out of the country to escape seizure. Then, even before the reply came back, SHAEF sent out another cable, this time to the War Department, announcing that in advance of approval of the whole program by the Combined Chiefs of Staff our small team of investigators was being sent into the field. SHAEF asked for additional qualified personnel to be sent over from Washington to join us.

Our next problem was to map out our moves to follow those of the armies. Since we were civilians attached to SHAEF, each of our movements into operational territory had to be cleared down the chain of command, like a pinball looking for the jack pot, through army group to army, and sometimes even to the particular corps and division in charge of the area we wanted to cover. We studied the top-secret operational plans and their allocation of geographical objectives to different army groups. We projected our movements so that the centers of our investigations would fall one after the other along the line of advance of a particular army group. Most of our investigating in the end was carried out in General Bradley's Twelfth and Field Marshal Montgomery's Twenty-first Army Group areas.

CHAPTER 3

The Heavy Timbers

GENERAL Eisenhower's armies between D Day in 1944 and V-E Day in 1945 slashed an incision across the body of Europe. It was radical surgery to remove what the Nazis had laid out through seven years of contriving and five years of military occupation. No one who saw any part of the operation will be likely to forget how the details of life at all levels — bodies, personal effects, bathtubs, business papers, confidential government files, family skeletons — all lay exposed in the wake of combat. I remember particularly a family at Düsseldorf, living on the third floor of a building that had been cross-sectioned by a bomb. They always looked with some show of modesty both up and down the street before stepping into their open-air bathtub.

In a surprisingly short time, old habits returned, privacy reasserted itself, papers were gathered up and tucked away, flowers and vines grew over debris. But for a while there were no secrets. In those brief weeks before the incision closed, the Allied governments overlooked rights of privacy and constitutional immunities from "searches and seizures." Immediately behind the blade of Eisenhower's knife came the "T" forces, with their affiliated groups of specialists, to search for anything and everything that would throw light on the underlying causes of Germany's military outbreaks.

This determination to probe and search was typical of the "never-again" feeling that predominated. Allied policy in 1945 was full of solemn promises and "morning-after" resolutions. It would have been hard not to catch some of this spirit as we moved toward the forward areas to pick up the trail of the economic war lords.

President Roosevelt had said a few months earlier that defeat of the Nazi armies would have to be followed by complete eradication of the weapons of economic warfare. After World War I there had been the same "never-again" resolves; and we had already witnessed a complete cycle ending in failure. Before we left the United States, the Economic Warfare Section prepared a report which analyzed the errors of the occupation after the other World War, and showed the measures that Germany had used to defeat the occupation and to play the Allies one against the other. I carried a copy of this report with me all the time I was in Germany. By mid-1947, I had already checked off the first twenty pages, paragraph by paragraph, week by week, in a pattern of repetition. But in the beginning, in 1945, we were open-minded and sometimes even hopeful about our prospects.

We knew that the economic policies for dealing with Germany had been prepared at Washington with some understanding of the ways in which reforms might be defeated. It was our intention to carry these policies along in the way that miners carry canaries to detect poison gases. We knew from the beginning of the occupation that once these economic reforms fell, other reform measures would not survive for very long.

We were scarcely flying blind when we made the Ruhr our foremost objective. The struggle over the Ruhr had brought the first major breakdown of Allied policy in 1923 when Britain and the United States refused to back up the French occupation of the valley; and ten years later the financiers and industrialists of that area had boosted Hitler into the driver's seat.

In recent years there has been so much confused thinking and pro-German propaganda about the place of the Ruhr in the European economy that we have to keep in mind that this area is important principally because it has very large deposits of good coking coal. Its growth as a steel center was a phenomenon of the 1920's, after World War I. The Ruhr became the site of Europe's biggest steel plants less for economic reasons than as part of a struggle for power between Germany and France. In the beginning it was French Lorraine and not the German Ruhr that was the chief center of Western European heavy industry.

From the time Germany took control of Alsace and Lorraine in the War of 1870, up until the end of World War I, the Germans organized the steel industry of the combined Ruhr-Lorraine area strictly on the basis of economic and technical efficiency. They designed the steel plants and coke works to maintain the best balance of transportation facilities, centers of production, and outlets for products.

Under this arrangement most of the blast furnaces were near the ore supplies of German-held Lorraine, and most of the coke works were near the coal supplies of the German Ruhr. This saved on transportation because in the production of pig iron three tons of Lorraine ore are required for every ton of coke. However, because iron ore is very heavy and coke is light and bulky, they built a few coke works in the Lorraine near the steel plants, and a few blast furnaces and steel works in the Ruhr near the coke plants. Thus a mixed shipment of ore and pig iron eastward from the Lorraine to the Ruhr, and a mixture of coal and coke westward from the Ruhr to Lorraine kept the railway trains and locomotives fully loaded in both directions.

After World War I this efficiency of production yielded in the face of a German play for power. The Versailles Treaty had required Germany to deliver to France seven million tons of coal a year for ten years. France depended upon a vast quantity of coal from the German Ruhr because the ore beds of Lorraine were too far from channel ports to make possible a switch to British coal. So reacquiring Lorraine meant little to France, industrially, unless access to Ruhr coal went with it.

In 1913, before the war, the Germans had shipped nearly one third of their entire Ruhr and Rhineland coal output to the iron and steel plants of Lorraine. During 1922, although the Ruhr output was approximately the same as it had been in 1913, the deliveries to France were not even 70 per cent of the 1913 shipments. And that was the peak year. In 1919, 1920, and 1921, the deliveries totaled much less than half the 1913 deliveries.

Six months after the Treaty of Versailles went into effect, the German industrialists of the Ruhr and Rhineland had completely repudiated the delivery of fuel as reparations.

A special conference was called to work out a new agreement. At the Spa Conference of July 5, 1920, the Allied negotiators faced a battery of German representatives who were destined to figure prominently in the economic debacle of the late 1920's and in the support of Hitler's rise to power. In addition to the coal magnate, Hugo Stinnes, and Carl Bosch, slated to head the huge new I.G. Farben chemical combine, these leaders included Fritz Thyssen and his Emergency Committee of five other Ruhr industrialists; Gustav Krupp von Bohlen und Halbach and four other Krupp directors; Albert Vögler, director general of the Stinnes concern and member of the Reichstag; and two other noteworthy steel magnates, Florian Klöckner of the Klöckner combine and Otto Wolff, head of the Phoenix Works and the Otto Wolff complex. In retrospect, it was a *Who's Who* in the rise of the Nazis.

The Germans were ingenious in their explanation of why they could not ship more coal. They said they had to have some way of getting enough money out of it to hasten their economic recovery. Actually, their financial distress was not caused by a lack of material goods inside Germany, but by the monetary inflation. The inflation had been given a shot in the arm when the German government at the insistence of the Ruhr industrialists paid out hundreds of millions of marks as indemnities to the iron and steel companies for their losses in ceding the Lorraine plants to the French. But no one asked the why of the inflation. German economic distress was accepted as a fact. The Germans went on to explain that they needed more food for their undernourished miners to enable them to increase production.

The Allies gave in to the demands of the Germans. In the Protocol of Spa issued at the conclusion of the conference, the Allies agreed to pay one dollar in gold for every ton of fuel delivered by Germany. The purpose of this payment was to provide more food as an incentive for the Ruhr miners. This payment was in addition to sizable loans which the Allies were already required to make to Germany under the Versailles Treaty. The loans were to make up the difference between the German domestic price of coal and the prevailing export price at British seaports. At the time of the Spa Conference this difference amounted to nearly ten dollars per ton; and the Allies agreed to continue advancing loans at this rate in addition to the one dollar per ton to feed the miners.

Over the next six months Germany received about one hundred million dollars in combined payments and loans in return for not quite eleven million tons of coal. Thus what was nominally supposed to be reparations was in any practical sense tantamount to an ordinary sale of coal at a very good price.

The shortage of coke shipments to France was not due to short production in Germany. Germany had suffered no war damage whatsoever inside its own borders during World War I. On the other hand, much of the iron-producing territory reacquired by France had been the scene of the bitterest fighting of the war. More people know Verdun as a battlefield than as a steel center. Nevertheless, it was the breakdown of German deliveries of coke to France, not failure of the French to rebuild their factories, that stopped French iron and steel production after 1920.

The German Ruhr magnates were converting the greater part of Germany's coal production into coke for new German plants in the Ruhr. They were building an entirely new complex of iron and steel plants to replace those ceded to France after the war. The new plants in the Ruhr were to get the bulk of their ores from the high-grade deposits of Sweden, Spain, and Newfoundland. The extra costs of the long overseas haul were offset by German government subsidies and indemnities.

The purpose of this German strategy was destined to become clearer as the postwar adjustments of the 1920's unfolded. During the first years after the war, when coal was scarce in Europe, the German coal producers held the whip hand over France. Since the cost of coal accounted for three fifths of the cost of French pig iron, whoever controlled the cost of coal could control the competitive fate of French iron and steel. German coal producers, who also sat on the managing boards of the German state railways and the new steel firms, arranged exorbitantly high freight rates over the German railways from the Ruhr to the French border. At the same time, drastic cutbacks in ore importations from France produced a further temporary reversal for the French industry. The new German plants got a good head start.

In spite of the relief afforded by the Protocol of Spa, the German government and industrial leaders continued to drag their feet. On January 11, 1923, four years after the Treaty of Versailles went into effect, coal deliveries broke down. French and Belgian troops were sent into the Ruhr to compel deliveries of coal and coke at the rate required by the Treaty, which was only about 60 per cent of what Germany had been in the habit of shipping into the same area before the war. The German coal and steel industrialists countered with new threats and demands. The German miners staged a sit-down strike. To keep up production in factories outside of the occupied Ruhr area, the Germans imported British coal through the port of Hamburg. At the same time, the German government appointed a coal commissioner to conserve coal. The commissioner announced that with suitable economies the stocks of coal in unoccupied Germany would last for nearly six months. Total imports of British coal into unoccupied Germany in March 1923 alone amounted to two million tons. On August 11, 1923, the British sent a note of protest to France complaining that the Ruhr occupation was hampering European recovery.

On August 12, 1923 Gustav Stresemann became Chancellor and Foreign Minister. To settle the matter of the Ruhr occupation he held a conference with the same group of industrialists who, a few years later, were to take the lead in forming Germany's largest iron and steel combine, the Vereinigte Stahlwerke or United Steel Works, with the help of loans from the United States. The question in the minds of the German industry men was how to establish a superior bargaining position before receding in the face of French insistence. One of the steel men, Otto Wolff, stated that Germany could indeed co-operate with French industry, but that France must first place at Germany's disposal the money to help reconstruct her economic life.

The occupation of the Ruhr resulted in a deadlock. The German government claimed there was no money in Germany to pay the Ruhr mineowners for the coal they were expected to ship. The mineowners lamented that they would be bankrupt if they could not obtain payment for their deliveries to France.

The deadlock was broken when the United States stepped in

and offered the Dawes Plan, which called for balancing the German budget and an initial loan of two hundred million dollars to stabilize the German currency. The plan was approved by the Reichstag on April 16, 1924. The delivery of "reparations" was resumed for a time, while the Germans moved on to the next stage of their resistance. At the very time that the Germans were protesting inability to meet reparations, the entire country was quietly rearming under the very noses of the occupying powers.

After several years, when coal had again become plentiful on the European market, the German groups had already developed answering moves to block any attempt of the French or the Belgians or the Luxembourgers to compete with the new German setup. During the years of coal scarcity the German steel producers took the lead in organizing an international association to guarantee the steel industry of each western European nation a fixed share in the export markets for all types of steel products.

In return, the steel makers of each country agreed to limit production to a fixed quota, with cash penalties for production or exports beyond the agreed amounts. This association, known in German as the Internationale Rohstahlgemeinschaft, in French as the Entente Internationale de l'Acier, in English as the International Steel Cartel, with its offices in a stone building two blocks off the Grand'Rue in Luxembourg, became the privately organized policing system that governed the steel trade of the world from 1926 to 1939. Within a very few years after its formation, the Germans ran the cartel and could shape its policies to meet their demands.

These were some of the main steps by which a small group of German industrialists, deriving their power from ownership of coal mines, steel works, and chemical plants in western Germany, contrived to avoid the economic consequences of Germany's defeat in World War I. It is true that the industrialists did not take matters directly into their own hands. The steps themselves had to be taken by governments. The Treaty of Versailles was an act of the Allied governments, representing their combined judgment of how the issues of World War I ought to be decided. But what actually happened after that was dictated not so much by the diplomatic treaties of governments as by the bargaining of powerful business groups. The German businessmen were interested first in their companies, not in national political obligations. The German steel companies whose Lorraine plants had been turned over to France, and the coal producers whose output was to be shipped to France, were not impressed by the argument that Germany as a nation somehow "owed" France as a nation some recompense for war damage. If they gave up their companies' property for a national debt, it was their balance sheets that showed the loss.

The horizontal separation of private interests from government policies went even further. The struggle of the interwar period was not simply a clash between French interests on the one side and German interests on the other. During the development of the Ruhr-Lorraine industrial complex, like-minded industrialists in France and Germany had become directors of jointly owned and jointly controlled financial, industrial, and distributing enterprises. In many cases common views on questions of economic organization, labor policy, social legislation, and attitude toward government had been far more important to the industrialists than differences of nationality or citizenship. After 1870 the interdependence of the French and German iron and steel industries led the owners to work together despite national differences, although the private activities of the French owners were, in many instances, in direct opposition to French public policy. It is curious to note that only the French appeared to have this conflict between public policy and private activities. On the German side, complete co-ordination seems to have been preserved between national and private interests; between officials of the German Republic and the leaders of German industry and finance.

During World War I the de Wendels, the influential French-German banking and industrial family which headed the French wing of the International Steel Cartel through their Comité des Forges and whose members had sat in the parliaments of both France and Germany were able to keep the French army from destroying industrial plants belonging to the German enterprises of the Röchling family. These plants were located in the Briey Basin, a Lorraine ore field then in German control.

The Röchling family, with their powerful complex of coal, iron, steel and banking enterprises in Germany, has for generations played in close harmony with the de Wendel family. For a century, the descendants of Christian Röchling have dominated the industry and commerce of the Saar Basin. It was Hermann Röchling who arranged the return of the Saar to Germany in the plebiscite of January 1935 by organizing the *Deutsche Front,* which delivered 90 per cent of the votes to the Nazis. Though seventy-two members of the Röchling family have survived two world wars and are still active in the business of the Saar today, two other members of the family, Hermann and his brother Robert, deserve a special place in history. During World War I, Hermann, a cavalry captain in the German army, and Robert, a major, had been put in charge of production in the Briey Basin. After the war, when the brothers Röchling moved out of the areas which had to be ceded to France under the Treaty, the two of them carried away bodily a couple of large steel plants.

Conceiving this grand larceny to be something in the nature of a war crime, the French government tried the brothers Röchling *in absentia* and sentenced them to forty years in prison. But the German government never would give up the Röchlings to the French. For the next twenty-two years the brothers were under this cloud as far as the French government was concerned. On the other hand, as far as the French steelmakers' association, the Comité des Forges, and in particular the de Wendels who headed the Comité, were concerned, business as usual—or in this case, business as unusual—prevailed. In the end even the French government weakened for business purposes, though the war-crime sentence remained. When it came time for France to build its impregnable Maginot Line, who should be called in to supply steel and technical assistance but the German firm of the brothers Röchling. If the French behaved in this case as did the Americans during World War II in the case of insurance coverage on war plants, they doubtless placed plenty of guards to protect the security and secrecy of the Maginot Line construction from the prying eyes of the general public while the blueprints rested safely in the hands of the only people to whom they mattered: to wit, the enemy.

Now comes the outbreak of World War II. The French army marching into the Saar during the "phony war" period in 1939, received orders not to fire on or damage the plants of the "war criminals," the brothers Röchling. In 1940 came the blitz and the fall of France. The Vichy government passed a decree exonerating the Röchlings and canceling their forty-year prison sentences. In 1945 came the blitz in the other direction. As we were starting out to round up the key industrialists, the Röchlings fell once more into the hands of the French; but this time it was the French army, acting in its role of representative of French public policy. Again the order of the day was "the Röchlings, war criminals." In 1947, Hermann Röchling was tried by an international court in the French zone and convicted of waging aggressive war. He was sentenced to seven years imprisonment. Robert had died before he could get his criminal record in order; but since there are still seventy-two Röchlings to go, it is not yet possible to write the final chapter to their history.

In 1945, in contrast with the close working arrangements kept through at least two wars by the Germans and the French iron and steel groups, the French public policy seemed still to have a healthy dislike for any setup that would leave German industry dominant in western Europe. French officers like René Sergent, who became head of economic and financial affairs for the French group in the Control Council at Berlin, seemed to distrust the intentions of Germany's industrial leadership. The Germans, according to Sergent, had established quite a record for insisting upon and carrying out measures to prevent the Allied powers from rendering Germany harmless. Of course, no one should expect a German political or business leader to want to be harmless. Most Germans who meant anything in German industry or politics after World War I considered it an act of patriotism to evade the terms of the Versailles Treaty. In fact, in the years after Versailles, the German courts would entertain prosecutions for the crime of high treason against any German citizen who concerned himself with the execution of the Treaty "in such a way that a foreign power was advised of infractions."

Clearly, the Germans themselves would expect to be supervised and watched. It would be a point of honor, as well as self-interest, to defy detection, and to camouflage or conceal their intentions. From our discoveries during three years with the Economic Warfare Section, we had already narrowed down the list of Germans who carried the major responsibility for what had happened. The list was impressively small; for somewhere among a group of not more than a hundred men were those who had done the lion's share of the planning and had carried out the world-wide negotiations that made the economic preparations for war a success. Still, even a list of a hundred important individuals, controlling sixty or seventy of the biggest companies, was too large for pinpoint investigation by our small crew. Were there some five or ten or twelve men among these who stood head and shoulders above the others either in knowledge or in degree of responsibility for the German efforts? Perhaps the records of the International Steel Cartel at Luxembourg would furnish clues to help us concentrate our attention first on a few individuals and a few companies in Germany. But Luxembourg was "liberated" territory. One could not simply walk in and open up filing cases and take a look.

In March 1945, Luxembourg as yet had no government of its own. The Grand Duchy was under the protection of an Allied Military Mission, headed by an American, Colonel Frank E. Frazer. To get permission even to negotiate with the Luxembourgers for a look into the records, we had to show how the inquiry would contribute toward investigations in Germany itself, which fell within the mandate of General Eisenhower's cable to the Combined Chiefs of Staff, SCAF 239. It was a hen-and-egg paradox. To get what we needed from the Luxembourg records, we had to know what we were going to find out in the Ruhr. The Ruhr at the moment was bulging with Wehrmacht units.

CHAPTER 4

The Fraternity Brothers

ON April 14, 1945, the Grand Duchess Charlotte returned to resume her constitutional sway over the Grand Duchy of Luxembourg. This little Graustark or Ruritania with a thousand square miles of territory and three hundred thousand inhabitants, squeezed in between Germany on one side and France and Belgium on the other, is a maze of contrasts from almost any standpoint. Its official language sounds like Flemish with a dash of French, and looks like German. People on the street thank you with a mixed French-German "*merci, viel dank*" or "*merci viel mahl.*" But most of the people who speak this mixed language are more violently anti-German than their French neighbors to the west.

In contrast with the unproductive German terrain immediately to the east, which looks exactly the same so far as soil and contours are concerned, most of Luxembourg, and especially the northern half, might be called fiercely agricultural, with very high productivity. Even though the northern half of the Grand Duchy was overrun and most of its farmhouses destroyed during the Battle of the Bulge, while the German territory to the east was practically untouched, Luxembourg's agriculture bounced back immediately after the second liberation early in 1945. Within two years Luxembourg was 90 per cent self-sufficient in food. The Germans across the line, after two years, were still pleading for food to stave off starvation.

The Industrial Revolution had come to Luxembourg with the discovery of domestic deposits of minette ore in 1870. This was the same year in which Bismarck's armies snatched the minette ore fields and other resources of Alsace-Lorraine from France on behalf

of the growing Reich. But for many years Luxembourg's industry kept its independence from German control. The largest steel firm, the Aciéries Réunies de Burbach-Eich-Dudelange, known as "Arbed," even reached into German territory. Just before World War I, Arbed got control of enough coal-mining properties in Germany near Eschweiler in the Aachen Basin to assure a full supply of coking coal to the Luxembourg mills. Arbed next established the largest steel cable works in Europe, the Felten & Guilleaume Carlswerk, at Cologne on the Rhine. Between the two wars, however, this independence had become obscured while Luxembourg played host to the steel cartel.

A week before the Grand Duchess returned, a small group of our men from SHAEF headquarters finally got permission to enter Luxembourg and negotiate a trip through the files of the International Steel Cartel. Though they wanted to look for the particulars of German control and to identify the Germans who had been pulling the strings since the cartel was organized in 1926, our men had to proceed carefully because nothing could be done without the voluntary permission of the cartel's officers.

Quite by accident, our team arrived on a Saturday, and simultaneously with a visit by General Eisenhower. The officials of the steel cartel somehow gained the impression that General Eisenhower's visit had been made especially to lend additional high-level sanction to the visit of the Department of Justice officials attached to SHAEF. Hector Dieudonné, secretary of the cartel, and the other top cartel officials, who were heading for the country over the week end, told Eric Conrot, the office manager, to "give every assistance" to the gentlemen from SHAEF. M. Conrot unexpectedly took the instructions quite literally. He opened up all the filing cabinets in the office of the cartel and invited the gentlemen from SHAEF to make themselves at home for the entire week end. They did.

It is not hard to imagine the hair-pulling among the top officials when they returned Monday morning. They found an extremely weary and sleepless investigative crew sitting among a mass of folders from which an index had been compiled of close to four thousand documents. The investigators expressed their gratitude and said they would very much like permission to make photostats of the four thousand documents. With a great deal of grinding of teeth and scarcely restrained mutterings at M. Conrot's misunderstanding of diplomatic language, they finally gave their consent, but not without making a protest that their hospitality had in some way been abused by what amounted to "police" methods.

The four thousand documents had opened up a panorama of international ties among all the major steel firms of the world, including the details of their working relations with the Germans from the time the cartel was organized.

While the crowds were milling about in front of the Royal Palace in a tremendous demonstration over the return of the Grand Duchess, M. Aloyse Meyer, managing director of the Arbed steel combine, returned quietly to the city of Luxembourg from Germany. He had left when the Germans left, but came back with the explanation that he had been kidnaped.

M. Meyer for years had been more than the managing director of a large steel enterprise. Ever since 1928, he had been permanent chairman of the International Steel Cartel, and during the German occupation he had been appointed by his long-time German business associate, Ernst Poensgen, to be the leader of the steel industry Wirtschaftsgruppe in Luxembourg. Poensgen, principal figure in the United Steel Works of Germany, had played the leading role in establishing the International Steel Cartel in 1926. During World War II, Poensgen was appointed to head the steel industry association, one of the main divisions of the Nazi Reichsgruppe Industrie, an officially sanctioned national association of manufacturers. It was not surprising that he chose his Luxembourg associate, M. Meyer, to handle the affairs of the Wirtschaftsgruppe in occupied Luxembourg.

Upon the occupation of Luxembourg by the Germans in 1940, the Arbed firm had not been taken over directly by the Germans, but continued to function under the direction of Aloyse Meyer throughout the occupation. The other two Luxembourg steel companies, Hadir and Rodange, were taken over by the Germans when the managers refused to collaborate.

After the liberation of Luxembourg, nineteen men who were

department chiefs, production men, and engineers of Arbed were dismissed for collaboration, while Meyer remained as head of the firm. The official attitude was that Meyer had become a hero by keeping his firm intact during the war and thereby preventing the removal of Luxembourg workers from the local steel plants to Germany for work in the German plants. Some officials even alleged that the Arbed management had arranged to slow down production and thereby sabotage the German war effort, but the comparative figures for Arbed and the other two Luxembourg firms did not bear this out. Actually, limits by the Germans on coal exports accounted for the same reduced production rate in all the Luxembourg mills.

What the Luxembourgers chose to do with Aloyse Meyer did not change what was on the papers in the files of the steel cartel. It was not necessary to wait for photostats of all the thousands of documents to realize that we now had an enlarged picture from which to work. Here was something that had gone beyond mere German resistance to the occupation measures of the Allied powers after World War I. It was a concrete example of how leading German manufacturers had gone about the job of recapturing control over industries and markets and making Germany the "industrial hub of Europe." This was not resistance, but a counterattack that included enlisting the help of industrialists in other countries. Here again the step-by-step history threw some light on what had happened, but at the same time raised questions about why the others let the Germans get what they wanted.

The mid-twenties were remarkable for German industrial combination. They marked the formation of the United Steel Works in Germany, as a combination of the four biggest steel producers. Ernst Poensgen, Fritz Thyssen, Otto Wolff, and the others who drew this combine together had managed to get over a hundred million dollars from private investors in the United States. Dillon, Read & Company, the New York investment house which brought Clarence Dillon, James V. Forrestal, William H. Draper, Jr., and others into prominence, floated the United Steel Works bonds in the United States behind a glowing prospectus which declared that the United Steel Works Corporation (Vereinigte Stahlwerke) "will be the largest industrial unit in Europe and one of the largest manufacturers of iron and steel in the world, ranking in productive capacity second only to United States Steel Corporation." The formation of United Steel gave its management tremendous power in Germany: enough to carry through without delay the organization of the German domestic steel cartel, and to guarantee the "good behavior" of all German steel companies in their agreements with foreign firms. In 1925 the I.G. Farben chemical combine was formed by six of the biggest German chemical producers and the next year the International Steel Cartel was created through a private international treaty or working arrangement among the principal steel producers of the world.

The events were not unrelated. All of these organizations had a number of directors in common and were part of a privately managed "rationalization" scheme for controlling the basic industries of Europe and regulating the international trade in the products of the basic heavy industries. In the case of steel, the motives of the German groups were clear. Cut off by political boundaries from organizing a German-controlled steel industry based on the most efficient use of resources, the German managers who formed the new combines aimed to improve their commercial position by establishing control over the market. If they could not have economy in production, they could still run a profitable business provided they could control domestic and international marketing conditions by agreement. They could not afford to let possible competitors in France, Belgium, Luxembourg, Britain, or the United States start a struggle for markets. These others would have advantages based on more efficient production or distribution facilities, especially while the Germans were setting up their plants designed to use ores from far away points overseas.

The loans which the bigger operators got from Britain and the United States to put them on their feet after the inflation also enabled them to pay prices far above the market values to buy out troublesome competing firms. In effect, the foreign loans and German government subsidies allowed the leading companies, such as United Steel Works, Mannesmann, Krupp, Good Hope and Röchling, to substitute private regulation and elimination of competition for the technical efficiency they had lost when their plants in Alsace and Lorraine went back to French control after 1918.

After combinations like United Steel and I.G. Farben had pulled together under common control a great proportion of the existing capacity, they built still more plants and added more machinery. But the amount of goods manufactured did not grow in anything like the same proportion. At the height of the boom, in 1928, the whole German steel industry was running at only a little over two thirds of its capacity. In other fields of heavy industry, actual production was as low as 10 per cent of the installed capacity. In the construction of locomotives, a field monopolized by the Borsig and Henschel combines, output at the height of the boom was only 5 per cent of capacity. Later, in World War II, when Henschel specialized in "Tiger" tanks and 88-millimeter guns, the formerly idle capacity came into its own.

Unfortunately, the bondholders who put up the money for these increases in heavy industrial capacity never got the benefit of the supposed "strength" and "soundness" of the companies. The low output in relation to the large capacity meant a huge unpaid debt to foreign investors who had bought the bonds. The companies were technically bankrupt until saved by government subsidies; but the subsidies were arranged only after payments to foreigners had been forbidden by foreign-exchange regulations. After piling up a record like that, a private citizen might have trouble getting money even from a loan shark.

From a long-run standpoint, the records indicated that the organization of the German iron and steel industry was wasteful. A commission known as the Enquête Ausschuss had been appointed by the German government early in the 1930's to investigate conditions that had led to the industrial depression. The commission had found that the steel industry was clumsily put together and was overexpanded in proportion to Germany's light industry and consumer-goods production. By fixing their sights on control of domestic and international markets, instead of meeting the economic needs of German industry for iron and steel, the German steel industry had put itself into a position where control must be maintained over international markets or the industry must go bankrupt. But German steel products could be distributed in international trade only so long as no foreign competitors undercut Germany by competitive selling.

The Nazi Economic Ministry later gave due recognition to Dr. Poensgen for his services to the German iron and steel industry through his organization of the national and international steel cartels. October 17, 1941, Poensgen's seventieth birthday, was celebrated in the Stahlhof at Düsseldorf as "Ernst Poensgen's Great Day." As the *Deutsche Bergwerks-Zeitung* reported, so many leading personalities of business and industry had seldom been seen together. The Nazi Economic Minister, Walther Funk, was personally present to award Poensgen the Eagle Shield of the Reich which put him, as Funk said, "into a class with men like Robert Bosch, Carl Duisberg, Emil Kirdorf, Albert Pietsch and Krupp von Bohlen und Halbach." Funk paid tribute to Poensgen's contribution in organizing the cartels which he said "will have great importance in the reconstruction of Europe after this war." Concluding, Funk said: "The Führer has ordered me to present to you the Eagle Shield as a special tribute to an economic leader who has performed extraordinary services in arming Germany."

When the first international agreement was signed on September 30, 1926, between leading iron and steel producers of France, Belgium, Luxembourg, the Saar and Germany, all the sponsors of the cartel had joined in declaring that it was a first step in the formation of an "economic United States of Europe."

Dr. Poensgen and his helpers, however, had more immediate interests. They had contrived the original terms of the organization so as to play upon two strong motives: fear of German competition, even though the German mills would have been able to compete only through money borrowed in the United States and Britain; and the desire of the "leading" firms in each country to enlist the power of German industry as an ally in crushing their own domestic competition. Membership in the cartel was not open to individual companies, but only to the national associations to which they belonged. These associations bound themselves to limit their entire national steel production and the total volume of sales in domestic and international markets. Domestic sales were controlled by all

parties agreeing not to undersell in each other's countries, so leaving the member companies only the nonmember companies within their own boundaries as competition, to be eliminated by drastic short-term price cutting or by purchase. The international markets seemed secure because, although the charter members in 1926 accounted for only 30 per cent of the world's ingot steel production, they accounted for nearly two thirds of the world's exports. All members agreed that in foreign markets they would not undersell each other but would undersell any nonmember in order to drive him out of the market.

In order to get the cartel started, the German group at first accepted a production quota for themselves which they considered very low in proportion to their actual steel capacity. The German quota for the first year was a little over 40 per cent of the total for all five groups. The cartel had been in existence only a few months, however, when Paul Reusch, chairman of the German national group, and also a director of the Good Hope steel works, said that Germany would try to get an increase in its quota and that the original low quota had been a concession to get the agreement established.

Under the cartel agreement, excess production and sales by any national group, beyond the established quota, was subject to a penalty at various rates up to four dollars a ton. Any fines paid by members for producing and selling too much were to be used as a fund out of which to recompense cartel members who produced and sold less than their allowable quotas. This provision seems to have lulled most of the members into a comfortable and careful state. Most of them stayed well within their quotas.

But not so the Germans. In the first year of the cartel's existence, the Germans paid fines amounting to $10,038,000, covering excess production of 3,372,000 tons. This excess tonnage alone was almost equal to the entire annual output of the Belgians. The fines paid by the Germans accounted for 95 per cent of the total penalties incurred by all the original cartel members during the first year. The advantage to the Germans showed up in later years. With their greatly expanded capacity they next threatened to disrupt the organization unless the quota scheme was revised to give them a higher quota. Before the first year was out, the Germans, in addition to a higher quota, got an agreement that 72 per cent of their quota should be regarded as production for German domestic consumption, on which the penalty for excess production was to be only half that established in the 1926 agreement. In September 1927, the penalty on excess production for domestic consumption was again cut in half. The full penalty was to be paid only on the 28 per cent of German output which was to be regarded as production for export.

In the second year of the cartel, 1927, German steel production of 16,311,000 tons was nearly 4,000,000 greater than in 1926. France in the same year decreased production by 54,000 tons, down to a total of 8,403,000 for the year. From this point on, Dr. Poensgen's "extraordinary services in arming Germany" continued with the same kind of success. Alternating threats and concessions consistently increased the ability of the German group to control quotas and limit the production of the non-German members almost at will. Small wonder that when the International Steel Cartel was first set up, in September 1926, just three weeks after Germany had joined the League of Nations, a member of the Reichstag, Dr. Reichert, declared that, by means of this agreement, "important consequences of the Versailles Treaty can be mitigated." As we wound up our work in the files of the Steel Cartel, we could see that this arrangement had gone very far indeed in "mitigating the consequences" of the Versailles Treaty.

By 1938, about 90 per cent of all iron and steel shipped in international trade was under the control of the International Steel Cartel. The membership by that time had been expanded to include the major steel producers in Austria, Poland, Czechoslovakia, the United Kingdom, and the United States, but the Germans were still running the show. What could one of the non-German groups hope to get out of membership in the cartel?

The American firms went to some legal risk in order to join. Among the documents we photostated at Luxembourg were memoranda of agreements in which it was said that the American concerns were unable to sign the formal agreements for division

of territories and restriction of markets because of the antitrust laws, but that a verbal agreement to the same effect had been secured.

The records showed that as the activities of the International Steel Cartel expanded it had become obvious to the Europeans that without the co-operation of American steel companies they could not hope to maintain their control over international markets. The tremendous productive power of the American steel industry was the problem. If American producers were free to sell steel products in international trade at competitive prices, instead of complying with the fixed prices and limited marketing areas worked out by the cartel members, then every time the others got the world price up to a comfortable and profitable level the American outsiders could undercut and cash in.

The European group did not really need to worry, however. The three biggest American producers, United States Steel, Bethlehem, and Republic, had their own reasons for wanting to join. From their standpoint, the co-operation of the European producers in blocking or policing the activities of American independents would help maintain and increase the Big Three's control over the American domestic market. The independents, wherever they tried to do business in the rest of the world, would find themselves hemmed in by the "one for all and all for one" spirit of the cartel members, and by the "difficulties" they would encounter in the form of foreign government regulations and red tape. A little of this experience might make the independents more amenable to "reason" where the organized firms were concerned; and this would be reflected even in their behavior at home. But first, the Big Three had to catch their rabbit.

The clause in the international agreement which presented the greatest stumbling block to the American group was Article IV of the export agreement, which read as follows:

> The contracting parties accept the responsibility for the engagements undertaken under the agreement both for themselves and for outsiders in their repective countries, for the present as well as for the future. They shall be debited with these outsiders' exports and shall be responsible for the payment of penalties in respect of

excesses. Both contracting parties shall establish a list of the present outsiders in their territories and shall report as soon as possible about the appearance of new outsiders on their markets.

Up to the end of March 1938, only 58 per cent of the American exports in the heavy steel group were made by members of the Steel Export Association. Since 42 per cent of the exports were made by outsiders, the members of the Steel Export Association had refused to accept responsibility for keeping all American exports within the quota allotted by the cartel to the United States. By June of 1938, however, the position of the American insiders had progressed to the point where they felt it would be possible to give partial guarantees of the good behavior of the American outsiders.

At a meeting held in Paris on June 14, 1938, an agreement was reached between the Joint Co-ordinating Committee of the International Steel Cartel and a delegation from the Steel Export Association of America, representing United States Steel, Bethlehem, and Republic. At this meeting the Big Three accepted unconditionally the terms of the 1937 agreement which had brought the British Iron and Steel Federation into the cartel. The Steel Export Association of America agreed, on behalf of United States Steel, Bethlehem, and Republic, not only that these three firms would abide by the quota agreements of the cartel, but also that they would accept responsibility (as part of their own quota) for some exports by American outsiders. The Big Three would charge against their quota any shipments by independent American firms, up to an amount not exceeding 10 per cent of the quota. If the outsiders' shipments amounted to more than 10 per cent but not over 20 per cent of the American quota, the Big Three agreed to charge half of the excess against their own quota. But the Big Three did not feel able to assume the penalties for outsiders' shipments beyond 20 per cent of the American quota. As in all things, even insiders have to accept slow but steady progress as the means of getting what they are after.

Negotiations on behalf of the American group in 1938 were conducted principally by Benjamin F. Fairless, president of United States Steel; Eugene G. Grace, president of Bethlehem Steel; and Tom Girdler, chairman of the board of Republic Steel. The American group undertook to try to bring ten additional smaller American producers into the agreement by having them join the Steel Export Association. They arranged to have two representatives of the Steel Export Association remain in Europe to continue the relations between the Steel Export Association and the International Steel Cartel. These were Messrs. J. O. Outwater, president of the Steel Export Association, and William B. Todd, who were to work together with the British group through Mr. Ian F. L. Elliott, representative of Sir Andrew Duncan's British Iron and Steel Federation. Mr. Elliott was to turn up several years later as a representative of the United States on the international control authority for the German Ruhr; but at the time his was just one name among many.

More important to us at the moment was the tie-in between Luxembourg and Germany. Despite appearances, Luxembourg, with its thirteenth-century stone parapets and parrot-cage sentry boxes, and its hero, Aloyse Meyer, could scarcely be dismissed as comic-opera material. According to the cartel agreement, the chairmanship of the managing committee was supposed to rotate annually among the participating countries. Actually, the headquarters remained permanently fixed in offices belonging to the Arbed steel combine in Luxembourg. When the first chairman of the cartel was killed in an accident in 1928, he was succeeded by Meyer, who continued as chairman of the cartel until its activities were interrupted by World War II.

For years Aloyse Meyer, as head of Arbed, had been a director of Arbed's subsidiary in Germany, the large Felten & Guilleaume cable works. Working with M. Meyer, and serving as chairman of the board of directors of Felten & Guilleaume, was Baron Kurt von Schröder, Hitler's banker. As far as we were concerned, the line from M. Meyer and Arbed and the International Steel Cartel to von Schröder's private bank at Cologne could have been as thin as a filament of spider's web. We were looking for the spider.

CHAPTER 5

Hare and Hounds

GOING into Germany from France and Luxembourg was like entering a tunnel. The friendly flag-waving of children and grown-ups that enlivened the dusty, jolting ride through towns and countryside in the "liberated" territories gave way abruptly to a black, empty feeling of being alone, moving toward one distant objective. That is how we felt as we approached the German city of Bonn the afternoon of April 16, 1945. Nearly a month before, the "T" force party at Cologne had reported bad luck at the "bank of the cartel kings," Baron Kurt von Schröder's bank. The building at No. 1 Laurenzplatz, near the cathedral, was a wreck. The vaults and records were under twenty feet of rubble and twisted steel. However, the steel cartel files at Luxembourg had given us the location of Baron von Schröder's villa at Bonn, fifteen miles south of Cologne; and we decided to try there.

Nobody was living in the battle-damaged villa when we dropped in that April evening. In a damp cellar room we found a stack of papers, some baled and some loose. The pile was about four feet high and ten in diameter. On top of one bale, under a stack of letterheads, was a folder of letters addressed to Baron von Schröder, some in his capacity as a leader of the Nazi Party, and some in his capacity as a lieutenant general in the SS Black Guards. Quite a few of the letters were on elegant stationery with a letterhead that needed no address or telephone number — a chastely engraved "Reichsführer ϟϟ" was enough. The scrawled signature, "H. Himmler," was simply an added flourish.

The files and account books, all bearing the mark of the Bankhaus J. H. Stein (founded 1790), of Cologne, appeared to be a few tons

out of the many that had comprised the working files of the bank. Their position near the furnace in our host's house did not necessarily mean that he considered them trash. We found very often in Germany that the speed of the advance had been consistently underestimated by Germans of all ranks. Nothing else would explain their common failure to carry through simple precautions like burning papers or blowing up bridges.

The letters from Heinrich Himmler to Baron Kurt von Schröder were interesting but monotonous. The man seemed always to be asking for money. Nor was he interested in small change. The amounts were nice round figures running into the hundreds of thousands and often millions of reichsmarks.

The Schröder family of Hamburg, into which Baron Kurt von Schröder was born in November 1889, had been bankers for generations. In a preceding generation, Baron Johann Heinrich von Schröder had moved to London, adopted the anglicized name, J. Henry Schroder, and developed an extensive business financing overseas trade, especially with Latin America.

Another member of the family, Baron Bruno von Schröder, Kurt's cousin, born in Hamburg in 1867, moved to London early in life but retained his German citizenship until 1914 when he became a British subject. Baron Bruno headed the banking firms J. Henry Schroder & Company of London, and the J. Henry Schroder Banking Corporation of New York until his death in 1940, when he was succeeded by his son, Helmuth W. B. Schroder, the present head.

There appeared to be no community of ownership between the Stein Bank of Cologne and the Schroder Banks of London and New York, though the two groups acted as correspondent banks for one another and participated jointly in so many deals that what the Germans call an *Interessen Gemeinschaft,* or community of interests, existed between them. The pattern for this parallel action had been laid in 1914 when the British closed down German banks in London, but allowed the Schroder firm, headed by "British subjects," to operate through the war.

The list of major clients of the Bankhaus J. H. Stein was a roster of west German heavy industry. The records left no doubt that the

Stein Bank had been in a good position to help the London firm to live up to its reputation as the bridge between London's "City" and the industry of the Rhineland and Ruhr.

Among the number of threads that had made us decide to pay a call on Baron Kurt von Schröder and his bank had been an argument back in England, at Bushy Park, when we were planning our itinerary. I have already mentioned that for a time we were assigned to work in the Finance Division of General Wickersham's headquarters with Captain Norbert A. Bogdan, vice president of the J. Henry Schroder Banking Corporation of New York. Captain Bogdan had argued vigorously against investigation of the Stein Bank on the ground that it was "small potatoes." We should concentrate our efforts on bigger targets, such as the Deutsche Bank and the Commerz Bank. To waste time on small-scale private banks would discredit our investigations. We had noted, however, that the day after this outburst two of the permanent members of Captain Bogdan's staff requested military travel orders to Cologne to investigate the Stein Bank. This was an unusual application. Since Cologne had not yet fallen, it was tantamount to a request to accompany the "T" Forces immediately behind the combat units. The Intelligence Division blocked that one.

Another thread had been the business collaboration of many years' standing between Baron Kurt von Schröder and a very good friend of Franz von Papen, Gerhardt A. Westrick. Dr. Westrick was a prominent German lawyer and a member of the law partnership of Albert & Westrick. The senior partner of that firm, Dr. Heinrich Albert, was another of von Papen's friends. Albert had come to the United States in 1914, supposedly as a German commercial attaché, and had raised something over thirty million dollars from American sources friendly to Germany to finance the espionage and sabotage activities which Franz von Papen directed in the United States during World War I. With these funds, for example, the heavy chemical industry of the United States was crippled by the simple expedient of buying up all of the chemical stoneware produced in the United States. Stoneware was at that time the only type of equipment that could resist the corrosive action of the important heavy chemicals. Many American chemical plants were eventually shut down for lack of this stoneware. For the duration of World War I, it kept piling up in warehouses leased by von Papen's cloaks.

After World War I the law firm of Albert & Westrick was very busy with the program of American loans to build up Germany. Beginning in October 1924, when American investors advanced \$110,000,000 of the original \$200,000,000 international loan under the Dawes Plan, a stream of private loans to German governmental organizations, public utilities, banks and industries had poured in American money from private sources at the average rate of over a quarter of a billion dollars a year, until the American crash of 1929. Two American investment banking organizations handled the bulk of this private lending system for the rebuilding of Germany. They were Dillon, Read & Company of New York, and the J. Henry Schroder Banking Corporation. Legal work on the Schroder Bank loans was always handled in Germany by the firm of Albert & Westrick, and in the United States by Sullivan & Cromwell, the firm headed by John Foster Dulles.

But to return to Gerhardt Westrick: in April 1940, this fraternity brother had come to the United States ostensibly as a commercial counselor to the German Embassy, but actually on a direct assignment as personal representative of the Nazi Foreign Minister, von Ribbentrop. His mission was to attempt to convince American business leaders that they would gain by a Hitler victory, and to persuade them to help in keeping the United States out of the war. Dr. Westrick rented a house in Westchester County, New York, where his visitors included many nationally prominent executives of certain American oil and other industrial corporations.

After it began to appear that Dr. Westrick's efforts had gone beyond the normal activities of a diplomatic representative, the Department of Justice required him to register as a German propaganda agent. Then the *New York Herald Tribune* and other papers assigned reporters and photographers to dog his trail and highlight everything he did. On October 9, 1940, he sailed for Japan. The American press congratulated itself on having made Westrick's propaganda mission an ignominious failure. But as we looked into the transactions of Baron von Schröder and Dr. Westrick, we wondered.

There were many questions we would have liked to ask Baron von Schröder had he been home that April evening in 1945, but it was not until two months later that another of our men, Robert West, formerly of the White House detail of the Secret Service, tracked him down. Von Schröder was found in a detention camp for SS prisoners in France, masquerading in the battle fatigue dress of an SS corporal.

Some of the records began to make sense, even without Baron von Schröder. Several bundles were the detailed ledgers of deposits into the special account labeled "Sonderkonto S." What struck us first was the all-star cast which made up this list of depositors. Of the forty or fifty names which turned up regularly in the pages, running all the way back to 1933, we recognized about twenty immediately as well-known directors of the biggest German industrial firms in the fields of coal, iron and steel, machinery, chemicals, electrical equipment, transport, and electric power. In the galaxy of corporations dealing with the Stein Bank, this list of individuals might not have seemed unusual except for two things: the regularity of the deposits in this joint account, and the close relation between decreases in the account and the Himmler letters asking for money.

This one account, we learned by putting little pieces of evidence together, covered only the running expenses of Himmler's SS, and perhaps some of the Gestapo; but if one special account had the letter "S," it was a fair guess that somewhere, in the Stein Bank or elsewhere, there could be other special accounts "A" or "B" or "Y" or "Z." The arrangement was simplicity itself. At a wink or a nod from someone — in this case we later found it was Wilhelm Keppler of the Nazis' *"Hermann Göring" steel combine — the* contributors would quietly make deposits into the special account at the bank. When the leader of the party formation — in this case Himmler — wanted money, he asked for it; and it was drawn against the same account. No muss, no fuss, no "Nazi" connections for the contributors.

The next day, after the discovery of von Schröder's records, we divided our party. Besides Bursler, Sacks, and myself, there were René Manès, a naval lieutenant from SHAEF and an expert accountant; Bernard Glaser from the Treasury; John Walker, specialist in German documents; and Richard Thompson, FBI liaison with Twelfth Army Group. René Manès and I left the rest of the party at von Schröder's villa and went down to Cologne to look for records of the steel interests belonging to Otto Wolff, a leading contributor to the "S" account. Wolff himself had died in 1940 but the files of his firm were intact in three subbasements of a building not far from the wreckage of the Stein Bank. We put a guard on the records, arranged billeting for some of the party, and returned to Bonn. All told we collected several tons of documents from Bonn and Cologne, most of which we sent back to Versailles with Manès. Bursler, Sacks and I packed ourselves and nearly a ton of records into an open weapons carrier and banged along eastward to Frankfurt am Main.

We hoped to find some of the living contributors to "Sonderkonto S" and dig further into the reasons why they considered it "good business" to make these donations. In particular, I wanted to interview Baron von Schnitzler again. In his villa near Frankfurt two weeks before von Schnitzler had looked every inch a baron, from his black homburg, velvet collar, and gray spats, to the young and beautiful baroness on his arm. One would never have guessed that von Schnitzler was a criminal, one of the financial mainstays of the Nazi regime, and a mastermind of the I.G. Farben foreign organization. When Frankfurt fell on the twenty-seventh and twenty-eighth of March, 1945, von Schnitzler was living, comfortable and unperturbed, in his villa not many miles outside the city. His manner was that of the master of the house greeting the fire department. He was affable, urbane, but kept the firemen in their place. He offered brandy, *and then withdrew it in deference to the non-*fraternization order. His manner managed to imply that the non-fraternization idea was an immature gesture typical of a certain kind of American.

The war had not touched Baron von Schnitzler and, to hear him tell it, he had not touched the war. It was a case of live and let live. He asked us how soon he would be able to get in touch with his friends in Imperial Chemical Industries, Ltd., in England, and Du Pont in the United States. He said he was relieved that the recent "unpleasantness" was over. It was very important that he and his friends should pick up where they had left off and build for the future. Now that we had the records of his deposits into "Sonderkonto S," I wanted to get him back for a longer talk.

When we had him brought to our field office in the Reichsbank building at Frankfurt for questioning, Baron von Schnitzler denied having had anything to do with Hitler or the Nazi Party. They were beneath him. He was a businessman and his factories had produced things which the Nazis needed; but they had come to him. Certainly he had never contributed in any way to their activities. He had deliberately avoided knowing anything at all about "government" business done by the firm. That was handled by other directors.

Baron von Schnitzler was thoroughly at ease throughout the several hours of our questioning. We warned him repeatedly of the stiff penalties for making false statements. But he talked on persuasively and smoothly, in perfect English. The records of "Sonderkonto S" seemed miles and ages away as the Baron talked. Perhaps he did not know the records had been found and he was bluffing or lying. But actually in his own mind he need not have seen any inconsistency between his pose as an "unpolitical" businessman who did not want to know about "government" business—poison gas, slave labor, Auschwitz and all that—and his record of steady contributions of at least forty thousand dollars a year to "Sonderkonto S." In his own way he was speaking of a world in which one makes the necessary contributions to "causes" without feeling personally involved at all.

That is not to say that the Baron was unaware of how his behavior might be interpreted by those of us who did not belong to his fraternity. All through our conversations, both at his villa and in the Reichsbank building, the interrogators had been anonymous. The German intelligence service had had most American government officials bracketed in preparation for the occupation; but they needed to know who was coming in order to know what records to hide first. We never addressed one another by name or gave any hint of the reason for our interest in the Baron's business. To put him at ease I pretended at the first interview that I had never heard of the I.G. Farben firm nor of von Schnitzler. At the outset I asked him

what he did for a living. When he said he was a director of I.G. Farbenindustrie, I asked him what that was. He said it was a company. What did the company do, make shoes, ships, textiles? It was a chemical firm, he stated; a very large chemical firm.

As the questions rolled along, all of a police-blotter variety implying a profound ignorance on our part, von Schnitzler sat back with a bland and contented look, arching his eyebrows and leveling a hawklike gaze along his Roman nose as though it were the barrel of a fowling piece. He lied like a trooper through it all.

Toward the end of the second interview, however, von Schnitzler tried to find out who we were; and one of our men made the mistake of calling me by name. For just one instant the Baron's eyes registered a quick appraisal. He then carefully and deliberately recrossed his legs, shifted his gloves from one hand to the other, and asked if I was satisfied that all his replies had been truthful and complete. When I told him merely that if we wanted anything further he would hear from us, he persisted for several minutes asking in various ways if we did not want him to "clarify" any of his answers. Later we found in his files copies of published testimony on I.G. Farben that several of us had presented to a Senate committee in 1944, with our names underlined in green ink.

Von Schnitzler did not appear particularly surprised when at the end of the interview he was taken to jail, charged with making false statements to military government officers, and later held for trial as an industrial war criminal. He was among those convicted in 1948 and sentenced to twelve years for profiting from the war and for being responsible for abuse of foreign workers. He and all the other industrialists tried with him were acquitted, however, of complicity in starting the war; because the court held that they had not had advance knowledge of Hitler's specific plans for military aggression. These men had started a chain of events whose inevitable outcome was war. But in the eyes of the law, as the American judges construed it, only those who had forged the last link could be guilty of a crime.

The old Frankfurt had been almost leveled to the ground, while the I.G. Farben office building, one of the largest in the world, stood untouched. The handsome cathedral where kings of the Holy

Roman Empire had been crowned, the little inns with their carvings and paintings, and the hundreds of other weathered and mellowed reminders of Germany's old life in the times before Bismarck, Hohenzollern, and Hitler, all had suffered the tortures of the damned. But the Nazi edifice of the New Order, literally a giant filing cabinet loaded with hundreds of tons of papers and records of the Farben empire, remained whole.

In the synthetic Nazi economy, Farben's mountains of paper were fully as important as the mountains of coal in the Ruhr. The German businessmen who had handled Farben's gentlemanly agreements with the fraternity brothers in other countries were prolific writers of memoranda. They had kept voluminous diaries and notes of conferences. Patents and patent-licensing agreements, domestic and international, were the stuff their dreams were made on.

The very volume of their paper work was almost our undoing. The main Farben building consisted of six large wings, each seven stories high, arranged to form an arc of a circle and connected by five hyphens of the same height. This colossus of steel and buff-colored stone was bulging with everything from contracts with Du Pont and Imperial Chemical for the division of world markets down to the invoices of shipments of drugs or photographic film to a little wholesaler in Buenos Aires. In all the fighting for the city hardly a window had been cracked and not a filing cabinet disturbed. But as the city fell, into this refuge had swarmed over eleven thousand displaced persons and liberated slave laborers, looking for temporary shelter and warmth. Within two days the rooms, corridors and stair wells of the building had become snowbound in a blizzard of papers. Everything spilled from the files as desperate people took care of the needs of warmth, sanitation and revenge in one mad assault on the neatly ordered rows of cabinets.

Advance members of our party had reached Frankfurt on March 29, most of them answering a call from "Lucky Forward." General Patton's armored spearheads racing eastward towards Würzburg had stumbled upon the greatest collection of SS loot, art treasures, and Nazi gold reserves ever uncovered in Germany. This mass of carefully indexed material, including everything from the famous collection of paintings of the Kaiser Wilhelm Museum to sacks

of gold teeth and suitcases full of gems stripped from victims of the SS murder camps, had been hidden deep in a potash mine at Merkers, east of Frankfurt. Patton roared back to General Eisenhower to send someone up to take responsibility for this hoard. Guarding it was tying up a whole regiment and knocking hell out of one of his divisions, he said. Colonel Bernard Bernstein, to whom we were attached in the Financial Branch, got the assignment and moved up to Frankfurt and Merkers with every member of the staff he could pull away from other duties. They started the Gold Rush of 1945, tracking down leads to other Nazi loot and having it shipped back for safekeeping to the commandeered Reichsbank building in Frankfurt.

This advance party began burning up the wires for reinforcements from our side when they saw what was happening to the I.G. Farben records at Frankfurt. Two of the Treasury men got a load of German PW's to sweep all of the papers into the west wing of the building where they could at least be sealed off. But the SHAEF Headquarters Commandant arrived in a few days to requisition the building as a future forward headquarters for General Eisenhower, and ordered the building cleared of all this "refuse." Army trucks began backing up to the building, hauling off truckloads of the papers and burning them. Only the most vigorous argument could produce so much as a temporary truce while we tried to round up enough men to do something with the three hundred to four hundred tons of papers stacked in the west wing.

The token force from Treasury and our one man from Justice soon got support from a technical team attached to the "T" forces, headed by a British officer, Colonel Gordon. This team was in hot pursuit of Farben's secret poison-gas experiments which were supposed to have produced not only the superpoison, Tabun, a droplet of which meant slow death, but a still more powerful poison, Sarin, a smaller droplet of which meant instant death. They found that several hundred carloads of both had been produced, put up in containers disguised as dyestuff intermediates and other harmless chemicals, and shipped in railway cars billed to Wehrmacht ammunition dumps at points all over Germany. Apparently the only thing deterring the Wehrmacht from releasing the gases was the fact that no gas mask or decontaminating agent capable of protecting them from the stuff had yet been developed. Some of the Farben chemists were still searching frantically for the antidotes when Colonel Gordon's men picked them up. Intentional or accidental opening of the disguised containers would cause wholesale havoc; and the keys to their identification were somewhere in the Farben production records. Colonel Gordon's men worked fast and talked sharply; but even so, they were just barely equal to the task of keeping the Headquarters Commandant's men from "cleaning up" the place to meet its destiny as the most impressive-looking military headquarters in Europe.

On the evening of April 28, when I arrived with Bursler and Sacks, we found enough manpower assembled at Frankfurt to start looking for the why that lay behind the collaboration of German industrialists with the Nazis — the prior question, one step removed from the poison gas and the slave labor and the murder camps that had been the end product of the collaboration.

But first we had to move the records to a building next door to the Reichsbank. We did it in three days with two tractor-drawn vans, two hundred PW's and three hundred I.G. Farben employees. A crew of two dozen or more Farben department heads and chief clerks was kept busy identifying bundles of papers so that they could be routed to different rooms and reassembled. To prevent some of the inevitable sabotage and concealment of documents, a human chain of Farben employees was stationed on the stairways to pass bundles hand over hand while the PW's were kept moving with individual bundles. A tremendous speed-up, with a great many shouts of "*schnell, schnell,*" was the only other precaution we could devise.

One of the minor Farben officials tried to do his bosses a service by concealing the diary of one of their best foreign negotiators, Dr. Frank-Fahle. The little official had a job on his hands. The diary consisted of about forty-two volumes of closely written notes, arranged in loose-leaf notebooks. He took advantage of the confusion of files, papers, displaced persons, war prisoners, and Farben employees to spirit away the separate volumes of the diary and put them one by one under a heap of rubble and wastepaper. Alex Sacks

watched him for a few days until satisfied that the entire set had been assembled, and then picked them up all at once.

The same investigative technique, if it could be called that, led to the discovery of the "*Neuordnung*" or New Order documents. These were plans prepared during the war by the I.G. Farben management to explain to the German Economic Ministry their over-all recommendations for organization of the chemical industries in occupied territories wherever German arms should triumph. Since they had thought of everything and had written most of it down, we could gradually assemble a fairly comprehensive picture of the use that the Germans had been able to make of things like patents. The patent laws of other countries had provided a solid footing for what otherwise might have been tentative gentlemen's agreements.

We recalled that when the Antitrust Division and several Senate committees had begun their wartime investigations of the American patent system, there was a lot of folklore about the international arrangements among the fraternity brothers. Economists were saying that it would have been impossible for an international arrangement to keep up prices or divide markets beyond the point where someone found it more profitable to break away from the agreement. They said that as soon as some one member of the group decided to break away there was nothing to hold him. He would, as an economic man, follow the paths to greatest profits regardless of any gentlemen's agreements to the contrary.

The German gentlemen said, "*Ach, so?*" Investigations showed how far they could go in putting teeth into their agreements. An agreement is more than a gentlemen's agreement if the violator can be tangled up in expensive litigation, especially if the courts in his own country can be used to issue injunctions and compel performance. Between wars the art of founding international arrangements on enforceable legal contracts had developed to a fine point of perfection. The patent laws of the respective countries furnished only one out of many possible means; but patent agreements had one peculiar advantage. Most patent laws are so complicated that litigation is long and expensive. An international private treaty that draws its strength from legally enforceable patent obligations is very well founded indeed. The tougher the litigation in the event of a breach, the less likely that any gentleman will try to back out on his obligation.

The terms of the Versailles Treaty had limited the right of German industry to certain kinds of tariff protection and to the other kinds of subsidies and exchange controls that may be used to bolster arrangements for the division of markets. We found that from the time I.G. Farbenindustrie A.G. was formed in 1925 the management had proceeded along definite lines to develop fairly simple patent schemes for protecting and expanding their position in markets abroad.

Germany was already far ahead of most other countries in the development of chemical synthetic processes for making various raw materials which were plentiful as natural products in international markets. Nitrates, for example, had always been a near monopoly for the Chileans; but Germany's war effort in 1914 had been made possible by the development of the Haber-Bosch synthetic nitrate process which provided an unlimited supply of explosives. Many developments in dyestuffs, pharmaceuticals and other products had likewise helped to make up for Germany's natural deficiencies in raw materials. Coal and potash and forest products are about all that Germany can claim in the way of natural resources. This gave considerable incentive for the development of synthetics.

The practice of I.G. Farben was to capture the basic patents in each field of synthetic chemistry. They would file applications for patents not only in Germany but also in most of the civilized countries of the world. Our own patent laws were full of loopholes that helped a great deal. For one thing, despite the legal requirement that a patent specification must be so detailed as to enable a man "skilled in the art" to practice the invention, a vague description of the method of producing a chemical compound is often enough to obtain a patent. During World War I when the American Alien Property Custodian seized the ownership of German patents, he took over the patent on Salvarsan, Dr. Ehrlich's "magic bullet" for the treatment of syphilis. When American technicians went to work to follow the recipe set out in the patent specification,

the material turned out to be violently poisonous. The recipe had carefully avoided mentioning how to eliminate the poisonous arsenic compounds that occurred in the preparation.

Further, these loopholes permitted an enterprising firm to file its application for a patent long before the actual "bugs" had been worked out of the production process. The Germans, between the two wars, made an especially energetic drive to exploit their initial advantage in the field of synthetic chemistry in this way. In many cases they blanketed whole new fields of industrial technology by securing basic patents covering all known or suspected processes for synthesizing important materials. In some cases they themselves had not discovered how to make these materials, but that mattered very little. If someone else did discover the "know-how," he would find himself blocked by the patents already issued to some German firm or individual on the basis of a general description of the process. Confronted with this earlier patent, the new inventor had a simple choice before him: spend anywhere up to ten years and thousands of dollars in arguing a patent interference through the Patent Office and the courts; or make a deal. Most of them chose to make a deal. But each deal included specific and legally enforceable recognition by contract on the part of the newcomer that the German patent was valid and not open to question. Then he would get a promise from the Germans that as they worked with the new process in their own factories and laboratories, they in turn would make available to him the technical know-how that they might discover. This made it a mutual enterprise beneficial to both, saved expense of litigation, and besides the two could then join forces against any other inventors who might still be outside the arrangement.

In practice, this meant that if I.G. Farben caught Du Pont on the first go-round with the Farben patents in the United States and made a deal with Du Pont, from then on it was I.G. Farben and Du Pont against, shall we say, Monsanto. And as more outsiders fell in with the scheme the team of solidly organized patentees grew and the chances of the remaining outsiders were less and less.

Now that we had the files and many of the directors of Farben we could find out how some of these feats had been accomplished, provided we could pick the right haystack and then find the needle.

When a mystery is complicated, the French tell us to look for a woman; but in sleuthing among corporations, we found it was much better to look for the chief accountant. We found the chief accountant of I.G. Farben, still alive but in slightly damaged condition, in Frankfurt. Paul Dencker had probably been scowling, rat-faced, and resentful for most of his life; but besides this, he had been crippled and scarred in the bombing of Frankfurt. By the time we got to him, he was what you might call downright unfriendly.

Dencker, when he was ready to talk, proved to have an accurate memory for names, numbers, and places that few people could equal and probably none could surpass. He remembered correctly the names and most recent addresses of every important director, officer, department chief, and plant manager of the Farben combine, the financial accounting details of the firm's books, and — when he could be pinned down — the hiding place of the subsidiary files and accounts of all the fifty-three main departments that made up the Farben organization. His speech was likely to be impolite. Unless corrected, he would refer to all occupying forces as "*ausländische Vandalen*" — foreign vandals. But he knew accurately most things the top directors would have liked to forget.

Geheimrat Hermann Schmitz, who had succeeded old Carl Bosch as top man of the whole combine, never did open up. Max Ilgner, the financial chief, side-stepped questions so easily that it was usually simpler to ask someone else or to draw conclusions from the records. August von Knieriem, chief legal counsel, always hopeful of help from abroad, was careful not to admit that he knew anything. Karl Krauch, the poison-gas man, knew that anything he said might be used against him. Baron von Schnitzler, in charge of sales of dyestuffs and chemicals, and very active in foreign geopolitical matters, finally tried to spill a great flow of generalities and admissions. And so it went throughout the list of the top management. It was Dencker who supplied the key, because on any subject he knew what man in the whole organization would have the answer and he knew where that man could be found.

The world-wide activities of the Farben organization as part of the German war effort have been publicized so much that they have created a picture of an octopus-like monster. Actually that is not the

point. Most of the individual acts which made up the spectacular geopolitical activities of I.G. Farben looked like ordinary business transactions. Partly their success was due to American acceptance of the "business is business" philosophy. Largely relying on this easy tolerance of social irresponsibility, the Farben organization put across its entire program, capturing markets, bottling up inventions, digging out economic and industrial secrets, and financing propaganda practically without fear of reprisals or countermeasures.

One illustration is the successful concealment of Farben's foreign activities. From the very first, the I.G. Farben management developed a program of what they called *Tarnung*, meaning concealment. The three-billion-dollar corporation, I.G. Farbenindustrie A.G., had started as an *Interessen Gemeinschaft*, or community of interests — that is, a cartel — among the six largest German producers of dyestuffs: an *Interessen Gemeinschaft* of the *Farben* industry. The individual companies that went together in 1925 to make up the combine had temporarily lost many of their foreign properties through alien property seizures during World War I. That fact alone might have been reason enough for them to protect their common interest by finding ways to make their foreign properties legally immune from future wartime seizures.

Even if there had been no contemplation of future war, however, there were business reasons why a German company of the 1920's would develop a *Tarnung* program. In those years there was anti-German feeling in the important world markets. It was advisable for German companies to assume the character of domestic organizations in each country. This could have been done merely by adopting an American name for sales operations in the United States, without hiding the legal ownership. But in many countries a foreign-owned corporation can avoid extra taxes if the ownership appears to be domestic from a legal, as well as from a public relations, standpoint.

Also, many countries have adopted foreign currency regulations which subject a foreign corporation to control or supervision that might not be applied to a domestic company. Under such regulations, the books of a branch office or subsidiary corporation might have to show details of the profits and losses of the parent corporation in Germany. In that case the governments having jurisdiction over the foreign branches would be able, by pooling their information, to see how well or badly the parent corporation was doing. German corporations did not want to expose their points of financial strength or weakness at a time when they were embarking on an international struggle for markets.

In the United States there were still more reasons for hiding the ownership of German companies. Most of the new German firms, especially in the heavy and synthetic industries, depended upon government subsidies to make their operations financially possible. The United States had passed, as part of its tariff laws, the "anti-dumping" act of 1921. This act provided that if any foreign government subsidized exports to the United States, so that the foreign producers were in effect offering their goods below actual cost, a special "countervailing duty" would be levied against the goods. The United States Customs would collect an added amount equal to the foreign subsidy. Camouflage of the American subsidiary would allow the German company to appear to sell goods to an independent American company at the full market price. Then the German government could take care of low profits by paying subsidies behind the scenes, overseas, where the eyes of the United States *Treasury could not penetrate. Another reason for concealment of* properties in the United States was the fact that many German companies were floating large loans abroad to finance plant expansions in Germany. In the event of default, the German companies did not want to appear as owners of valuable assets in the United States, where the disappointed bondholders could reach them by court action.

The *Tarnung* program developed by I.G. Farben proved to be remarkably weatherproof. It was Dencker who gave us the first indication that documents describing the concealment program had been kept by the management. But despite his recollection of the shape and size of the black leather folder containing the file of *Tarnungs Fragen,* we never caught up with it. The combined investigative powers of other agencies of the United States government were still unable, even four years after the end of World War II, to prove the German ownership of I.G. Farben's biggest enterprise

in the western hemisphere, the multimillion-dollar General Aniline & Film Corporation of Binghamton, New York. This company, originally named the American I.G. Chemical Corporation, developed a large business in dyestuffs, "Agfa" photographic equipment and supplies, and a host of other chemical products. In this case, I.G. Farben made no attempt to conceal the *foreign* ownership of General Aniline, but concentrated on establishing legally that the ownership and control was Swiss rather than German.

The laws of "neutral" Switzerland were a great help in many such arrangements. The shares of stock in most German and Swiss companies are in "bearer" form. Even a look at the certificates does not help to identify the owner. Only the books of the bank which holds them for the owner can show for whom the banker is acting, and from whom he receives instructions on how to vote the shares at stockholders' meetings. But Switzerland has a "bank secrecy" law. It is a criminal offense for any Swiss banker to disclose the actual ownership of property entrusted to his management. As we found in concrete terms how effectively this arrangement had protected the German flank, it began to seem that Switzerland's successful neutrality throughout two world wars may have hinged on things like this law far more than on the ferocity of the Swiss guards or the tenacity of Switzerland's democracy.

From the American side, the picture was not so rosy. We found that throughout the war the American diplomatic position in Switzerland had been to a great extent represented by American bankers. Some of these seemed to have had their own reasons for approving the pattern of private international co-operation made possible by Swiss law.

The cluster of American bankers who spent the war years in Switzerland included, perhaps by coincidence, American lawyers and bankers who could be expected to know the most about the true relations between I.G. Farben and the General Aniline & Film Corporation. The J. Henry Schroder Banking Corporation and its law firm, Sullivan & Cromwell, had handled the banking and legal business of the General Aniline firm from the time it was first set up as the American I.G. Chemical Corporation. Throughout the war, Allen W. Dulles, a partner in Sullivan & Cromwell and until

1944 a director of the Schroder bank in New York, headed the European Mission of the Office of Strategic Services in Switzerland; and V. Lada-Mocarski, vice president of the Schroder bank, was a United States consul in Switzerland.

Even after its seizure by the Alien Property Custodian, General Aniline was administered on behalf of the Custodian by officials of American companies which, under the code of the banking fraternity, were part of the Schroder group. Some might hold that these men were a good choice for these jobs for the very reason that they had good banking connections. But the Schroder-picked officials who were in charge of the American company and the Schroder officials who were representing the United States in Switzerland never managed to get the Swiss government to produce information which Swiss bankers had at their finger tips. The fog around the ownership of General Aniline has never been dissipated.

While the United States government, with this kind of help from private businessmen, was unable to penetrate the camouflage that I.G. Farben had set up, we found that the Farben organization, working hand in glove with the German government, had prepared global economic plans for the world's chemical industry. These plans for a new order would have carried further the worldwide network of agreements which the I.G. Farben management had made in all the important industrial and marketing areas before the war.

In 1940, after the fall of France, the I.G. Farben management put these New Order plans in writing and presented them to the German Economic Ministry for official approval. These plans were divided roughly into two parts.

The first would apply especially during the phase of military operations in Europe, while England was being subdued. It was expected that after Europe was conquered there might be a period in which a Germanized Europe would have to "improve its strength in relation to the countries outside of the European sphere," as von Schnitzler put it. "This meant, of course, the United States," he added. The purpose was to maintain control over the chemical industry of Europe so that no new plants would be set up outside Germany, and so that the production in existing factories could be

supervised. Special emphasis was placed on preventing patent licenses or technological information from being given to the chemical industry outside the area of German control. This provision was aimed particularly at the chemical industries of the United States, which had been heavy "importers" of German technical information.

One incident, in particular, evidently caused a great stir in the Farben organization after the New Order plan had been in operation a little over a year. In January 1942 came the Department of Justice case against the Standard Oil Company of New Jersey, charging conspiracies with I.G. Farben to violate the antitrust laws. The company and its officers paid fines and accepted a court decree enjoining them from continuing the marketing and patent arrangements in the future. The Standard Oil Company then bought full-page advertising space in newspapers all over the United States to publicize Standard's claim that the United States had benefited from the Farben deals because Standard had received much more technical information from I.G. Farben than they had given I.G. in return.

It was, of course, true that under the agreements much of the basic research was to be conducted in Germany. The American partner, therefore, had to depend on Germany for more technical information than they would themselves be able to give in return. When the German Economic Ministry read copies of the Standard Oil advertisements, they demanded a full report from I.G. Farben to answer the charge that Standard had had the better of the exchange. In the files at Frankfurt we turned up copies of the I.G. Farben report to the Economic Ministry. The Farben managers were not allowed to rely on the sweeping generalizations of a newspaper advertisement. Their scientists had to produce documented answers to satisfy the Economic Ministry and the General Staff. The contention of the Farben report was that the German firm had received from Standard Oil several important new links in the jigsaw puzzle of their own technology, whereas the apparently vast quantities of information they had passed over to the Americans had left large gaps to be filled by new research and development before they could be put to any use.

The second phase of the I.G. Farben New Order plans contained a long-run program for assuring permanent German control of the chemical industries in foreign countries. Where necessary, they said, this could take the form of stock interests in the foreign companies. But experience in France changed these plans. The Germans found it unnecessary to acquire ownership. With some pressure based on business considerations, they found that a community of interests could be formed between French owners and Germans. This had the advantage of assuring firm co-operation instead of recalcitrance. Even more important, in the event of German military setbacks, such arrangements in all countries would provide a corps of interested business associates in the "liberated" territories who would insist upon continuing their relations in some form even if Germany were defeated.

The I.G. Farben New Order plan was initiated by the Farben management, acting on its own, to show the German High Command how the corporate expansion of I.G. Farben as a business proposition could be geared in with the interests of the German government in establishing German power all over the world. This close identity between the business interests of the company and the national interests of Germany was not accidental. It was the result of over twenty years of close working between the management of German industry and the German government. Under this working arrangement, the laws of Germany had been gradually modified to give more and more assistance to the growth of organizations like I.G. Farben. Special tax concessions favoring the growth of combines, modifications of the corporation law to give management a free hand, government subsidies for special projects, all strengthened the position of the combines in a geometric progression as their size increased. In return, the greater size and weight of the combines made them a more and more powerful instrument of German policy abroad.

None of this development would have been possible without loans from the Allied nations. These loans for reconstruction became a vehicle for arrangements that did more to promote World War II than to establish peace after World War I. The amount of the loans to German private industrial interests was not large by present standards. In the years from 1926 to 1930 they were roughly com-

parable to the $275,000,000 invested by the United States Government from 1933 to 1937 in the Federal Home Loan Bank system, which enabled some fourteen hundred building and loan associations to stimulate home building and repair during the depression years. But in Germany, the reconstruction loans to private business took a different course.

Of the outstanding industrial loans, over a hundred million dollars went to United Steel and its components; over sixty million dollars to the two electrical equipment combines, Siemens & Halske and A.E.G.; twenty-five million dollars to the Hugo Stinnes interests; and slightly lesser amounts to the United Rayon combine, VGF, and to the major iron, steel and coal companies, including Krupp and Good Hope.

The loans to banks and utilities followed a similar course. About half of the bank loans went to the Deutsche Bank and Commerz Bank. A third of the utilities loans went to the RWE electrical combine, the Rhenish-Westphalian Electric Company, in which Baron Kurt von Schröder served as a leading director, along with Albert Vögler of the Stinnes and Siemens concerns, Hermann J. Abs of the Deutsche Bank, and Carl Goetz of the Dresdner Bank. This public utility combine supplied two thirds of all the electric power consumed in highly industrialized west and southwest Germany. The RWE controlled a power grid that stretched from the borders of Holland to the Swiss frontier. It held participations in over one hundred and forty enterprises including power-generating and tramway companies, hard and brown coal mines, firms engaged in designing and constructing power plants, river shipping companies, and the Braunkohle-Benzin synthetic fuel company. This latter establishment, one of the forerunners of the Four-Year Plan, was a joint enterprise of the Belgian Solvay & Cie. of Brussels, along with RWE and the steel firm of Friedrich Flick, I.G. Farben, the chemical trust, and the German government holding company known as VIAG or United Industrial Enterprises. VIAG exercised the over-all control of the synthetic fuel experiments under the supervision of Hans Kehrl and Gustav Krupp. Kehrl was an SS Brigade Leader and protégé of Himmler who controlled a large group of synthetic textile factories known as the Ring. This part of the German autarchy program was being developed with the help of foreign loans long before the Nazis came to power.

In 1934, Wilhelm Keppler, in his capacity as Hitler's economic adviser, asked Hitler to establish a Special Agency for the Development of German Natural and Synthetic Raw Materials, commonly known as the "Büro Keppler," to prepare programs for production of synthetic textiles, synthetic rubber, synthetic fuel oil, gasoline and lubricants, and synthetic edible fats and proteins. His chief collaborators on this project were Hans Kehrl, Paul Koerner, and Paul Pleiger of the Dresdner Bank. All four were part of the Advisory Committee on Questions of Raw Material, headed by Göring and Schacht, and all four in the Büro Keppler laid the groundwork for the over-all self-sufficiency or "autarchy" plan to prepare Germany for the coming war. That was the Four-Year Plan created in 1936.

Now that we had their own statement of some of the things they had intended to do with their power, we still had to find out how far the men of the "Keppler Circle" had been able to go in carrying out their intentions — especially where they needed the help of their brothers overseas.

CHAPTER 6

Seek and Find

THE gold rush was going well. Armored convoys carrying Reichsbank gold and recovered loot were streaming back from points as far as the Czechoslovak border. With something tangible like looted gold to take in hand, the combat commanders were doing a job that would make the Brinks Express Company turn green. A trunkful of bullion would arrive, not in an armored car with some armed men, but escorted by half-tracks with machine guns and one or two light tanks with artillery. One Ninth Army convoy with seventy million dollars in gold from the Reichsbank branch at Magdeburg came in with air cover buzzing overhead. The half-billion dollars or so of valuables accumulating in the vault downstairs was secure from burglars. The entire block around the Reichsbank was behind barbed wire and sandbagged machine-gun nests. There were antiaircraft emplacements on the roof and a Sherman tank and crew sitting in front of our door.

A half-billion dollars in treasure was something the army could handle. The pattern for dealing with such things was as old as Hannibal. The records we had just rescued from the headquarters commandant's bonfire were something new. In them might be a clue to the origins of a war costing a hundred billion a year; yet we were in trouble with the headquarters commandant again. At Kronberg in the Taunus, a few miles outside of Frankfurt, we had found the files of the metals trust, the Metallgesellschaft, in the Schloss Friedrichshof, seat of the royal family of Hesse. The headquarters commandant wanted immediate possession of this castle at Kronberg so as to turn it into a club for SHAEF officers. If we did not remove the files immediately, they would be turned back to the

Metallgesellschaft management or dumped somewhere outside the castle grounds.

The Metallgesellschaft management would not have been able to house the records in their handsome office building next to the Opera House because Colonel Crisswall, the military governor of Frankfurt, had taken the building as headquarters for his military government. The company's employees inhabited a maze of gopher holes in the bombed-out block of buildings beyond. The company officials said that they would be delighted to get their records back and tuck them away safely in these catacombs.

In the end the Metallgesellschaft management won out. We were already spread too thin to handle another big moving job while following the leads which the Farben investigation had already uncovered. As soon as the Farben people got any hint of what we might be looking for they tried to beat us to it. There seemed no end of ways for men like von Schnitzler to get messages out of the jail telling employees where to find important documents so that they could be hidden or destroyed.

Our few weapons carriers and command cars were busy all day and into the night. Our men were finding cans of microfilm buried in gardens, hidden in barns, suitcases, clothes closets, within a fifty-mile radius of Frankfurt. For one hundred reichsmarks a month a Farben official had rented the refectory of a monastery near Würzburg to store "personal effects" of bombed-out employees. The sixty-eight packing cases turned out to contain copies of over five thousand agreements between I.G. Farben and companies in France, Britain and the United States in the field of dyestuffs and heavy chemicals alone.

We needed manpower and we needed understanding from the new crop of army officers who were moving up in the wake of battle. Up to this point co-operation had been startling in comparison with what I had been led to expect. Practically everyone I had run into, from GIs to generals, understood quickly what we were after and why it was important.

A T/5 at one division headquarters was helping me to find the chief of staff. The soldier was from New York and had worked for the Hugo Stinnes firm. We had hardly started walking before he

told me about the "cartel" he had worked for in New York and his opinion of cartels. There was the jeep driver from east Baltimore. Shortly after the armies reached the Rhine at Cologne, we were driving along the west bank within sight of the undamaged I.G. Farben plant at Leverkusen across the river. Without knowing anything about me or my business he began to give me a lecture about I.G. Farben and to point at the contrast between the bombed-out city of Cologne and the trio of untouched plants on the fringe: the Ford works and the United Rayon works on the west bank, and the Farben works on the east bank. There was Major General Malony, commanding the Ninety-fourth Infantry Division, who seemed to know as much about the problem as the Senate committees that had investigated patents and cartels during the war. So it had been up and down the line, until now. It was as though being in combat had produced a sharpened awareness that was suddenly missing as the rear echelons moved up.

Now it was like the leaden skies and snow flurries outside in early May, when one might have expected a warm sun. The housekeeping detachments of the headquarters command and the spit-and-polish military police of the Provost Marshal were moving in to "police up," unfurl the red tape, require mess passes, billeting passes, trip tickets — to challenge any unusual act and, if in doubt, to stop it. We had to have more help. As things settled down it seemed we would need two men to do what one had done before: one to do the work and one to go along and explain why.

At SHAEF headquarters in the Trianon Palace Hotel at Versailles we had a meeting of United States and British intelligence officers to consider making a list of key financiers and industrialists. The idea was to list about five hundred high-powered executives and managers of the biggest industrial and financial combines, and perhaps twenty-five hundred of their principal assistants and department chiefs. This list would be furnished to the counterintelligence units of all army divisions and regiments and to all CIC detachments and military government officers in the field, with instructions to notify us when any of the listed people turned up. The instructions to accompany the list would not only provide a guide to CIC men in the field who were screening German civilians, but would give authority to our investigators to arrest and question high-ranking businessmen whom we ourselves tracked down.

At the same time we saw that official "cables" — army lingo for telegrams — went to all forward headquarters and army groups to announce that we would be establishing new centers of investigation in the Ruhr and other localities, similar to the one we had already set up at Frankfurt. Copies of these cables served for some time as an open sesame to get where we needed to go without too much argument or explanation.

That does not mean we had no arguments. My British opposite number had something to say about what we could investigate in the Ruhr, which was being taken over as part of the British zone of occupation. Colonel John R. Kellam had been in charge of liquidating British foreign investments during the war, before Lend-Lease, to get dollars to pay for Britain's lifeline. He was dour about the way Britain's economy had been bled white while we in the United States debated through the first two years of war. He had little sympathy for what he called the "American passion for trust busting"; but he did want to go after the assets that Germans had spirited abroad. There, at least, we were on common ground. His superior, Brigadier M. J. Babington-Smith, chief of the Financial Branch of SHAEF, in private life a director of the Royal Bank of Scotland and partner in the "City's" Glyn, Mills & Company, was more squarely on all fours with my point of view, which was that set out in our written statements of policy from Washington: that we were interested in all devices by which power had become concentrated into the hands of those responsible for the rise of the Nazi Party to power. Brigadier Babington-Smith's view was also shared pretty generally by S. P. Chambers, of the British Treasury, slated to become Colonel Kellam's superior as head of the Finance Division in the British Element when SHAEF dissolved. I had talked to Mr. Chambers in London several weeks before.

It was not long before we faced a test of how far our investigations could be carried without running into jurisdictional questions with the British element. One of my colleagues from the Department of Justice, Philip W. Amram, special assistant to the Attorney

General, came in from the United States on a No. 1 priority, carrying special authorizations from the Secretary of War. He was to be given every assistance in digging up evidence for a case on which he was government counsel. The Standard Oil Company of New Jersey had filed a suit against the Alien Property Custodian to recover the ownership of some shares of stock and over two thousand basic patents. Standard claimed to have bought these rights in good faith, before the war, from I.G. Farben; but the Custodian had seized them as property being held under a cloaking arrangement on behalf of Farben. Jersey promptly, and with a display of righteous indignation, filed suit in the United States District Court for the Southern District of New York to get it all back. The patents were quite valuable, covering the basic technology and new developments in all fields of mutual interest to Standard and Farben, except for the buna rubber patents, which had been the subject of a separate deal. The papers certainly appeared to be in order, and at the time Phil Amram came to Europe it looked as though Standard might win.

Co-operation from the British side was immediate and wholehearted. During the next two days after Amram's arrival, the investigations took shape. The three Farben bigwigs, Schmitz, Ilgner, and von Knieriem, were in custody at the "Château Transit Camp" near Versailles. Major Edmond Tilley of the British Intelligence, who had done the interrogations for the poison-gas team, flew back to work on the Farben trio with Amram. They had to get the story behind a meeting held at the Hague in September 1939, between Frank A. Howard of Standard Oil and Fritz Ringer, von Knieriem's assistant. This was the meeting at which the transfer of stocks and patents from Farben to Standard had been arranged.

Major Tilley and the Standard Oil investigation which he was making for Phil Amram dropped from sight for a few days while the Major's party searched in the field for records. But I heard from him again when I joined my group at Essen on May 23. Colonel Kellam handed me a note from Major Tilley, dated from Frankfurt the week before: "Dr. Bütefisch, chief of I.G. Farben synthetic oil production, Leuna, has admitted that Dr. Hahn, his deputy, has hidden papers, including secret contracts and letters from and to Ringer at the following address: Bad Sachsa, Haus der Dynamit A.G."

Bad Sachsa showed on the map as a point in the midst of the Harz Mountains, a few miles from the Devil's Pulpit on the Brocken, traditional site of the Witches' Sabbath. The Hitler Youth had revived the legend and held *Walpurgisnacht* celebrations annually on May first. We had reports that in the same area numbers of SS troops had declined to celebrate V-E Day and were playing come-and-get-it with units of the Fifth Armored Division. As we got together our party of ten to make the circuit of the Harz, looking for records of Krupp, Mannesmann, the Stahlwerks Verband, and the Standard Oil-I.G. Farben correspondence, an officer of the Ninety-fourth said to hell with the regulations and made me put a pistol in a shoulder holster under my field jacket.

For two days we prowled among the rocks and cowpaths that served for roads in the Harz Mountain area and finally located several cabinets full of documents hidden underground in an air-raid shelter at Bad Sachsa. It turned out that the very building the American occupying troops had chosen for a headquarters was the I.G. Farben-owned "Haus der Dynamit A.G." Colonel Cole, the commanding officer of Combat Command "B" of the Fifth Armored Division, was amused when we turned up these documents right under the window of his office and still others in the walls of his officers' mess. There were heavy loose-leaf files of correspondence between Frank A. Howard and Fritz Ringer; and cabinets filled with minutes of meetings and interoffice correspondence about the Standard Oil negotiations. Colonel Cole kindly furnished trucks to haul these back to Frankfurt where they were compared with other papers, and the documented story pieced together.

The papers we picked up indicated that Mr. Frank A. Howard of the Standard Oil group and Dr. Ringer of I.G. Farben had met in the last week of September 1939, at The Hague. They prepared a document that became known as the "Hague Memorandum." This document appeared on its face to be an agreement under which I.G. Farben sold to Standard Oil of New Jersey various patents and shares of stock. Actually the two men also prepared a separate agreement, kept secret, under which I.G. Farben retained the right

to cancel the transfer and get its properties back as soon as it was safe to do so. Mr. Howard did not even keep a copy of this agreement. He signed the original and the carbon copy on behalf of Standard Oil and handed both copies to Dr. Ringer, who took them back to Frankfurt.

The Standard Oil case might very well have had a happy ending for the fraternity brothers if the suit had been filed in 1947. Even by 1946 it was to become very difficult for United States government representatives to get facts from German files. It was not long before we had to show cause why we should be permitted to prowl about among the business papers of reputable German concerns. By 1947 investigations which the Germans considered troublesome would appear doubly objectionable to American businessmen acting as military government officials in Bizonia. Investigations that might disclose embarrassing transactions between American and German companies were called a "waste of taxpayers' money." Also, troubling busy German industrialists with unfriendly questions would tend to "interfere with German recovery" and might arouse "antagonism." In the end we were caught between businessmen representing private interests and others of the same persuasion holding official positions, where they had power to change the orders under which we operated. But for a brief period in 1945 matters were not so well under control. True, we found a number of members of the international brotherhood, commissioned as colonels and brigadier generals in the army, moving about rather freely in the field on matters of their own concern; but by the same token it was also possible for representatives of the government to get around freely as we all did in the Standard Oil case.

The documents needed by the government to establish the falsity of the Standard Oil claim were finally shipped by air back to the United States, along with Dr. von Knieriem as a government witness. Dr. von Knieriem, who had supervised Ringer's work, had annotated his own copy of the secret Hague Memorandum with comments showing its true intent. One of these phrases alone should have been enough. It was a marginal note, "*Nach Kriegs Kamouflage*" (postwar camouflage).

Not only was this case unusual in that enough trained manpower was available, for once, to track down the evidence, and that conditions permitting full investigation happened to prevail, but because the Federal Courts in dealing with the evidence used unusually strong language to describe what the fraternity brothers had done. The following examples from the opinion of the Circuit Court of Appeals may illustrate:

> The negotiators prepared the so-called Hague Memorandum which was neither an accurate summary of the past dealings of their companies, nor complete and faithful representation of the agreements made at the Hague. . . .
>
> The real agreement which was made by Mr. Howard and Dr. Ringer and which was later ratified by their principals can be gleaned only after a scrutiny of many documents and the oral testimony of Mr. Howard. . . .
>
> The Court found that these were sham transactions designed to create an appearance of Jersey ownership of property interests which nevertheless continued to be regarded by the parties as I.G. owned. The parties intended that after completion of the war and the resulting disappearance of the danger of United States Government controls the property would be formally returned to I.G. and the pre-war relationship resumed. . . .
>
> On the witness stand, Howard, testifying concerning the Hague Conference, was, in the opinion of the Court, not a credible witness.

In effect the courts held that the Standard Oil Company had tried to put across a misrepresentation in order to protect an outpost for I.G. Farben. Whereas President Roosevelt had referred to the use made of the I.G. Farben trust by the Nazis, and had insisted on the "eradication of these weapons of economic warfare," Standard Oil, in the middle of the war against the Nazi state, had invoked the aid of the Federal Courts to defeat the measures of the United States.

Frank A. Howard was not prosecuted for perjury. The District Court and Circuit Court of Appeals merely declared he was not a "credible witness." The Supreme Court did no more than sustain the action of the lower courts in upsetting the sham transactions and letting the Alien Property Custodian keep the patents and stock. Mr. Howard retired gracefully in 1945, full of honors, as vice

president of Standard Oil Company of New Jersey, having retired the previous year from his other position as president of the Standard Oil Development Company.

This arrangement between Standard and Farben was only one of many conspiracies between German business leaders and their counterparts in the United States and Britain to help in keeping alive bridgeheads for future "economic warfare." At the time we discovered them it would have been hard to forget the other side of the coin: that these same German organizations — I.G. Farben, Krupp, Flick, Mannesmann, Siemens & Halske, and a few dozen more — had shown their less gentlemanly and more brutal side in the slave camps and murder factories, and in the looting of occupied Europe, all by "legal" means under Nazi laws. Before the press carried pictures of the murder camps at Belsen and Auschwitz and the records of I.G. Farben's poison gas experiments on slave laborers, it might have been possible to concede that some American businessmen connived at preserving these organizations for the postwar period without knowing the awful truth. We hoped that the record after 1945 would not reveal any conniving in the revival of similar types of "industrial" organizations, or any reliance on the same men to guide Germany's economic recovery.

CHAPTER 7

The Heavies

THE House of Krupp has been a symbol of German militarism for generations. The Krupp family mansion, the Villa Hügel, on a hill overlooking the Ruhr River at Baldeney just south of Essen, was more than a symbol. It was a very big house. With the Krupps, bigness became a fine art. Set among hills, the Villa Hügel was not dwarfed by its surroundings but dominated them. At sunrise on a summer morning, when the hills by the river are still steaming as though they had their feet in hot water and a blanket around their shoulders, the villa stands up with its blackened stones and square bulk untouched by fog and mist. It looks like the Carnegie Museum at Pittsburgh. The main house has one hundred and twenty rooms, and the "little house" attached to it a mere ninety. In the dining room, twenty-five by ninety feet, the sixty-foot dining table was covered by a one-piece damask cloth. The dining room was small in comparison with the main salon, size forty by one hundred feet; but the furnishing of both left no feeling of emptiness.

The Villa Hügel, taken over by the "T" force unit of XXII Corps, was operated as a combined billet, mess and office for investigators working in the area. All investigation units were interviewed at the end of each day so as to build a pool of information on records and personalities. We were welcome to make good use of these facilities. Then, for help in following leads, or putting a guard on records we considered important, the division headquarters in the particular area detailed men for the job. It made a good headquarters for our investigations in the Ruhr, not only because it was one of the few buildings in the area untouched by bombs,

but also because investigations go more easily if they fan out from a focal point from which the activities under investigation were originally directed. The memory of minor employees for apparently unimportant details, and the jottings, diaries and other notes that accumulate around a headquarters supply the clues to the character of the whole operation.

As we began to look at the Ruhr and its heavy industry from our starting point in the center, we could see some of the relation of the Krupps to the Nazi state. Prewar movies had pictured the goose-stepping Nazis as the absolute masters of Germany. Hitler had only to command and the most powerful of the pre-Nazi potentates would snap to obey — or else. Our poking about in the Villa Hügel and questioning of Alfried Krupp and his works managers erased that impression. Adolf Hitler and his Party had never been allowed quite to forget that they had depended upon the industrialists to put them in office, and that in the future they could go further with the industrialists' help than without it. In the earlier days of the Third Reich, Hitler never made a major decision without being sure in advance that he had the backing of the Krupps and the other Ruhr and Rhineland industrialists. Before he embarked on his big purge and reformation of the Nazi Party in July 1934, Hitler went first to the Villa Hügel for a long conference.

Generations of Krupps had been accustomed to sitting at the Villa Hügel and planning what the Krupp works would do. Somewhere in the recesses of this mausoleum was born the thought of the Big Bertha of World War I. Perhaps it was only natural that World War II should have had its enlarged counterpart in Great Gustav, a mammoth gun ninety feet long with a bore thirty-two inches in diameter and capable of throwing its four-ton shell thirty miles. Great Gustav was the pride of the Krupps and the despair of the Wehrmacht. Only five such guns were made, at the expense of tying up a large part of Germany's biggest gun shop for the entire war. The one Great Gustav to see action was used against Sevastopol in the Crimean campaign, but only after railway bridges had been reinforced and traffic on the entire rail system from Essen to Sevastopol disrupted to make way for the monster. The second gun of its type got bogged down and lost somewhere on the way to the Russian front. Numbers three and four were picked up by the British. The last *Great Gustav* never left the Krupp gun shop. The lathe was hit by bombing raids in March 1945. Considerable tonnage of steel partially turned into projectiles lay scattered throughout the shop.

The House of Krupp was many times a source of grief to Albert Speer, Minister of Armaments, in his attempt to get the Wehrmacht the types of equipment it wanted for the war. The Armaments Ministry sometimes would have preferred to use materials and manpower for other purposes than those decided upon by the Krupps. But not all the relations between important German industrialists and the German government followed the pattern of mutual help that had been the case with I.G. Farbenindustrie. The industrial aristocracy of the Krupp dynasty, even though they represented far less power than did the I.G. Farben combine, had simply assumed as a matter of right the prerogatives that put them above government, and especially government by upstarts.

One began to see some basis for Adolf Hitler's reported appetite for chewing oriental rugs. In dealing with the Krupps, the question was not what the Krupps could do for the war effort, but what the war effort could do with what the Krupps had to offer. A mere Nazi, Hitler faced a problem in trying to deal with these people who knew exactly what they wanted their factories to produce, and when and where.

Gustav Krupp von Bohlen und Halbach and his son, Alfried, were not among the earliest supporters of Hitler and the Nazis. They joined in with the rest of the Ruhr and Rhineland industrialists in response to Hitler's appeal for funds only after a meeting of leading industrialists at Berlin on February 8, 1933. Up until that time, the Nazis and their program had appeared too radical for the conservative tastes of the Krupps. An important consideration behind the ultimate sponsorship of the Nazis by Gustav and Alfried was their experience with a long strike in 1932, which the Nazis helped them to break. The Krupp management showed a great deal of enthusiasm for the Nazi labor policy because they felt that discipline and authority was needed in the ranks of labor. After the Berlin meeting of February 8, 1933, Gustav Krupp accepted the chairmanship of the Reich Association of German Industry and undertook to reorganize German industry to "bring it into agreement with the political aims" of the Nazi Party.

The somewhat arm's-length relations between the Krupps and the Nazis was by no means one of antagonism. The Krupp holdings fared very well throughout the Hitler period; and the family's wishes were always highly respected. From the time the original firm was founded in 1812 until the grandson of the founder died in 1902, leaving a daughter, Bertha, as heir, the company had been a private family enterprise. In 1903 it became a corporation, Friedrich Krupp A.G. But in 1943, by decree of the Führer, the Krupps were given the privilege of reconverting the corporation into a private holding, with Bertha and Gustav's son, Alfried, as sole owner. Normally employing about two hundred thousand persons, the firm during the war maintained in addition to its German employees an average of over fifty thousand foreign workers and nearly twenty thousand prisoners of war, all of whom got the full benefit of the new labor policy, including the discipline and authority which had been lacking at the start of the 1932 strike. Especially satisfactory from some points of view was the "extermination through work" program for certain classes of concentration camp workers. In the rarefied and museum-like atmosphere of the Villa Hügel, Alfried Krupp, who was under house arrest in the gatekeeper's lodge, could make the idea sound almost digestible until you thought of what his well-rounded phrases were actually saying.

Our inquiry into the affairs of the Krupps was itself an offshoot of a larger investigation into the operations of the big Ruhr steel combines. During the few days before we were called into the hunt for evidence in the Standard Oil case, I had made a hurried trip to the Ruhr to start the investigation, heading for Düsseldorf. There the Stahlhof stood as a ten-story monument to Fritz Thyssen's United Steel Works, in a country where a ten-story anything was rare. The Stahlhof had housed the officers not only of the steel trust, but also of the Stahlwerks Verband, the German national steel cartel, and of Stahlunion Export, United Steel's "foreign relations" department. Stahlunion Export had controlled the steel trust's one hundred and seventy-five foreign branches in co-ordination with the foreign organization of the Nazi Party.

The army had picked the Stahlhof for the Ninety-fourth Division headquarters. After Frankfurt, the pattern was becoming familiar. There was a certain poetic irony in the way these fortresses of German economic warfare converted so readily to the needs of a military headquarters. A few blocks away, the tax office for the administrative district of Düsseldorf probably contained more cubic feet of usable office space, and was in fact being converted to house German administrative agencies and several American and British military government detachments. But the corridors and offices had a hospital-like plainness and uniformity, more reminiscent of a civil service building, whereas the Stahlhof pyramided upward with a sense of hierarchy and increasing magnificence. The approaches to the high-ceilinged head office in the Stahlhof, at the top of a broad, sweeping staircase, set off by tall doors of dark wood and several heavy bronze figures against a light wall, created an impression of overwhelming power. It would take a man of very strong character indeed to work in such surroundings without developing a power complex.

The military government officer of the Ninety-fourth, Colonel St. Claire, had his own staff set up in the tax office building. We took over temporary offices there, too, while we plotted an itinerary to the offices of the important steel combines and other firms on our lists. Our map then showed where we might expect to find their records and key officials.

In the next two days, May 17 and 18, we covered a lot of territory and discovered a great deal about the stamina and doggedness of the men who had run the Ruhr. Early in 1945, the Rhine crossings, first at Remagen to the south and then at Wesel to the north of the area, had produced a pincers that encircled the "Ruhr pocket" and met between Hamm and Paderborn at the headwaters of the Ruhr River. Through all these military movements, the managing directors of the big industries acted like a bunch of ants whose hill is being disturbed. Each one grabbed a large egg, consisting of the files and papers he considered most important, and took it somewhere. What with the bombings and the coming and going of

German military units on all the roads, this must have been a feat of considerable ingenuity. It would be hard to count the number of times during the next two months that we were to travel several hundred miles to find tremendous stacks of recently moved papers that must have required six or eight vans.

The net result was that a great deal of the Ruhr puzzle was unscrambled and laid out for an investigation, much more completely and visually than if the records had all been left in one building to be sorted out by the investigators. It was worth driving miles to see the inner workings of Ruhr finance and industry unwound and laid out at different points on the map for inspection. By Friday evening, the eighteenth, our map looked like the end of an amateur taffy pull.

From our first two days' work, we already had dividends to show. We had picked up two suitcases of papers belonging to Friedrich Flick, the self-made steel man who had multiplied his holdings with slave labor and the Nazi "Aryanization" laws. He would have been better off if he had stayed and burned the papers. They showed that his forty-thousand-dollar annual premiums to the Himmler fund had yielded the best from the SS labor procurement service. The SS had provided Flick with unlimited quantities of slave laborers from the concentration camps, at the very low rates charged to special "subscribers," through a corporation known as the Deutsche Erd und Steinwerke.

We had also struck pay dirt in another quarter. In a file cabinet at the Mannesmann pipe and tube combine we had found a list of places to which records had been moved, and a secretary's notations on where the top directors had gone, including Wilhelm Zangen, one of the charter members of the "Keppler Circle."

At the offices of the armament firm, Rheinmetall-Borsig, most of the main records were intact all the way back to the time of the French occupation of the Ruhr in 1923. At that time the company had gone ahead designing and manufacturing artillery a few blocks away from the occupation headquarters. The finished ordnance had been tested at a secret firing range outside the occupied area, in the Lüneburger Heide between Ülzen and Celle, a few miles off the main road from Hannover to Hamburg. Following our growing impression that novelty was not the chief characteristic of the men we had to deal with, we were to find the missing financial records and most of the company's officers a few days later at the old hide-out, not far from where Heinrich Himmler himself was picked up. Himmler committed suicide at Lüneburg on May 23.

As we came back to the G-5 mess on that first Friday evening, I was handed a message that had been phoned mouth-to-ear all the way down the ladder from SHAEF Forward to Frankfurt to Wiesbaden to Bad Neuenahr to Hilden to Düsseldorf. The message was terse: "Report to airstrip Y-57 at Vorst near Süchteln at 1000 hrs. Saturday, 19 May, by order of General McSherry." Even a civilian, privileged to question why, had no way of talking all the way back to the man who knew. General Frank J. McSherry was the American deputy to General Grassett, the British head of SHAEF G-5. The only thing I could do was to keep the mysterious appointment.

It would have been hard to think of a worse time to be called in to give an account of what we were doing. From every indication, if we just had the manpower to follow a few of the most important threads, we would have a much more devastating picture than anything we had seen from our discoveries in the United States. Yet all this was mere possibility for the future. If we were to be pulled out and ordered to stop the investigations, it would not take the German industrialists long to close the curtain.

At the airstrip these doubts were erased. Major Vaughn, General McSherry's executive officer, had come up with the crew. He said we were heading for Reims; that Senator Kilgore had arrived with five other members of the Senate Committee on Military Affairs and had asked to see me. The day was suddenly much brighter. I actually enjoyed the ride as we followed the Paris beam along the Meuse, across parts of Holland and Belgium, and turned off over the French cathedral town of Laon for the run into Reims.

We found Senator Kilgore and the others with General Eisenhower in the "War Room" of the red schoolhouse. They were having their pictures taken near the table at which, twelve days before, the German High Command had surrendered. As the photographer packed his equipment Senator Kilgore got right down to business.

His subcommittee, including Senators Ball, Brewster, Ferguson, Mitchell and Tunnell, was investigating the supply situation in connection with redeployment of forces to the Far East. But President Truman had asked him to get in touch with me to find out how our investigations were coming. The Attorney General had been concerned about reports of our difficulties in keeping records from being dispersed, as at Frankfurt, and had spoken to the President about it. The President had told Senator Kilgore to have the important records flown back to the United States, if necessary, to keep them from being stripped by the Germans.

We continued the discussion at dinner and on the plane back to Paris. I pointed out that in order to find the key to what we were looking for we had to locate not only papers but also the men who made the papers significant. This job had to be done in the field, where we could interrogate anyone from the chairman of the board to the junior file clerk.

Senator Kilgore wanted to know what Washington could do to help. On Sunday, May 20, I brought General McSherry and Colonel Bernard Bernstein, deputy chief of the Financial Branch, to the Brown House at St. Cloud where the senators were staying. We discussed what we had been doing and in the end agreed on a program. Colonel Bernstein was leaving for Washington the following Tuesday. Senator Kilgore asked me to draft letters to the President and to the Attorney General and Secretary of the Treasury, outlining the results of our conference and urging that an additional force of at least two hundred and fifty investigators, together with a supporting staff, should be thrown into the field to round out the job. On Tuesday, the Senator approved the drafts but added strengthening statements of his own before they were typed for his signature. To the President, he added: "It is my conviction that a great opportunity exists at the present time, and that our failure to take the required action would amount to a national catastrophe."

Tuesday night Colonel Bernstein took off, armed with the three letters and a personal note from the Senator to Ed McKim, administrative assistant to the President, urging an early appointment for the Colonel. Colonel Bernstein had two interviews with President

Truman and returned two weeks later with full approval to recruit the staff we had requested.

On my way back to the anthill in the Ruhr, I flew first to Frankfurt to see how our small contingent was getting along in pursuit of the contributors to the Himmler fund and other key figures. They were doing very well considering all the difficulties. They had pulled together much more than we had known before about I.G. Farben and two other closely interconnected groups, the managements of the Metallgesellschaft and of the precious metals group known as "Degussa," short for Deutsche Gold und Silber Scheideanstalt. Also Friedrich Flick had been picked up and added to the growing reference library of Himmler fund contributors in the Frankfurt jail. The firm of Robert Bosch of Stuttgart had yielded a great deal of new light on old methods of foreign camouflage. The French pursuit of the Röchlings was reported to have been successful. The men from the electrical equipment combines, Siemens & Halske and the Allgemeine Elektrizitäts Gesellschaft, remained to be picked up as soon as Berlin was accessible. Gerhardt Westrick was still on the loose; but he was being tracked. We still needed to question a group of top men in the Ruhr to sketch in more of our picture of the economic backbone of the Nazi State.

The Villa Hügel was hot with discussion about these men when I returned to our joint Anglo-American detachment of investigators. One evening, the British Control Commission's director of economic affairs, Sir Percy Mills, dropped in with his American opposite number, Brigadier General William H. Draper, Jr., an investment banker. At breakfast the next morning, Major Ernst Ophuls, my American executive officer who had been heading our investigation of the Krupps, commented on how strangely the policy of removing Nazis was working out. The Public Safety Branch of Military Government had screened domestic servants at the Villa Hügel the preceding day and found that the laundress was a member of the Nazi Party. Major Ophuls said that it was curious to see so much effort being devoted to purging washerwomen when men like Edouard Houdremont, Wilhelm Tengelmann, Heinrich Dinkelbach and Hugo Stinnes were still running around loose and keeping their jobs. Sir Percy wheeled on Ophuls. "What's wrong with them?" he demanded. "They were not Nazis; they are businessmen." Ophuls began in a conversational manner to describe some of the things we had been finding out about Sir Percy's businessmen; but Sir Percy cut back sharply and indignantly. General Draper's gritty voice threw in a conversation-stopper with the tone of a brigadier general addressing a major. The Major quietly ate his oatmeal, as though it were spinach with sand in it.

Keeping in mind that Gustav Krupp and the other Rhineland industrialists were not Nazis, but businessmen, we wanted nevertheless to fill in some details of the success they had enjoyed. Gustav Krupp on April 6, 1938, after the capitulation of Austria, had expressed "deep appreciation to our Führer" for fulfilling "centuries-old dreams." On October 13, 1938, after the occupation of the Sudetenland, he had spoken of the "world-encircling success brought about by the Führer's faith and strong will."

Without the Führer's help, after World War I, the Krupps had successfully prosecuted a claim for £6,150,000 against the Vickers armament firm in Britain for patent royalties on all the hand-grenade fuses that Vickers had turned out for the British army during that war. In settlement, Vickers had turned over an interest in a steel works in Spain, which the Krupps found very useful. The Versailles Treaty limited their steel and armament manufacturing activities inside Germany.

The Krupp records confirmed that in many cases this firm had used its patents to fulfill old dreams. At the time of World War I Krupp had owned two basic patents in the United States covering the manufacture of stainless steel. These had been seized by the Alien Property Custodian and sold to the Chemical Foundation, which then issued licenses to American companies. After the war ended, however, two Krupp patent applications, which had not been seized by the Custodian, were approved by the United States Patent Office. The patents finally issued to Krupp in 1926. Krupp promptly informed all American companies making stainless steel that their licenses from the Chemical Foundation were worthless, because they were now infringing upon the new patents. The American companies capitulated rather than face protracted litigation.

In 1928, Krupp organized the Krupp-Nirosta Corporation of

Delaware, as a patent holding and licensing company. Through its licensing system, Krupp-Nirosta was able both to restrict stainless steel production in the United States and to send reports to Essen showing the exact production in the United States of special steel for turbine blades, aircraft exhaust systems and other uses requiring rustproof or acid-resisting metal.

The president of Krupp-Nirosta was a German citizen, Emil Schill, who had moved to the United States in 1905 to represent various German industrial interests including the iron and steel business of Fritz Thyssen and the Krupps. During the next thirty-odd years he gained a considerable experience in representing these German firms. In April 1939, Dr. Schill had felt depressed over conditions in the United States. "The waves of anti-Nazi feeling and movement are rising higher than ever before. . . . You can well imagine that under such conditions life is not at all a pleasure here." In May 1940, after the Germans occupied France, Dr. Schill was happier. He wrote to Essen: "What our soldiers accomplish on land, in the air, and on the sea, is simply unbelievable. No wonder that I buy five to six papers daily."

In December 1939, Dr. Schill sent a proposal to Essen under which Nirosta would take over Krupp's business in the western hemisphere *for the duration of the war*. As Dr. Schill put it, "There will be many instances where customers of Krupp's special products, who are now cut off from Germany, will look for replacements in American markets." If Krupp-Nirosta took over, he wrote, "The advantage for Krupp lies perhaps less in the sharing of the profits of such deals, than in the maintenance of contact with former customers, and that you, upon the return to normal conditions, would be posted as to what and from whom the temporarily lost customers had bought *in the meantime*."

Krupp-Nirosta was, however, for legal purposes a non-German corporation having nothing to do with the Krupps. The Krupp firm on February 1, 1937 had been unable to redeem certain bonds, part of the Young Plan loans from American investors. This default occurred because of the Nazi foreign-exchange controls. To avoid attachment of the Krupp interest in Krupp-Nirosta by the American bondholders, Krupp transferred the ownership to a

Dutch banking firm, H. Albert de Bary & Company of Amsterdam, in May 1937. This camouflage was not wholly successful, because one American group of bondholders managed to find enough evidence of the switch to get a court order attaching the Krupp-Nirosta stock. Krupp, in 1939, reached a compromise with the security holders and immediately set about arranging a new camouflage that would work better during the coming war. To carry out this arrangement the Dutch bank sold its interest in Krupp-Nirosta to an independent company, Wolframerz A.G. of Glarus, Switzerland.

In a Krupp iron mine we found three large loose-leaf binders of Krupp records marked "Wolframerz A.G., Glarus." They showed that the "independent" Swiss firm had retained Dr. Martin Louis, a director of Krupp, as consultant to guide their dealings with Nirosta. The Swiss firm had continued the Krupp practice of naming Emil Schill and Hans von Briesen to serve as their proxies at stockholders' meetings in the United States. The Nirosta group had continued to send the reports on American stainless-steel production to Essen. In August 1939, Schill was in Germany and wrote to Essen from Stuttgart asking for an introduction to Wolframerz so that he could pay his respects to his parent corporation. Dr. Alfred Busemann of Krupp wrote Schill: "We would rather you did not visit Wolframerz. They are merely a holding company, and I do not want to divulge to them anything more about Nirosta which would probably be unavoidable if you visited them."

In January 1940, the Nirosta management in the United States had become worried about the sufficiency of the Swiss camouflage. They persuaded Krupp to allow a change of the Krupp-Nirosta name to "Nirosta Corporation." They also proposed that the controlling *shares be transferred to American ownership, with an off-the-record* agreement for repurchase by the Krupps after the war. The Krupp officials rejected the scheme in July 1940 because they were sure Germany was winning the war and they felt that the Swiss camouflage was enough. In this respect they were wrong. When the United States entered the war, the Alien Property Custodian seized the shares as German-owned, a contention which the Krupp records themselves now proved.

On May 24 and 25, Colonel Kellam and his expert accountant, Leslie Gage, joined Ernst Ophuls and me in questioning directors Schürmann and Brandstatter of Krupp, Hermann Winkhaus, director of Mannesmann, and Heinrich Dinkelbach, director of United Steel, to find where the financial records and the personal files of the directors of these three firms had been stored. We had been finding that the kind of records the directors chose to move was often an index of what they considered important either for their own use or to keep from us.

We found that the Mannesmann records on foreign business had been taken by the general manager, Wilhelm Zangen, to Hameln, a story-book town on the River Weser where the Pied Piper was supposed to have drowned all the rats. The Krupps had moved their securities and records of interests in other companies to the old "Hansa" mine at Oker, north of Goslar in the Harz Mountains, and their records of foreign operations to the "Echte" mine, a few miles south of Goslar. United Steel had moved the files of the German national steel cartel, renamed the "Walzstahl Verband," to the university town of Göttingen, south of the Harz. Their financial records were further to the west at Siegen in Westphalia, and their records on foreign connections were in the "Silberwiese" mine in the Westerwald, a few miles east of the Rhine, opposite Bonn. It was these records, and the men who had gone with them, as well as the records of the Standard Oil-I.G. Farben deals, that occasioned our circuit of the Harz Mountains in the last days of May 1945.

We found Wilhelm Zangen, general manager of the Mannesmann Röhrenwerke A.G., living comfortably in Hameln, where he had moved the more important company records from Düsseldorf. We had brought along Hermann Winkhaus, the technical director, who had been sitting on what was left of the Mannesmann offices in Düsseldorf, to make sure we had no trouble locating the big boss of the corporation that controlled most of Europe's pipe and seamless tube production. The Mannesmann firm controlled three hundred and twenty-eight mining, fabricating, and sales subsidiaries and normally employed over fifty thousand persons.

Wilhelm Zangen, the autocrat of Mannesmann from 1934 onwards, had been a member of the Nazi Party since 1930. He had joined the firm to represent the Deutsche Bank, Germany's largest commercial and investment bank. The Deutsche Bank began to move into control of the firm soon after it was founded in 1890 and gradually forced out the two founders, the brothers Max and Reinhardt Mannesmann. By 1908 the Mannesmann family had no active part. The Deutsche Bank always kept the firm abreast of new developments. When United Steel went into the tube business with the help of American loans in 1926, Mannesmann acquired coal and iron mines, blast furnaces and steel mills and turned out sheet steel, valves and other products in competition with United Steel. The bank always voted between 50 and 80 per cent of the stock of the combine at the stockholders' meetings and saw to it that officers of the bank were elected to the board of directors and that the representatives of the bank were appointed to supervisory positions in other companies controlled by Mannesmann in Germany and abroad.

The first incomplete list of officials of all the Mannesmann companies, which Zangen and his associates made up for us at Hameln, showed thirty Deutsche Bank officials distributed throughout the world-wide Mannesmann organization. The oil and pipeline companies that were Mannesmann's biggest customers had representatives on the Mannesmann board to help stabilize the general policies; but these customer firms were themselves part of the Deutsche Bank's domain. For example, the Deutsche Bank controlled the largest of Germany's domestic oil companies, the Deutsche Erdoel A.G., known as DEAG, by representing the largest single block of the outstanding stock at annual meetings. The Deutsche Bank had the right to name the chairman of the board of DEAG. Policies of the oil company were agreed upon between the Deutsche Bank representatives and members of the United Steel group, holding the second largest block of shares. The deputy chairman of the board of DEAG was a member of the Poensgen family; and the director general of DEAG from 1939 onward was a former director of United Steel.

The Deutsche Bank treated the combine like a herd of cows to be milked at regular intervals and steered into the political pastures where the herd would fatten quickest and produce the most milk. Mannesmann fattened quickly under the new conditions created for it by Hitler's Reich. The merging of Deutsche Bank control and Nazi Party sponsorship worked smoothly when Zangen was pushed ahead to become general manager. From 1934 onward, under Zangen's management, and with his standing as one of the earliest backers of the Nazis, the combine went full steam ahead to ride the crest of the war production drive. It profited tremendously from the use of slave labor provided by the SS and acquired new properties in Germany and German-occupied countries by "Aryanization" and the other ways open to the Nazi elite. Properties in the Saar, Sudetenland, Poland, France, Holland, Hungary and Roumania were taken over and co-ordinated as parts of the growing combine.

After a few years of Nazi rule, even some of the industrialists who had been part of the original circle of men who brought Hitler to power began to worry about the way Zangen's Mannesmann and Thyssen's United Steel were edging out their old cronies from any role in the tube business. Too late, some of the other west German industrialists banded together to try to keep Mannesmann and United Steel from dividing the entire tube and pipe markets of Germany, domestic and foreign, between them. At the first sign of trouble from the others, the steam roller went to work for Mannesmann and United Steel. In 1938, the Nazi government appointed Zangen chairman of the top organization for mobilizing all the German economy, the Reichsgruppe Industrie. The next year, 1939, the Reichsgruppe Industrie moved onto a larger stage with a series of joint meetings at Düsseldorf between this German group and representatives of the Federation of British Industries, including Sir Percy Mills, to plan the future economic collaboration of Germany and Britain.

Zangen himself was very reluctant to admit to us his part in Mannesmann's successes. In his rasping voice, he denied bitterly having had any special niche in the Nazis' hall of fame; but when he could offer no other explanation in response to Ernst Ophuls's questioning he sulked or tossed back impertinent remarks. It was not until we went back to Düsseldorf, picked up Emil Gobbers,

the company's chief accountant, and put him to work with records moved back from Hameln that we got a graphic description of Mannesmann's growth under the Third Reich. René Manès came up from Frankfurt with Ed Rains of the Treasury Department to go into the company's books with Gobbers. They had the Mannesmann draftsmen summarize the results on two large maps drawn in six colors, showing the company's properties by location and types as of 1936 and 1945. Superimposing the two maps was like watching a fireworks display. Each multicolored cluster of holdings seemed to burst and release a shower of new bright spots in all the occupied territories of Europe. To keep this exhibit from being swallowed by our headquarters for its artistic value, our office manager, Sergeant Ed Liddiard, requisitioned a color-printing establishment near Düsseldorf and ran off fifty copies of each map.

We wanted to hear from Zangen about Mannesmann's activities in the western hemisphere. We knew that the Deutsche Bank had given Zangen a free hand once he became general manager of Mannesmann. But Zangen said that he had delegated the management of the combine's affairs in our part of the world to Gustav Köcke. Köcke was not only an early Nazi, but an elder statesmen with experience dating back to the period of World War I.

Zangen and all the others said they had no idea where Köcke was. He had retired in 1943 from his position in the management and retained only a nominal directorship, they said. But, of course, since Köcke had been the one who maintained Mannesmann's relations with the western hemisphere, Zangen and the others claimed to know very little about that phase of the business. We finally found Köcke almost by accident when we stopped at Bad Sachsa, high in the Harz Mountains, following a lead to the Standard Oil-I.G. Farben documents which Major Tilley had asked us to get. After we located those papers, the intelligence officer of Combat Command "B," Major Martin Philipsborn, told us that there was living in a house on top of the mountain an old fellow in whom we might also be interested. It was Köcke.

On a flagpole in front of Köcke's house was a large Argentine flag. Everybody in Germany who could display a flag or a sign of any kind to indicate a non-German identity was doing so. The country bristled with signs proclaiming Danish or Swiss or Swedish consulates, or branch offices of British and American companies; but this was the only house I came across in Germany that was wrapped up in the Argentine flag. The house belonged to one Max Pahlke, a German who had acquired Argentine citizenship years before and had saved Mannesmann's Latin American outpost, Tubos Mannesmann, Ltda., from Argentine government seizure during World War I. He succeeded in doing the same thing in World War II.

Köcke was pretty good at dodging questions. To judge by his own account, he was one of the most ignorant successful businessmen of the age. It seems he stumbled along for years managing the foreign business of Mannesmann in the western hemisphere without ever knowing anything about what was going on. He knew even less than what the files of Mannesmann Export revealed when we went through some of them at Hameln. According to him, Zangen did not become a Nazi until after he was made head of the Reichsgruppe Industrie in 1938, and was never active in the Party. Köcke became a member in 1934, but said he was never active. Köcke knew Max Pahlke only as a friend and had never heard of his espionage work for Germany in South America.

Köcke did not know anything about Gerhardt Wagner either. Gerhardt Wagner had been manager of Mannesmann's agencies in the United States. We had to piece together the story of what Gerhardt Wagner had done for Mannesmann by putting together various things that Köcke denied knowing. We located a number of documents on Gerhardt Wagner some weeks later in an office in Düsseldorf that pretended to be the Swedish consulate general, but was actually a substitute office of the Mannesmann company. Hermann Friedrich, a director of Mannesmann, also served as Swedish consul general in Düsseldorf. He had taken some of the company's records and placed them under his diplomatic protection, insisting that we had no right to enter his premises to look for them. Among other papers in this "consulate" were some interesting reports made out by Köcke's staff in the early part of the war. Several reports in particular were presented to the German Economics Ministry in order to get permission to spend dollars

in the United States for Gerhardt Wagner's salary. According to these reports, Wagner was performing valuable services for the Intelligence Service of the German High Command by transmitting blueprints and other details of machinery orders for war plants in the United States on which Mannesmann's American agency submitted bids. Copies of letters from the High Command and blueprints and reports from Wagner were attached as appendices in order to convince the Economics Ministry that it was desirable to keep this channel open even at the expense of using some of the precious dollars which the German government wanted to hoard.

From Bad Sachsa we drove to Göttingen to beat the bushes and start driving quail back toward United Steel headquarters in Düsseldorf. The records of United Steel were too near the order of magnitude of the I.G. Farben files for us to take physical possession. At Göttingen, using a list we had found in a desk at the Stahlhof in Düsseldorf, I picked up Otto Feine, the head bookkeeper of the German Steel Association, and told him to take me to the Kaiser Wilhelm Park where, according to the list, Herr Feine was keeping some United Steel records. At an inn in the middle of the park we found eighty-five huge chests containing the central books of Germany's biggest steel trust.

United Steel, unlike Mannesmann which was controlled by the Deutsche Bank alone, was a bankers' paradise. The books of United Steel in 1944 showed assets equivalent to $1,200,000,000, considerably bigger than the postwar valuation of the Texas Company or General Electric in the United States, and about on a par with Socony-Vacuum or Du Pont. The parent concern directly controlled three hundred and sixty-eight other companies and in addition had two hundred and twenty-one affiliates and agencies inside and outside Germany. Not one bank, but all the principal German bankers had a finger in the pudding. The very existence of the United Steel combine depended, at its formation in 1926, on the willingness of British and American banks to float bonds with the American and British public to pay the cost of drawing together and expanding a combine that had little economic justification.

United Steel was formed in 1926 by a merger of four concerns: the Rhein-Elbe Union, combined by Hugo Stinnes, Senior, in 1920;

the Thyssen group; the Phoenix group, controlled by Otto Wolff, the Haniel family, and F. H. Fentener van Vlissingen; and the Rheinische Stahlwerke, controlled by I.G. Farbenindustrie. This combine of combines was Germany's second largest industrial complex. But whereas I.G. Farben, the largest, had only ten officers and directors who sat on the boards of other major industrial firms, and only one director who was from the outside — Edward Mosler of the Deutsche Bank — United Steel's board was made up of a galaxy of bankers and industrialists, about fifty in all, who rotated through the positions on the supervisory board and in the management from the time the corporation was formed in 1926. The all-star cast, in addition to Flick and Thyssen, included Werner Carp, general manager of the Haniel family's Good Hope steel and machinery interests, and director of several of Flick's companies; Hans von Flotow, director of the Schering chemical combine, and of Gebrüder Stumm G.m.b.H., one of the leading steel firms of the Saar; Carl Goetz, chairman of the board of the Dresdner Bank, Germany's second largest investment bank, and director of twenty other industrial and banking firms of the first rank, including the Munich Reinsurance Company and Merck, Finck & Company, the bank which managed Hitler's private fortune.

Others were Johannes Jakob Hasslacher, until his death in 1944 a director of I.G. Farben and of the Deutsche Bank; Alfred Honigman, director of the Berliner Handelsgesellschaft; Willi Huber, director of the Coal Syndicate; Alfred Hugenberg, industrialist and publisher, Hitler's first Minister of Economics and Agriculture, and one of the early leaders in the campaign to replace the Weimar Republic with a "strong" government; Johannes Kiehl, director of the Deutsche Bank and of AKU, the Dutch rayon trust; Karl Kimmich, director of Rheinmetall-Borsig, Klöckner steel, A.E.G., Flick, Henkel chemicals, and the Deutsche Bank; Gustav Knepper, director of Flick and I.G. Farben subsidiaries and counsel of the RWE utilities network; Paul Marx, chairman of the board of the Commerzbank; Robert Pferdmenges, head of Pferdmenges & Company, Cologne private bank; Hermann Schmitz, chairman of the board of I.G. Farben; Oskar Sempell, director of Siemens & Halske; Carl Friedrich von Siemens, until his death in 1942 chairman of Siemens & Halske and director of Mannesmann; Hermann von Siemens, successor to Carl Friedrich and director of the Deutsche Bank; Heinrich von Stein, partner of von Schröder in the Bankhaus J.H. Stein; Otto Steinbrinck, director of the German National Railways and RWE utilities; and, until his death in 1940, Otto Wolff, head of one of Germany's largest steel exporting firms. Frederik H. Fentener van Vlissingen, president of the International Chamber of Commerce from 1933 to 1937 and chairman of AKU, or Associated Rayon, in Holland was another outstanding member of United Steel's inner circle.

Albert Vögler, predecessor of Ernst Poensgen as chairman, held wide directorships in companies including not only all the more important United Steel subsidiaries, but also such firms as Siemens & Halske, the RWE electrical utilities holding company, the DEMAG machinery and mining equipment works, and at least one of the principal subsidiaries of the Hermann Göring combine. Altogether, the thirty-five members of the supervisory board and board of directors who were active at the time the war started held over one hundred and sixty directorships with other companies. Fifteen were on the boards of jointly controlled subsidiaries of I.G. Farben; twenty were officers or directors of the Flick combine; three were on the board of the Deutsche Bank; three with the Dresdner Bank; eight were with other big banks including the Commerzbank, Berliner Handelsgesellschaft, Pferdmenges & Company, and the Bankhaus J.H. Stein. Seven were with the Siemens & Halske electrical equipment combine; seven were with A.E.G., the German General Electric Company; seven were with the RWE electric utilities; and one or more were on the boards of Krupp, Mannesmann, Klöckner, Haniel, Daimler-Benz, DEMAG, Waldhof, Schering, Salzdetfürth, Kali-Chemie, DEAG, and the Rhenish-Westphalian Coal Syndicate.

In 1931, despite this blue-ribbon board of directors the combine's debts were greater than the share capital plus reserves; and the company was headed for the wringer. Friedrich Flick, who controlled the largest single block of shares in United Steel, began negotiating with some French steel producers who wanted to buy the controlling interest. The French producers proposed to reintegrate the economies of Alsace-Lorraine and the Ruhr, cutting out the expensive ore imports from overseas that contributed so heavily to United Steel's operating losses. But the German press assailed this "internationalism" as tantamount to treason; and Flick and the other directors began negotiating with the Brüning cabinet.

Chancellor Brüning's government became convinced that if United Steel went through reorganization, this would be a great blow to the coal, steel, electrical and other heavy industries of Germany. The government first began buying United Steel shares, which had been selling on the market at 25 per cent of par. This raised the open market price to a high of forty-one. Then in May 1932, the government secretly bought the controlling block of shares from Friedrich Flick at ninety, three and one half times what the market had been when the government started to "rescue" the management of United Steel. This transaction not only restored the personal fortune of Friedrich Flick, who retained his place on United Steel's board, but it also saved the fortunes of Fritz Thyssen, Otto Wolff, and others of the blue-ribbon panel that continued to govern the steel trust after government money flowed in to prevent "bankruptcy."

Flick's deal with the Brüning government left Fritz Thyssen the largest private stockholder in United Steel; and in 1933, Thyssen's first reward for his years of financial support to the Nazis was a capital reorganization which gave the government-owned stock back to United Steel and left Thyssen in control. Later on, Flick began to challenge Thyssen's position. He managed to buy interests first in the steel trust's coal mining companies. In the end he succeeded in ousting Thyssen with some help from Göring's right-hand man, Gauleiter Terboven, later commissioner for Norway. On the outbreak of war in 1939, Thyssen, who had already lost his inside track with the Nazis, broke with Hitler and left the country. By his own account, this was an expression of his disagreement with the war policy.

The star performer who came out as head of United Steel at the end of the war was Heinrich Dinkelbach, who had spent seventeen years as understudy to Ernst Poensgen. In December 1943, Poensgen gave up the chairmanship and retired to his country place in Austria, leaving Dinkelbach to succeed him. In replying to Poensgen's valedictory message, Dinkelbach wrote:

> . . . I have learned a great deal from you. If, among other things in your letter, you make special mention of my work in the Reichsgruppe Industrie . . . then I may now tell you that many a success can be credited to me for the reason that I set you up as a model for myself. All these labors are directed towards a closer integration of the economy. Such labors cannot be performed in a spirit of personal self-seeking. There must be a grand plan. Here you were a splendid teacher for me. You never calculated meanly in Marks and Pfennigs for yourself and your company. You always saw the grand plan for the whole . . . It shall be my aim to continue my work in this spirit. I hope with you that the Vereinigte Stahlwerke will maintain and strengthen the position in the economy which it has acquired under your leadership and Herr Vögler's.

On our return from the Harz Mountains we sent for Herr Dinkelbach and had him come to our offices in Düsseldorf. We wanted to discuss with him the grand plan of United Steel, and the ideas of the common good and the welfare of the community which he had learned from Dr. Poensgen, as he watched United Steel strengthen its position in the German economy. Since the corporation was always a high-cost producer and would have gone bankrupt if the government had not provided subsidies to make up for cost differences, in what sense was United Steel a strong company? How could it compete on an all-European or world-wide basis if national considerations were cast aside and government gifts withdrawn?

We found that our notions of competition were practically unintelligible to Herr Dinkelbach. What the Germans are inclined to call "competition" has little in common with our conceptions of competition in price, service, or quality. It is more like political maneuvering and lobbying. The lobbying and political maneuvering might be within a privately organized trade association or cartel, or it might be within government ministries or Nazi Party formations. A strong position in the economy was simply a position in which the directors of the firm found it easy to make arrangements to get what they wanted.

United Steel was the giant in its field, and held its place in German industry partly by the sheer weight of its productive power and partly by the political power of its managers. Some of the other industrial combines made up in other ways what they lacked in financial or productive power. Good Hope, or Gutehoffnungshütte, was one.

The Good Hope complex is the family holding of the Haniel family. These holdings were spread over so many important lines of industry that the individual Good Hope companies, big as they were, were usually not the giants in any particular field. For over a century, coal had been the basis of the Haniel interests. The collieries were located in the Ruhr; but during the French occupation of 1923, the ownership of most of the family's property was transferred to a new holding company in Bavaria, the Gutehoffnungshütte Nürnberg A.G., otherwise known as Good Hope Nürnberg. The range of the combine's interests, beyond coal, iron and steel, included copper and cable works, and factories producing locomotives, rolling stock, automobiles, tankers, ships, diesel engines, *steam turbines*, farm machinery, mining equipment, compressors, stoves, castings, forgings, pumps, bridges, armaments, ammunition, and synthetic oil. Extensive engineering, steel construction, and shipping interests spread the company's activities far beyond the manufacturing enterprises.

The four main operating subsidiaries of Good Hope Nürnberg employed about 40,000 and had assets valued at $275,000,000. United Steel employed 275,000 and had assets valued at $1,200,000,000. I.G. Farben employed 500,000 and had assets of over $3,000,000,000. Judged in comparison with their potential competitors, in the usual sense of the term, the Haniel companies might appear outclassed; but with the Nazi connections of their management and the Haniel family members, the Good Hope companies had very little to worry about.

General manager of all the Haniel properties, from 1904 until his retirement in 1942 at the age of seventy-four, was Paul Reusch, lifetime friend of Hjalmar Schacht and the first man to whom Schacht turned for shelter when he was released after the Nürnberg trials. Reusch turned over the management to his successor, Hermann Kellermann, who first joined the management of the Good Hope firm in 1918. Kellermann was also chairman of the Rhenish-Westphalian coal syndicate, the RWKS. This was Germany's largest coal association, which financed the early activities of the Nazis by levying an assessment on every ton produced by all the collieries in the Ruhr.

The head of the family, Karl Haniel, died in November 1944, leaving Werner Carp, a member of the family by marriage, as the active head of the Haniel clan. Following our tour of the Harz Mountains and the interrogations of the Mannesmann and United Steel heads, we wanted to talk to the available members of the Haniel group in the Ruhr, and then to compare notes by talking to Carp, whom the CIC had detained in the American zone at Nürnberg. Before we could do this, Carp was suddenly freed from detention and turned up at his old offices in Oberhausen in the Ruhr. The first we knew of it was when we found the German social set in Düsseldorf all in a flutter over the return of Mr. Carp. One dowager told us he was such a nice man and such a good friend of Fentener van Vlissingen and Baron von Schröder, as well as other interesting and important people whom he had so often brought to their parties in Düsseldorf. On investigation it appeared that a British major had made a trip down to Bavaria to arrange for Carp's release into his custody and then had turned him loose. The British authorities promptly packed the major off for a two-year term in a British military prison.

We turned our attention to other members of the clan. Dr. Franz Haniel was by that time too old to be active. Alfred Haniel, self-styled black sheep of the family, claimed to be a vigorous anti-Nazi and said he had broken with the Haniel family in 1930. He was living comfortably on his farm outside Düsseldorf, under the protection of American troops especially assigned to protect him—no one seemed to know by whose order. He denied any connection with the Good Hope combine and said his positions were entirely with shipping and coal mining companies which did not belong to the Good Hope complex. What we found out was that the biggest shipping company in which Alfred was interested, Franz Haniel et Cie., G.m.b.H., was owned 42 per cent by Good Hope and 58 per cent by the coal-mining firm, Rheinpreussen. The Rheinpreussen firm, in turn, was one of the two mines in which Alfred Haniel held stock and directorships. The remaining interest in Rheinpreussen was held by the rest of the Haniel family. The story was similar with the rest of the companies in which Alfred admitted having interests. His "break" with the family had consisted in retaining no identification with the top family holding company, but in helping to manage the mining and shipping properties. In this way, he could have it both ways. He was protected on one side by the good Nazi connections of the rest of the family, so far as his standing in Germany was concerned; and he was assured his position as a good anti-Nazi for external relations, because of his "separation" from the Good Hope combine.

Margaret Bourke-White was photographing the Ruhr for *Life* magazine and staying with us at the Villa Hügel. She visited Alfred Haniel's farm at Hubbelrath, near the *Autobahn* east of Düsseldorf, one afternoon shortly after V-E Day. Among other things, she took a photograph of Mrs. Haniel and the children standing in the doorway. That evening Alfred made a special trip all the way to the Villa Hügel to ask Miss Bourke-White to destroy the negatives. He said that he had been engaged on extremely confidential matters for the United States government and that these things would be jeopardized and great diplomatic complications would result if his present status were publicized. A few days later we brought him into our offices at Düsseldorf for questioning about his diplomatic complications and special status. We noted that his passport showed a dozen trips to Switzerland during the war, the last one in September 1944. The "status" that worried him, it appeared, was his large comfortable house, and a detachment of American troops which had been assigned by orders from higher up to protect the premises. He declined to discuss his extremely confidential work for our government, however. He said his contacts in Switzerland had been with Mr. Allen W. Dulles, head of the European mission of the Office of Strategic Services, and a director of the J. Henry Schroder Banking Corporation.

Here, at the end of May 1945, we were getting an answer to some of our questions about the "Rhineland industrialists." From the start we had wondered what it was that distinguished this group in the Ruhr and Rhineland from producers of industrial goods in other parts of the world, who have sometimes been known to transact business for generations without finding it necessary to buy themselves a dictator.

The Brüning government had already made a number of concessions to the large combines by decrees and licensing laws that directly limited the power of "outsiders" to engage in business. Industry groups and trade associations gradually got more and more powers under the Weimar Republic, enabling them to pass upon the eligibility of newcomers for licenses to engage in business. Under the Nazis, when the Four-Year Plan was adopted to strengthen the drive for self-sufficiency, the groups and associations got additional powers to allocate and apportion scarce materials or imported materials among the members.

The demands of the "guns, not butter" formula in the over-all economy called for corporations to undertake high-cost operations which, in normal business terms, were not profitable. These operations had to be "made" profitable by whatever bookkeeping arrangements or subsidies might be necessary. One of the first was to prevent competition inside Germany from "unco-operative" firms which had not yet seen the advantages of joining in the new economic system. A steel company experimenting with low-grade domestic iron ores, for example, had to be protected against companies using higher-grade ores from other sources.

All of these types of controls, including financial controls, controls over the flow of investment, control over the right to expand or to enter into new lines of business, and the power to order the abandonment of small factories and the concentration of production in the larger ones, had a definite effect on the shape of the national economy. Even in a short period of five years, from 1933 to 1938, the so-called capital goods industries increased their activity to 255 per cent of 1933. Certain heavy items like cement, pig iron, crude steel, finished iron and steel, motor cars, and trucks advanced to between three and four times their 1933 level of production. Chemicals and electrical industries more than doubled.

The production in light or consumer goods industries on the other hand went up only to 145 per cent of 1933. Production of vegetable oils and fats fell to 80 per cent of 1933 production, while food stuffs and textiles increased only 25 to 30 per cent above 1933.

We were finding that the very existence of the Rhineland group had depended on their determination to build and maintain a concentration of heavy industry in a place where, by economic and technological standards, it did not belong. They had built so much steel capacity that the rest of German industry could not use it. As Hitler said, "Germany must export or die." One definition of "Rhineland industrialists," we decided, is that they are those who combine together to carry out a program of heavy industrial expansion, regardless of economic consequences, and then try to counteract those consequences by looking for a man on horseback.

Each time we touched something new, we seemed to be opening up fresh questions faster than our small forces could find answers. With a growing sense that there were other "Rhineland industrialists" in Britain and the United States, whose concern over their German counterparts might be more than the sympathy of one businessman for another, we were beginning to feel like men working around a power house with uninsulated pliers, and thin rubber gloves.

CHAPTER 8

The Cantilevers

MOUNTAIN peaks would not attract much attention if they were not sitting on top of mountains. In our first drive to find out how Germany was controlled, we had touched some of the peaks. Krupp, United Steel, I.G. Farben and some others stood out in such bold relief that they could hardly be overlooked. But there were connecting ridges in the shadows of these peaks. The Metallgesellschaft A.G. was one.

We had our first glimpse of the files and records of the Metallgesellschaft early in April back at Kronberg in the castle of the princes of Hesse-Nassau. Though it was only a glimpse, it was illuminating. The "T" force team under Colonel Gordon found the lead to this hideaway while they were looking into German experiments with gas masks and decontamination agents to control I.G. Farben's new war gases.

Kronberg Castle has taken its place in history as the scene of the theft of the Hessian crown jewels by an American colonel and his fiancée. I remember Kronberg Castle as a source of puzzles of the now-you-see-it-now-you-don't variety. Coming over from Frankfurt we could see the castle at Kronberg across the flat plain of the river Main. Its tower pierced the forest halfway up the side of the Taunus range. But the nearer we approached the castle the less we could see of it. It was lost to view as the road wound around among the trees, until we came upon it suddenly from above. Once inside, we found the contents as perplexing as the approach. Filing cabinets and packing cases were stacked about among elegant surroundings. On the walls were hung, frame to frame, portraits of the members of the British royal family and paintings of the Hessian princes and their ancestors. Queen Victoria, whose portraits were in several of the rooms, had married Prince Albert of Saxe-Coburg-Gotha, another branch of the Hessian line. Their family ties ran back over a century.

Members of the family were stockholders in the Metallgesellschaft. Though they did not serve on the board of the parent company, some of them had served as directors of foreign corporations in which Metallgesellschaft had interests. In turn they countenanced foreigners on the board of the parent company, a somewhat unusual procedure for a German corporation. According to the records, the British Minister of Production, Sir Oliver Lyttleton, had been one of the directors of Metallgesellschaft up to the outbreak of war. Representatives of Lyttleton companies and representatives of the royal house of Hesse-Nassau had served as directors of joint Anglo-German enterprises in Spain, including participation in the Rio Tinto mines. A great many other bits and fragments of a similar sort turned up on this first cursory inspection.

It was not until June 2, 1945 that we found an occasion for another look into the affairs of the Metallgesellschaft at Frankfurt. This organization had figured quietly, but very substantially, in practically every industrial field that fell between the iron and steel industry and the chemical industry, especially in nonferrous metals and alloying materials. It controlled 40 per cent of Germany's copper smelting and refining; 36 per cent of the lead smelting; dominated research and alloying of zinc; shared half-and-half with I.G. Farben in the biggest nongovernment-owned aluminum works; shared three ways with Krupp and I.G. Farben in controlling over 60 per cent of the nickel refining. Krupp, United Steel, and the rolling mills of Hoesch A.G., the three largest producers of tin plate in Germany, had secured most of their tin from Metallgesellschaft, which controlled over half of Germany's tin refining facilities. Also, I.G. Farben and Krupp had joined together in 1934 and entrusted to Metallgesellschaft the job of developing mineral resources in Spain. One company controlled by Metallgesellschaft had secured a monopoly of all raw materials from mines in Spanish Morocco. Other subsidiaries controlled the largest deposits of phosphate rock in the United States. With such accumulated details, we left the Ruhr on

June 2 and headed for Frankfurt, hoping to find an explanation and an evaluation of the company's importance.

The main building of the Metallgesellschaft, with its large, high-ceilinged rooms and wide marble staircase, was still occupied by the military government of Frankfurt; but a courtyard in the rear covered a large underground laboratory where a staff of over one hundred German research workers could carry out their experiments with metal alloys, light metals, ores and chemicals. Neither the laboratory nor the main building had been damaged, but the brick annex and the other buildings surrounding the courtyard were a patchwork of makeshifts. The company's employees crawled and shuffled about through the wreckage as they put their affairs back in order. To reach the financial records and the files of the company's directors, we had to scramble up a ladder to the roof, and walk on improvised planks laid across the rafters under the ridgepole.

The dominant members of the board of directors had included Dr. Carl Luer, director of the Dresdner Bank and the Deutsche Bank, and chairman of the board of Adam Opel A.G., the General Motors Corporation subsidiary in Germany; Carl Bosch, until his death chairman of the board of I.G. Farben; Geheimrat Hermann Schmitz, who succeeded Carl Bosch; Hermann J. Abs, managing director of the Deutsche Bank; Karl Rasche, director of the Dresdner Bank and one of Göring's chief lieutenants; Hans Weltzien of the Berliner Handelsgesellschaft; Dr. Ludwig Westrick, chairman of the board of the government-owned United Aluminum Works; Hermann Schlosser, chairman of the board of Degussa, and a director of the soap and detergents combine, Henkel & Cie., of Düsseldorf.

This meant, in brief, that three industrial firms, I.G. Farben, Henkel, and Degussa, and three of the big Berlin banks, Deutsche Bank, Dresdner Bank, and Berliner Handelsgesellschaft, as well as the Nazi ministries of the Four-Year Plan for rearmament, had supplied the over-all direction of the affairs of the Metallgesellschaft.

The company had performed a planning, shaping and guiding function in the Nazi economy, reminiscent of Herr Dinkelbach's noble objective of the "greater integration of the economy." Especially in the production of nonferrous metals, wherever Metallgesellschaft did not itself have the inside track, it had close working arrangements with the companies that did. For example, we already knew that in aluminum, the greatest part of German domestic production was turned out by the government-owned United Aluminum Works, Vereinigte Aluminium Werke A.G. The second largest producer was the Aluminium Werk Bitterfeld, in which Metallgesellschaft had a 50 per cent interest. But we found out also that the company participated on a fifty-fifty basis with United Aluminum Works in the ownership of the central sales office for aluminum at Berlin. In this connection we remembered that in 1939 the United States Bureau of Mines had asked the American consul general at Frankfurt for statistics on German production of light and nonferrous metals. The consul general wrote back that German government restrictions prevented transmission of production data in these fields, but he had given to Metallgesellschaft A.G. the statistics on American production for the same year, 1939, which the Bureau of Mines had previously supplied.

Here were eyes and ears concerned with more than the day-to-day affairs of an industrial machine. Actually two of the directors, Schmitz of I.G. Farben and Rasche of the Dresdner Bank, were destined to be convicted as war criminals for their part in planning and directing the preparations for war and in profiting from German conquests. In the war preparations, the Metallgesellschaft had acted as an agent to stockpile critical materials in which Germany was deficient, particularly copper, phosphates, pyrites, rubber, tin, and aluminum alloys. For some time, it was the sole German purchasing agency for mercury.

This company was one of several German counterfoils, prepared ahead of time to forestall attempts of enemy nations to cut off supplies of strategic materials by means of blockades and "preclusive buying." The Metallgesellschaft was particularly suited to this work, with its world-wide network of engineering and industrial machinery companies situated in all the important industrial countries. World trade in the nonferrous field has been controlled more by loose agreements and patent restrictions than by the production

and sales quotas and price-fixing arrangements which are characteristic of formally organized cartels.

The firm served as a meeting ground where many interests were brought together and worked into a pattern that balanced the interests of the banking and management groups, and of the Nazi government. Investment banks which supply abstract "management," unfettered by absolute ties to soap, collar buttons, gold teeth or steel rails, are supposed to furnish a kind of balance to an industrial economy. The role of the banker-directors, Luer, Rasche, and Weltzien, we were told, was to keep the activities of the firm directed toward the greater good of all firms in which the banks had a finger, rather than toward the particular good of Metallgesellschaft alone. Karl Rasche, in addition, could represent the needs of the Nazi ministries.

The principal stockholders in Metallgesellschaft were, in turn, companies performing a similar function in other parts of the economic system. The three dominant stockholders were Henkel, Degussa, and I.G. Farben. Degussa, the precious metals combine, was a favorite child of the Dresdner Bank. Its chief stockholders were Henkel and I.G. Farben. The outstanding member of the supervisory board was Carl Goetz, chairman of the board of the Dresdner Bank.

While Degussa's books showed assets worth only a little over fifty million dollars, it was second only to I.G. Farben in the range, variety and importance of its products in chemicals, metals, and related fields.

Degussa had a growth unlike that of the massive giants of German heavy and synthetic industries. Instead of becoming big in some one product, it grew more like a coral reef. Starting with precious metals processing, the company began to get control of the sources for raw materials and reagents that it needed. These, in turn, yielded by-products that could be used in other kinds of industry. But to make these by-products useful, they had to be combined with certain other materials. So Degussa would acquire the sources of these materials which, in turn, produced useful by-products, and so on, ad infinitum.

Before this company had been in business many years, there was hardly an industry in Germany that was not completely dependent on Degussa for some essential product in which Degussa held a monopoly or a near monopoly. Beginning with activated charcoal and metals refining, Degussa had ended up in such fields as gas masks and mine-safety equipment. Beginning with cyanides, it had branched off into hardening salts, grinding materials, and tempering ovens for the machine tool industry. Degussa had a practical monopoly of carbon black for rubber tires, refractory materials and temperature-measuring devices for the metals industries; platinum spinnerets and capillary tubes, as well as acetate and cellulose solvents, for the synthetic textile industry; rare earths for manufacture of optical glass; ceramic dyes and glazes for the ceramic industries; insecticides for agricultural use, and so on around the clock.

Degussa controlled so many patents in so many fields, often covering some intermediate product or process that other industries could not get along without, that it acquired an important status in all the industry-wide agreements, or cartels, in all its fields of interest. Most of these arrangements were not confined to Germany alone.

Cyanides furnished us with one example. To the average person, cyanides are familiar only as a principal ingredient in mystery stories. But industrially they are used as hardening agents and in a variety of other uses important enough to be the subject of an international arrangement known as the International Sodium Cyanide Cartel. This organization has fixed production quotas for its members on an international basis. Degussa was the leader of the continental European group. By quietly building up stockpiles of cyanides and then threatening the Anglo-American group with dumping, Degussa several times increased its quota of world exports and elbowed itself into a position to settle matters outside of Germany. One by one, companies outside the arrangement were either taken into the agreement, or payments were made to them for not manufacturing cyanides. Failing that, agreements were made that certain quantities would be bought from them at a price far above production costs, if they agreed to limit production, keep prices at a certain level, or limit their activities to a specified market. So far as the United States was concerned, the leading producer, Du Pont, was not legally able to join the cartel. It was agreed in 1932 that no correspondence on cartel matters would be sent to Du Pont in the United States, and that the British chemical trust, Imperial Chemical Industries, Ltd., would act as Du Pont's agent in these matters.

From 1931 to 1939, the Ocean Chemical Company of Ramsbottom, England, was paid about twenty-five thousand dollars a year for not producing cyanide. In 1931, Degussa began paying a Professor Hene, of Berlin, about ten thousand dollars a year for not exploiting his new process for the manufacture of cyanides. When Hene later moved to England and interested the Rand Mines in his process, Imperial Chemical Industries agreed to make a down payment of over fifty thousand dollars and annual payments of six thousand dollars to Rand Mines and Hene to refrain from manufacturing cyanides in England.

One could go on through the list of other Degussa products and find similar arrangements worked out internationally. In 1934, for example, Du Pont and Degussa made a series of patent-exchange agreements establishing exclusive sales territories for the two companies for alkaline metals, cyanides, sodium peroxide, formaldehyde, ceramic dyes and other products. In 1935, another range of agreements was made with the Commercial Solvents Corporation of New York. The Du Pont-Degussa agreements were followed closely by similar arrangements between Degussa and Imperial Chemical in England.

It was one of the anomalies of the occupation of Germany that when the production program actually called for processing some gold into gold leaf, to be used in decorating Bavarian chinaware for export, Degussa had no gold. Our "gold-rush" vaults in the Reichsbank building at Frankfurt contained several hundred million dollars in looted gold not two blocks away from Degussa's main office, but Germany's great gold and silver combine had none of its own. Late in 1946, a first shipment of some thirty thousand dollars' worth of gold bars was flown in from the United States, under an arrangement financed by the Export-Import Bank, with money furnished by American taxpayers.

On June 7, 1945, we completed our first look into the affairs of the

Metallgesellschaft and Degussa, and headed back to the Ruhr. We had to look for the beginning of the chain of corporations that had served as go-betweens for the metal and chemical industries. The first link in this chain was Henkel of Düsseldorf, Germany's largest producer of detergents, glycerine and industrial fats. It was another satellite of the Dresdner Bank. Dr. Hermann Richter of the Dresdner Bank had been chairman of the board of managers since 1942.

Henkel had at least thirty-five important foreign subsidiaries in Austria, Czechoslovakia, France, Holland, England, Denmark, Poland, Italy, Roumania, Sweden, Switzerland, Yugoslavia and the United States. By agreements of long standing between Henkel and the British and Dutch international interests of Lever Brothers and Unilever Ltd., the British group had the right to use the Henkel *trade-marks and trade names* in the British Empire and in France and the French colonies.

Henkel and two of its subsidiaries, Deutsche Hydrierwerke A.G. and Böhme Fettchemie, G.m.b.H., formed a working combination *in 1932 to set up a dummy holding company* in the United States with a working capital of three million dollars. The Henkel group organized this company, the American Hyalsol Corporation, ostensibly as a patent-holding company to own its American patents on the new cleansing agents, which are the *basis of soapless lathers* and latherless soaps. Licenses under these patents were issued to American companies working in these new fields. Companies such as Procter & Gamble, Du Pont, and the Richards Chemical Company, for example, took licenses under the Henkel patents. *Just* in case of future trouble, the German company arranged to have an American appear as the sole owner of American Hyalsol. Actually, when the war did come, this little bit of protection did not work quite so well as they had hoped. The Alien Property Custodian in 1943 seized American Hyalsol as a German-controlled concern, regardless of appearances. But the Custodian's office, too, was only partially successful. After the war, we found that what the Custodian had seized was only the lizard's tail.

This came to light when we got hold of the Henkel & Cie. records at Düsseldorf. We found that even after Pearl Harbor, a Swiss company had been making regular payments to the German company on behalf of American Hyalsol under an arrangement worked out before the war. The Henkel management had anticipated the outbreak of war in 1939 and figured that it would last about six years, or until 1945. They had made provision to have patent royalties paid in advance by the American licensees to the Swiss company for that period. We traced one such transaction in detail.

The American company had first set up on its books a fictitious debt of two million dollars supposed to be due to the Swiss company. Then an American, supposed to be the owner of American Hyalsol, borrowed three hundred thousand dollars from Procter & Gamble as an advance against future payments of royalties which would become due over the next six years. The purpose of the loan was to enable Hyalsol to make a payment against the debt to the Swiss company. This three hundred thousand dollars was then transmitted to Switzerland, ostensibly in part payment on the fictitious debt of two million dollars. Throughout the war, therefore, the Swiss company could make the regular payments due to Henkel of Düsseldorf while the debt of American Hyalsol Company to Procter & Gamble was extinguished bit by bit as royalty payments became due from Procter & Gamble to American Hyalsol.

An arrangement of the same kind had evidently been made with other American licensees. It worked just as well as actual transfer of new funds across the battle lines. But unless, in keeping up the deception, the American cloaks falsified their tax liabilities, there was nothing illegal about the transaction, and so far as the record showed, there was no need for the American licensees to know the real purpose of the advances.

Going over the affairs of the three combines, Henkel, Degussa, and Metallgesellschaft, made it clear that the Dresdner Bank had used them to keep the bank's hand in the affairs of a great many German industries, and as nerve centers for operations abroad. In the early days of Hitler, financial experts were constantly predicting German bankruptcy. Somehow the large bankers had, as a group, pulled together an *economy of heavy and synthetic industries*, gaining "self-sufficiency" for Germany at great expense, yet without the predicted financial catastrophe. We decided to see how the bankers had kept them in business.

CHAPTER 9

Banks of the Rhine

THE head offices of the central banks were not yet available for investigation. Most of them were in the Soviet sector of Berlin, and it would take four-power agreement to open them up. But the preliminary inspection at Frankfurt was enough to indicate a pattern. We found that the things Germans have been accustomed to call banks fall into about three general classes which are easy enough to tell apart.

First there was the Reichsbank. Like the Bank of England, it was a curious mixture of government and private affairs, taking a global hand in the national finances, carrying out large-scale maneuvers like foreign exchange control, manipulating exchange rates and tariffs, and financing government ministries, while remaining in other respects a privately run bank. Its many branches even provided banking services for depositors.

Until January 1939, Dr. Hjalmar Schacht headed the Reichsbank. At that time he and most of the other directors lost their jobs in an argument with Hitler and his ministers over financing the war program. According to Schacht, they could not go much further with the "guns, not butter" program, concentrating everything on the heavy industries, without going bankrupt. With the war ready to start, Hitler differed on this detail and replaced Schacht with Walther Funk, who immediately eliminated most of Schacht's top staff except Emil Puhl, the acting deputy. Puhl actually ran the Reichsbank from then on, because Funk knew next to nothing about banking.

Dr. Schacht had good reason to worry about the Nazi economy as a banking proposition; but, like most of the "business" we had been

examining, the operating machine in Germany often bore little resemblance to the principles of "sound business management" that a person might learn in the Harvard Business School. When Dr. Schacht early in the Nazi regime took on the job of protecting the growing war economy from foreign competition, he did very little that had not already been done privately by the cartels and combines. The innovations that Schacht developed consisted largely of certain over-all controls of foreign exchange, so devised that German money could have different values for different purposes at the same time. In this way, the price of steel inside Germany could be different from the prices at which it might be sold in various foreign markets. Under the Schacht plan, none of these price ratios need have any relation to the domestic or foreign prices of dyestuffs or leather goods. With controls in force over exchange of marks into foreign currencies and vice versa, people expelled from Germany or leaving voluntarily could be stripped of most of their holdings by a very low rate of exchange into foreign money. Germans living abroad could be attracted back to Germany through the promise of extremely favorable conversion rates. Some people have said there were about forty-five distinct types of German marks used for all these purposes. Others have said that the number of types depended on how you counted.

Dr. Schacht simply rang all the changes in using finance as a way to determine what kinds of things are to be produced or sold, and by whom. In other countries, certain things were or were not considered "sound." An unwritten code determined the persons or groups who were allowed to manipulate financial conditions, or change the value of money. In the United States, for example, the Constitution gives to Congress the power to "coin money and regulate the value thereof." But orthodox financial doctrines make it practically an axiom that the power to regulate the value of money consists in saying how much gold is to equal the value of one dollar. Any attempt to change this ratio of gold to dollars, if it is not considered immoral, is at least a highly charged political act. On the other hand, expansion or contraction of the total amount of money effectively in circulation, which in turn has a great deal to do with how much of the stuff of life a dollar will buy, is considered the proper province of private enterprise. It is as if the Constitution had said: "Congress shall have power to coin money and determine how much gold equals a dollar, but the value thereof shall be determined by private enterprise."

Dr. Schacht and the Nazis changed these axioms so far as Germany was concerned. They lumped together everything that had to do with regulating the value of money and recognized no limitation on the powers of the government to do whatever it considered necessary in managing the currency. In doing this they had the backing of the big financiers and industrialists. The carrot they offered to selected combines and enterprises took the form of tax concessions, government subsidies, legal restrictions on the right of stockholders to interfere with "management," and a variety of administrative concessions that could be granted by officials to anyone who had the proper inside track.

But the Nazi economic scheme went beyond Dr. Schacht's manipulation of the financial rules. For these purposes they needed the services of institutions like banks; but they could not be too fussy about all the rules of "sound investment." What the Nazis needed was the algebra of the bankers, to translate practically anything into business terms; but they wanted no restriction on whatever was to be translated. For example, our group of Treasury men, looking into the affairs of the Dresdner Bank, found that in 1939, Oswald Pohl, in charge of concentration camps for the SS, had wanted a large loan for his "prison industries" firm, the Deutsche Erd und Steinwerke G.m.b.H., or DEST. The Dresdner Bank had granted one loan of five million Reichsmarks to the DEST, which supplied cheap, expendable slave labor for unpopular jobs in heavy industry, with special attention to the needs of firms whose directors contributed to the Himmler fund. But Pohl needed more money. For this he consulted Emil Puhl of the Reichsbank, who also headed the Reichsbank subsidiary, the Golddiskontbank. Puhl found the objective a worthy one; but since the charters of both banks would not legally allow this type of loan, he arranged to have eight million Reichsmarks advanced by the Reich Economic Ministry out of funds deposited in the Golddiskontbank.

The gold-rush teams, tracing the Reichsbank gold, had found still further details of these "banking" services when they checked into the mixture of SS loot and Reichsbank gold, not only at the Merkers mine but in vaults of the Reichsbank branches. Commander Joel Fisher had picked up Emil Puhl's assistant, a man named Thoms, and had taken him along to identify the hiding places. Thoms admitted that he had taken care of the details of an arrangement worked out between Oswald Pohl and Emil Puhl, whereby the Reichsbank would receive and dispose of SS loot and account to the SS for the proceeds. That explained the carefully inventoried bags of gold teeth, jewelry, and other valuables shipped from Auschwitz and other murder camps and stored with the Reichsbank. Furthermore, Emil Puhl's double position as active head of the Reichsbank and as a German member of the private international bank, the Bank for International Settlements, at Basle, Switzerland, made him an ideal "fence" to dispose of some of the gold after it had been melted down into the shape of monetary gold bars.

When the German armies spread over the rest of Europe, the economic arm of the combines was not far behind. As one director of the Dresdner Bank wrote in 1943, he had heard from a client a "very flattering" ditty: "Who marches behind the leading tank? It is Dr. Rasche of the Dresdner Bank." What a few basic controls of finance and the conditions of doing business could do to the balance in Germany between heavy and light industry, they could also do to the economic pattern of a much larger geographic area. Behind the "leading tank" the same controls moved in to turn non-German territories into suppliers of raw materials and semifinished products, and into decentralized agricultural areas which would feed the economic machine centered around German heavy industry.

The job of co-ordinating many of these economic face-lifting operations fell to the men of the industrial combines, acting in their capacity as directors of the largest central banks and private banks. The central banks carried the main load, and the private banking partnerships filled in the cracks. The six centralized commercial and investment banks can be considered most easily by pairs. Two were creatures of the government, each of them combining industrial and banking activities under one management. The Labor

Front Bank, the Bank der Deutschen Arbeit, was set up by the Nazis. The other, the Reichs-Kredit-Gesellschaft, was a leftover from World War I. Two were Berlin banks of moderate size, the Berliner Handelsgesellschaft and the Commerz und Privat Bank, better known as the Commerzbank. The two giants of the Big Six, with head offices at Berlin and branches all over Germany, were the Dresdner Bank and the Deutsche Bank. Besides these, and working under the umbrella provided by the Big Six, were the scattering of small but sometimes very important private banking partnerships, like the Bankhaus J.H. Stein, and Pferdmenges & Company of Cologne. Others were Berlin firms such as Merck, Finck & Company, Delbrück, Schickler & Company, Hardy & Company, or the Deutsche Länderbank. Delbrück, Schickler & Company was a subsidiary of Metallgesellschaft. The Deutsche Länderbank was a subsidiary of I.G. Farben. Other private banks, carrying on largely a brokerage and investment business, could be found in other large cities like Hamburg, Frankfurt, and Munich, most of them attached to one or more of the big family trusts or combines.

The Labor Front Bank was an eye opener for any members of our party who might have entertained the illusion that Nazi rule was fastened on Germany by ideological mumbo jumbo and mass psychology. Postwar Germans of all ranks denied that Nazism had attracted them in any way. But the Labor Front and its bank had provided jobs and the necessities of life for people who had been able to get neither from the lopsided heavy-industry economy of the 1920's. Under the Nazis, all members of the Labor Front, which included practically all wage earners in Germany, had to make regular deposits in the Labor Front Bank. With these funds the Labor Front became a pseudo-commercial concern of tremendous size operating all manner of direct consumer-goods enterprises, like bakeries, food-processing plants, hotels, chain stores, and other establishments. These were set up to provide the Labor Front membership with basic necessities at prices they could pay.

This was not a charitable undertaking on the part of the Nazis. They were being careful not to kill the goose that laid their golden eggs. "Unrest" like the Krupp strike in 1932 had come from the

shortage and high prices of consumer goods, which in turn had been the result of overconcentration on the development of heavy industries. Once the Nazis were in, "private enterprise" in the form of the heavy-industry combines, out of whose profits came a flood of Party funds, was left in control of German industry subject only to the channeling activities of Nazi suborganizations like the Reichsgruppe Industrie. This meant that the build-up of the heavy industries was to continue.

It became the job of the Labor Front to correct the lack of balance as far as possible, without hampering the expansion of heavy industry. As a long-term proposition, this would have been absurd. How could most of the labor force be employed constantly in the heavy industries, and yet enough food and consumer goods be secured to satisfy the whole population, including heavy-industry workers? Germany was like a man who spends all his income making payments on a house, a car, a television set, and a hobby shop, and has nothing left to buy food. For a time, while the Four-Year Plan got Germany on a war footing, the Labor Front's enterprises helped to stop the grumbling. Then, when the country was ready for war, as fast as Nazi armies occupied other countries of Europe, a well-organized consumer-goods collection scheme went into operation and stocked the Reich with an unprecedented supply of every type of consumer goods from apples to zwieback. We saw the results in cities like Arnhem, in the Netherlands. Residents told us that convoys of German trucks would go through the city, up one block, down the other, one truck collecting only sheets, one only pillow cases, one only stockings, one just the fur coats. So this organized looting would go on through city after city and country after country. The Wehrmacht did more than just sack and loot individually, as armies have always done. They were dipping systematically into a large reservoir of consumer goods as the only way to supply needs of the German population while they continued the production of heavy goods for war.

The other government-owned central bank, the Reichs-Kredit-Gesellschaft, or RKG, was a war-preparations organization of a different kind. It had been geared up long before the Nazis came in. The RKG was owned directly by the government industrial combine, VIAG, or United Industrial Enterprises. This combine had been set up in 1923 by the German Finance Ministry to operate industrial plants that had been built with government funds during World War I. Under the Weimar Republic, VIAG was used by the German High Command to try out plans for industrial war mobilization. VIAG's financial right arm was the bank, which extended large loans so that industrial organizations normally operating in other fields like machinery or locomotive-building could take on "educational" military orders for aircraft, tanks, and guns. For example, the largest European locomotive builders, Henschel & Sohn of Kassel, took on the job of building up the Henschel aircraft works, Henschel Flugmotorenbau G.m.b.H., with the help of a loan from the RKG. Both the Henschel firm and RKG supplied managing directors and members of the supervisory board of the aircraft subsidiary. The RKG had assets in its own right of not much more than two hundred million dollars, but in big deals it acted as a conduit for government funds. The RKG helped to finance barter and trade agreements with countries like Spain and Portugal through its barter firm, the Rowak Handelsgesellschaft. This barter agency funneled arms and equipment to Franco during the Spanish war. The RKG also made political loans to Germany's allies and satellites. After German armies occupied eastern Europe, such loans were used to develop natural resources and to integrate the economies of the satellite states into the economy of Nazi Germany. One example was the Kontinentale Oel A.G., a holding company headed by Wilhelm Keppler, established to create a German oil monopoly in eastern and southeastern Europe, including Roumania.

The other four big commercial banks were privately owned. Their role was to correlate the activities of the big combines which were their clients, and on whose boards the banks' officers served. The Berliner Handelsgesellschaft and the Commerzbank were the fourth and third largest, respectively. The BHG had assets of about two hundred and forty million dollars, in the form of directly owned investments and business enterprises. The BHG had no branches. The Commerzbank had branches here and there throughout Germany; but neither the BHG nor the Commerzbank was important as a spreading chestnut tree. They were the "me, too" outfits of the big league.

The BHG's management group included Hans Burckmeyer of Berlin, chairman of the board of Schering A.G., the chemical firm, and Duco A.G., recognizable by its name, but supposedly 51 per cent controlled by Schering. Others were Herbert L. W. Göring, nephew of Hermann; Hans Weltzien of Feldmühle Papier, Schering, Metallgesellschaft and the textile firm, Christian Dierig; and Rudolf Eisler of Degussa. The BHG, seconded by representatives of Count von Ballestrem's Silesian coal and steel interests, took the major role in running Schering A.G., the up-and-coming chemical combine that always has hoped to step into the shoes of I.G. Farben. Along with the Commerzbank, BHG had the major voice in the Feldmühle paper works, Europe's largest producer of paper and newsprint. The power of these two banks to grant or withhold supplies of newsprint was not inconsiderable.

The roster of the Commerzbank included men like Friedrich Reinhardt, who until his death was president of the Berlin Chamber of Commerce and a director of Schering chemicals and A.E.G. electric. Others were Paul Marx of Berlin, director in the Feldmühle works, United Steel, Klöckner, and Flick's Mitteldeutsche Stahlwerke; and Dr. Theo Goldschmidt of Essen, head of the heavy chemicals and coal tar by-products firm, Th. Goldschmidt A.G., also part owner of Feldmühle, and director of the potash firm, Kali-Chemie A.G.

The Commerzbank, while much larger in total assets than BHG, contented itself with supporting roles in important combines like Robert Bosch, Schering, A.E.G., United Steel, Feldmühle paper, and Salzdetfürth A.G., the potash firm which in turn controlled Mansfeld A.G., the copper trust. Perhaps the best illustration of the supporting role played by the Commerzbank was its co-operation with the other big banks in controlling Germany's fifth largest coal combine, Hoesch A.G. of Dortmund in the Ruhr. This family holding of the Hoesch family and their relatives, the Springorums, was a focal point for agreements and understandings that shaped the rest of the business of the Ruhr. Fritz Springorum, director general of Hoesch A.G. from 1933 to 1938, was for many years chairman of the so-called long-name association, the Association for Safeguarding the Common Interests of the Industrialists of the Rhineland and Westphalia, an organization with a long and cloudy history as an employers' union.

The other two central banks were the big guns. It would have been hard for us to overlook them. On the main business thoroughfare of every German town are the torn and twisted signs that spell out "Deutsche Bank" and "Dresdner Bank." In Germany alone, there were four hundred ninety branches of the Deutsche Bank and three hundred sixty-eight branches of the Dresdner Bank, besides their central offices at Berlin. The Deutsche Bank owned directly assets valued at three billion dollars; but this is secondary as an indicator of the spread of the Deutsche Bank over German finance and industry. More important than the amount of money were the offices and directorships held by the bank's officers and directors in other German enterprises, and the representation of stockholders at stockholders' meetings that came from having large blocks of shares on deposit from individual investors all over Germany. Some fifty-four officers and directors of the Deutsche Bank, during the war years, held a total of seven hundred seven positions as officers and directors of other corporations. Two hundred eighty-one of these were chairmanships or vice-chairmanships of boards of directors. Slightly smaller figures would apply equally well to the Dresdner Bank with its two and a quarter billion dollars of directly controlled assets.

The strength of the Deutsche and Dresdner Banks came from their union of deposit banking with management and investment functions, a practice not allowed in the United States. In Germany, with securities in all corporations payable to "bearer," most security holders deposited their shares with banks for safekeeping; and the banks voted the shares entrusted to them. We have no strict American counterparts of the German banks, whose capital came not from deposits of money by the partners but from deposits of stock from the whole country.

The banking operations of the Deutsche Bank might be compared with those of the Bank of America in the United States, with its far-flung branches and its hand in the finances of giant corporations.

As an investment house, the Deutsche Bank might be compared with J. P. Morgan & Company, with its heavy financial stake in important basic industries. There was one notable difference, however. The Deutsche Bank's connection with well-known enterprises was a matter of constant notice and attention in Germany, whereas the Morgan house in the United States has for years followed a policy of public relations in reverse. At the present time in the United States there is very little linking of the Morgan name with the affairs of the much better publicized industrial firms in the Morgan portfolio. United States Steel, General Electric, American Telephone and Telegraph, International Telephone and Telegraph, Commonwealth and Southern, and many others, are familiar household words to many people who think of the House of Morgan as a feature of a bygone day. A gentlemanly old pirate, J. Pierpont Morgan, once wrestled with the Harrimans and other giants of railroading and industry, but that was half a century and more ago. Not so the Deutsche Bank in Germany. Its name was everywhere and only to a slightly lesser extent were the names of its leading lights: Hermann J. Abs, Johannes Kiehl, Wolfgang Reuter, Wilhelm Zangen, Hermann Schmitz, Jakob Hasslacher, Oswald Roesler, Karl Ernst Sippell, Hermann von Siemens, Philip Reemtsma. The companies they made their special province were equally well known: I.G. Farbenindustrie, Siemens & Halske, VGF rayon, Reemtsma cigarettes, Mannesmann steel tube, the two motor companies, Bayrische Motoren Werke and Daimler-Benz, the DEMAG machinery combine, the world's largest building contracting firm, Philip Holzmann A.G.

The Dresdner Bank as a banking house was comparable to the Chase National Bank or the National City Bank in the United States in the way its officers stayed close to governmental circles and kept an eye on international ties. As an investment house, the Dresdner Bank might be compared to the American firm of Dillon, Read & Company for its specialization in business management with the involvement of very little capital. To some extent there may be a question whether it was Dresdner Bank which supplied management to certain companies or whether it was the management of certain companies which supplied bankers to the Dresdner

Bank. The only director of I.G. Farben who came in from outside the firm, for instance, was Edward Mosler of the Deutsche Bank. On the other hand Carl Pfeiffer, an inside man of I.G. Farben, became a director of the Dresdner Bank. Similar industrial experience could be claimed by the chairman, Carl Goetz, and other directors like Friedrich Flick, Carl Lindemann, Otto Burckhardt, Wilhelm Avieny, Karl Rasche, Emil Meyer, and Helmuth Roehnert.

Looking back from the Deutsche and Dresdner Banks through their officers and directors to the industries they had managed and directed, one could see the skeleton of a whole economic system. Aside from the Reichsbank and the three government corporations, the rest of the Nazi hierarchies of trade associations, chambers of industry and commerce, and industry groups were all simply names for special kinds of organizing activities in charge of different members of the same set. The government corporations included VIAG, the hangover from World War I; the Reichswerk A.G. Hermann Göring, medium for armament supplies and reservoir for plunder in World War II; and finally the Rüstungskontor, billion-dollar supply corporation for collecting, stockpiling and allocating scarce and strategic materials. To the extent that these corporations and the Reichsbank were not run by men from the regular banks and industrial combines, they were co-ordinated by other means.

This was not simply banker-control of industry. It was a centrally controlled and planned industrial economy. Even as early as the 1920's, four fifths of German industry was grouped into combines. Under the Nazis the number of corporations, and likewise the number of different individuals planning and directing the whole economy, was simply trimmed down to a much lower figure than before.

Between 1933 and 1942, the number of small corporations capitalized at under 500,000 reichsmarks fell from 5453 to 1843 and their combined capitalization fell from 815,000,000 to 368,000,000 reichsmarks. During the same time, the medium-sized corporations with capital not over 5,000,000 reichsmarks stayed at a combined total reichsmarks capitalization of 4,500,000,000 though the number of corporations fell slightly, from 3016 in 1933 to 2684 in 1942.

The number of large corporations capitalized at over 5,000,000

reichsmarks rose from 679 in 1933 to 877 in 1942, while the total number of all corporations was falling from 9148 to 5404. At the same time, the total capitalization of the large corporations rose from 15,200,000,000 in 1933 to 24,200,000,000 in 1942.

Even these figures on total numbers of corporations tell only part of the story because actual control, co-ordination of policies, and "rationalization" within industries and among related industries, were all the concern of a clique that included not more than a hundred individuals. While these men were most easily identified by naming the banks they helped to manage, it was their outstanding character as a homogeneous group that set them apart. A member of the board of the Deutsche Bank, for example, never joined the board of directors or the management of an industrial concern on a personal whim, as if he were joining a club. The bank directors had to give unanimous consent. Once he took the job, the director was personally responsible for seeing that the policies of the company meshed with the general plans of the bank.

This co-ordination of industrial economics through strategic placing of directors was bolstered further by voting control. The Deutsche and Dresdner Banks, having branches throughout Germany, drew the necessary large blocks of important stocks together at Berlin through redeposits from the various branches. As investment bankers, the big banks also had another important way of shaping the relations of different corporations to one another to suit their purposes. New issues of securities originated on behalf of one client corporation would be placed in different proportions with other client concerns instead of being offered to the general public. In this way, a series of organizations were built over a period of years to serve the actual purpose of planning production, distribution and finance in the heavy industries that formed the backbone of the German economy. The way the alliances of banks and industries had been organized explains why these types of combines and associations turned up most often in the fields of producer goods or capital equipment, and seldom or never in the field of consumer goods and light industries. The power in I.G. Farben and the steel and electrical equipment trusts had to make itself felt at points where control of some one thing was enough to keep a great many other things under control. It was once more the familiar principle of the bottleneck or tollgate.

The men who ran the heavy industrial combines like I.G. Farben, Mannesmann, United Steel, and Siemens & Halske may have had individual ambitions that sometimes clashed; but far more powerful was the internal discipline that held them together. They kept their ties to one another without the heel-clicking, cuff-shooting, colored shirts and arm-bands that the Nazis had to use to organize the rest of the population.

CHAPTER 10

The New Hague Convention

SYNTHETIC textiles held a high place in German autarchy. German production of substitutes for cotton, wool and silk fibers became a practical monopoly of four large combines: VGF, the largest rayon concern in Germany; I.G. Farben, the second largest producer, owning six artificial fiber plants; the Phrix Works, largest producer of cellulose wool, organized in 1935 as part of the synthetic materials program; and the Kunstseide Ring, a group of twelve cellulose fiber and by-products companies, also established in 1935 for the same purpose. The Phrix combine and the Kehrl-controlled Ring, as part of the Four-Year Plan, developed a great many processes for using waste products like straw and sawdust to make edible proteins, yeast, wood sugar and synthetic cattle fodder to make up for critical wartime shortages.

Hans Kehrl, in 1941, became chairman of the board of the Phrix Works and brought in Baron von Schröder, by that time also an SS Brigade leader, to maintain ties with the Ring, with VGF, and with the Dutch rayon combine, AKU. The latter connection was made easy, not only because of the corporate connections between VGF and AKU, but by von Schröder's long and close association with the Dutch head of AKU, Fentener van Vlissingen.

Now we wanted to know more about United Rayon, VGF, and in particular about its ties with AKU in the Netherlands. The general manager of VGF, Ernst Helmuth Vits, himself a "Leader of the War Economy," was back in charge of the VGF plants at Wuppertal, fifteen miles east of Düsseldorf. Throughout the latter years of the war Vits had served as head of the Reich Association for Artificial Fibers, the second of several *Reichsvereinigungen* established by Hans Kehrl to regulate and administer the strategic industries. The first was the Reich Coal Association, headed by Paul Pleiger. Vits had already admitted to us that the guiding hands on his supervisory board in VGF were those of Baron von Schröder, Hermann Abs, and Fentener van Vlissingen. But he had insisted that his company's properties deserved special protection because they were owned by the Dutch AKU. Abs and von Schröder had helped to protect them from seizure by the Nazis; and it was up to us, he said, to see that his trusteeship of VGF for the Dutch owners was not disturbed by the new regulations of the Allied occupying forces.

We were not at all satisfied about the circumstances under which AKU had acquired its supposed ownership and control of VGF back in 1929; and we were also curious to learn how AKU had managed to maintain this control through twelve years of Nazi rule in Germany and five years of Nazi occupation of the Netherlands. Back in the United States some of us had already had an inkling of what we would be up against at The Hague in trying to satisfy such curiosity. Dutch AKU held the controlling shares in three of the largest rayon firms in the United States: American Enka, North American Rayon, and American Bemberg. The Alien Property Custodian had proposed to seize these three as firms controlled by German VGF; but the Dutch government in exile protested strongly to the State Department. The Custodian's office finally agreed to let the firms alone until after the war when the true ownership could be established. The Dutch agreed, in turn, to make "full information" available as soon as they got access to their records in the Netherlands.

Really "full" information, we knew, would have to include inspection of the records of the Amsterdam banks which were supposed to be holding the majority shares in VGF on behalf of Dutch stockholders; and it would also have to include the right to interrogate van Vlissingen about his conduct of the affairs of VGF and AKU. Had there been no conflict between the interests of AKU, as a Dutch firm, and the activities of VGF as a major cog in the German war preparations? In order to retain control of German VGF, did AKU not have to make any concessions to German policy before the war? How had AKU been a free agent in its own foreign operations, with its biggest block of properties in hock with the Nazis? Since our interrogation of men like von Schnitzler of I.G. Farben, and our discovery of the mechanical principles of the Himmler fund in von Schröder's bank, we were becoming skeptical of businessmen who asserted that they had been above involvement with the Nazis. Granted that AKU was a big and powerful corporation, had it been powerful enough to talk back to the Germans? Or would it have wanted to if it could? Had not some of its power in fact come from a meshing of AKU's foreign interests with German plans?

On June 17, 1945, Desmond MacQuaide, my British executive officer, and I left the Ruhr on a brief trip to the Netherlands in search of answers to these questions. At Arnhem the British military government officer told us the AKU factories were only moderately damaged, but that the directors were away. F. H. Fentener van Vlissingen, the head of the firm, was at his home in Utrecht. We would not be able to see him, however, without first getting permission from the Netherlands Military Administration at The Hague.

Most people think of The Hague as a symbol of peace among sovereign nations, and as a source of humanizing conventions designed to take the brutality out of war and to make it more wholesome. Hollanders think of The Hague as the "seat of government" of the Netherlands, in contrast with Amsterdam, the "capital." This distinction testifies to the "live and let live" relation that exists between the bankers of Amsterdam and whatever political regime inhabits the old buildings, straight out of a Dumas novel, that make up the center of The Hague.

At The Hague our introduction to the Netherlands Military Administration took place under the best possible auspices. At dinner in the Hotel des Indes we met Brigadier Babington-Smith, head of the SHAEF Financial Branch, who happened to be up from Frankfurt on other business. He stayed over until the next day, Monday, to go with us on our round of the Dutch officers in charge of property matters, and to underline the SHAEF interest in our inquiries.

The Dutch officers did not dispute certain facts. The combine, AKU, had been formed July 26, 1929 by an agreement between the shareholders of the Dutch firm known as Enka and the shareholders of the German VGF. Through an exchange of shares the new corporation, AKU, became the record owner of 99 per cent of the stock of VGF. Through this control of VGF, AKU also got a voting control of the VGF subsidiary known as J.P. Bemberg, A.G. Immediately before the exchange, the Dutch company had outstanding 25,565 shares of common stock. To make the exchange, the outstanding common stock was increased by an additional 28,560 shares, all of which were turned over to the stockholders of VGF. At the time of the exchange in 1929, therefore, the German shareholders received better than a majority of the voting stock. This stock was all in the form of unregistered "bearer" shares; so that no record was kept of transfers or of ownership, except by German and Dutch banks which were holding them for their customers.

The question of voting control in 1945 was first a question of who owned the majority of these common shares, Germans or Netherlanders. If the majority were German-held, the sham "Dutch" ownership of German VGF and of the American companies meant nothing. Even if the Dutch could prove that a majority of the outstanding shares were being held by Amsterdam banks for Dutch citizens, there would still be the possibility that some of these were cloaking for Germans; but we were willing to cross that bridge later. The Dutch officials said it would not be possible to let us go to Amsterdam and talk to bankers, let alone examine their books. The Netherlands Military Administration would appoint an officer to make the necessary inquiries, and he would let us know his findings. When this officer made his "report" a few weeks later, there was no bill of particulars. The report simply asserted that the investigating officer was satisfied that between 70 per cent and 75 per cent of the outstanding shares of AKU were owned by Netherlands interests.

In 1929, there had been 54,125 common shares, of which Germans held 28,560. By 1945, the AKU had outstanding some 93,000 common shares. We had brought with us evidence of two transactions

during the German occupation by which the Deutsche Bank had acquired 20,000 shares and the Kunstseide Ring 10,000. This meant that we knew of 58,560 shares which had at one time or another been in German hands; and we had no evidence, as yet, of transfers in the other direction. Even so, the investigating officer's report, still without evidence, asked us to believe that at most 30 per cent, or 27,900 of the 93,000 shares, remained in German hands at the end of the occupation.

There was a further complication. The AKU firm, in addition to the usual voting common stock and nonvoting preferred stock, had outstanding an additional class of stock in the form of 48 "priority" shares. These shares contained an "oligarchic clause," which put into the hands of their holders the sole right to name candidates for positions on the board of directors, and the right to control amendments to the corporation charter. These 48 shares had been allocated in the beginning, 22 to the VGF management, 22 to the Dutch group, and the other 4, at the request of VGF, to the British firm of Courtaulds, Ltd., which was co-owner with VGF in the firm of Glanzstoff-Courtaulds G.m.b.H. of Cologne.

From 1929 onward, the AKU board of directors consisted of Fentener van Vlissingen and two other Netherlanders, and six Germans, including, throughout the war, Baron von Schröder, Hermann Abs, Ernst H. Vits, and Johannes Kiehl of the Deutsche Bank. To counteract this appearance of *de facto* German control of the management of AKU, the investigation report of the Military Administration contended that while there were many ways in which the Nazi regime could have upset the control of AKU, actually there was no evidence of any case in which the Germans acted against the Dutch interests or challenged the authority of Mr. van Vlissingen. The report went on to state that Mr. van Vlissingen at all times retained physical possession and control of all 48 of the priority shares.

The Military Administration had no reply to other questions we raised on the basis of correspondence found by our party in the files of VGF at Wuppertal. Prior to 1929, North American Rayon and American Bemberg had been owned by VGF. After 1929, they were recorded as owned by AKU. But in spite of the change in record ownership, only routine reports went from the American subsidiaries to AKU at Arnhem. All correspondence on business matters and all detailed reports of conditions in the United States, right up to the entry of the United States into the war, went directly to VGF at Wuppertal; and operating instructions went directly from VGF to the subsidiaries in the United States. Still, the Dutch officials stoutly maintained that F. H. Fentener van Vlissingen was master of AKU's fate and captain of its soul.

On our way back to Germany from our initial trip to The Hague, we stopped off in Utrecht to call on Mr. van Vlissingen. He was polite, even cordial in a cool way; but he regretted that under orders of the Netherlands Military Administration he could not talk to strangers about the affairs of his company except on written instructions from The Hague. He said he had, of course, been on the board of United Steel in Germany; and he had served as a director of two coal-mining subsidiaries of the Flick combine, in addition to his work with VGF. From 1933 to 1937 he had been president of the International Chamber of Commerce, the organization of which he is now treasurer, under the chairmanship of Philip D. Reed of General Electric. His international affairs kept him busy in all parts of the world. Because of his outstanding position in international business activities, Rollins College in Florida had awarded him an honorary LL.B. degree in February 1937. He did not care to discuss the fact that in July of the same year, Adolf Hitler decorated him with the starred Merit Cross; or that on July 5, 1940, after the Dutch surrender to the Germans, he became chairman of the Dutch National Committee for Economic Collaboration. When we saw him on June 18, 1945, he was already heading the commission appointed by the Netherlands Military Administration to purge collaborationists from the Dutch government and from important positions in industry.

We returned to the Ruhr as puzzled by the official Dutch definition of a "collaborationist" as we had been by the Luxembourgers'. Somehow the function of a go-between to maintain smoothly working financial and economic relations across national boundaries during a war is tacitly accepted in the business community as part of civilized warfare. During the fighting, these matters are kept

rather quiet out of deference to people who are being shot or bombed and who might become confused if the subject were raised.

The peculiar power of Switzerland, Sweden, the Netherlands, and even much smaller nations as Luxembourg and Lichtenstein, rests on their ability to act as go-betweens for the bigger powers that surround them. These countries have been like our own State of Delaware, furnishing a nominal legal headquarters for large corporations whose world-wide activities are controlled from somewhere else. But Delaware, aside from furnishing a nominal haven for "Delaware corporations," also has its Du Pont. The same is true in Europe. Sweden has its SKF bearing monopoly and Enskilda Bank; Luxembourg has its Arbed; the Netherlands have their AKU rayon and Philips electric. These firms are big fish in their own right, whatever services they may perform for "foreign" corporations. If one of these big fish sets up shop in a small place like Delaware or the Netherlands, it becomes a whale in a fish bowl. Then even a casual observer can see a difference between the "capital" and the "seat of government" of the little nation.

In spite of this lack of balance between political and economic forces, when we get into the discussion of postwar reconstruction plans, we run into a diplomatic fiction that sovereign nations are sovereign nations. The men who sit around the international conference table are representing France, the United Kingdom, Belgium, Holland, Luxembourg. Diplomatic protocol forbids looking behind the screen. It would be hard to imagine a newspaper dispatch from The Hague beginning, "Representatives of France, the United Kingdom, the Société Générale de Belgique, AKU rayon, and Arbed steel met today to discuss the division of financial aid under the European Recovery Program."

After our experiences in Luxembourg and the Netherlands we knew some of the ways in which the German economy of the Four-Year Plan could easily be carried along into the postwar reconstruction of Europe. Solid foundations had been laid in the countries bordering on Germany. Here were leading citizens of the "liberated" territories ready to defend the interests of "their" companies in the operation of strategic industries which the Nazis had expanded into bastions of German self-sufficiency. We had already seen how the Ruhr became the heart of European heavy industry, through concentration of high-cost iron and steel plants. Now we were confronted with the coal-hungry synthetic industries in Germany, built for autarchy, but offering to take on the role of kingpins in the reconstruction.

CHAPTER II

Electric Eels

THERE is a sound instinct that leads most people to look skeptical when a demand for a business advantage is said to have come from the "Government of the Netherlands," or from any of the other small ponds in which big fish swim. During the war, the counselors of some of the smaller embassies were familiar figures in the corridors of the State, Treasury and Justice Departments. Of these, few were more active than the counselors of the Dutch Embassy on behalf of a certain big fish which was always served with *sauce Hollandaise*. This was the electric lamp and radio tube combine, N.V. Philips Gloeilampenfabrieken, or Philips Electric Lamp Works, Incorporated, of Eindhoven, Holland — more commonly called Philips.

Presumably something had happened to the Philips properties in the Netherlands during the German occupation; and in 1945 we wanted to know what it was. But the tight blockade which the Netherlands Military Administration had put up against investigations of Dutch companies meant that we would have to use less direct ways to find out. As a producer of electric lamps Philips was only the second largest in continental Europe, with a production a little less than half that of the German firm, Osram, which dominated the European field. The Philips position in related fields such as radio sets, radio tubes, radar and X-ray equipment was similar. The German opposite numbers were different corporations, though parts of the same complex with Osram. German Osram was a jointly owned enterprise of Siemens & Halske and A.E.G., the German General Electric Company, as was Telefunken, the German radio combine.

Philips of Eindhoven had for a long time been a cogwheel between the German firms and their American partners such as General Electric. In 1935, for example, H. F. van Walsem of Philips had written to Clark Minor, head of International General Electric, in connection with an international agreement which they were then negotiating. As Mr. van Walsem put it: "We have . . . refrained from embodying in the present draft the provisions agreed between us with regard to the collaboration between your company, Siemens and us on minimum selling prices and conditions. It was rather difficult to do so and at the same time keep the agreement free from conflicts with the American antitrust laws. We are, therefore, content to leave this understanding to a gentlemen's agreement between you and us, which will, we are sure, be carried out by both of us in the spirit in which it was entered into. . . ."

When Philips officials found themselves charged with violating the American antitrust laws because several such gentlemen's agreements had come to light they even asked the American courts to rule that foreign corporations like Philips, doing business abroad, might make agreements among themselves or with American corporations without fear of American laws. As they put it, "a different test must be applied when considering the legality of actions of foreign corporations whose activities are wholly abroad." This plea for special treatment under the laws was unsuccessful; but with its protected position in "neutral" territory Philips could be the center for understandings and arrangements which the parties could then carry out in other territories like the United States without any outward signs of direct collaboration. Any similarity in the courses of action of Dutch, German and American firms would be purely coincidental.

If we could not find out directly from the Philips headquarters at Eindhoven what the company's executives had done under the German occupation, we might uncover some of the story from the officials and records of Siemens and A.E.G. at Berlin. However, this would give us only part of the story, as we already knew from our brushes with refugee Philips officials in the United States during the war. They had enjoyed the protection of what amounted to diplomatic immunity in Washington; and it had proved impossible

to piece together a satisfactory picture of Philips operations on both sides.

Philips executives knew before the war that if the Netherlands were invaded, they might have some trouble in keeping control of their properties on both sides of the battle lines. They got the Dutch government to pass a law permitting Philips to move its head offices to Curaçao in the Netherlands West Indies, and to leave the offices at Eindhoven in the charge of trustees with limited powers to carry on the business in the event of occupation.

The new head office at Curaçao controlled directly the Philips subsidiaries in the Dutch East Indies, Sweden and Switzerland. It established two provisional trusteeships over Philips companies in the British Empire and in the rest of the world outside of Axis territory. The Midland Bank of London took control over the companies in the British Empire. The Hartford Bank and Trust Company was given control over Philips companies in North and South America, Spain and Portugal. If England should be invaded, control of the British Empire properties in other parts of the world would automatically go to the Hartford trustee. Philips properties in Germany, Austria, Czechoslovakia and Poland were placed under a trusteeship of a German holding company headed by Dr. Karl Mey, who had previously served as director of German Osram.

All these trust agreements were so drawn that the Dutch executives of Philips kept the power to control properties and affairs of the combine anywhere in the world, so long as they were outside Axis territory and free to act. The German trustee would take over wherever the Axis moved in. The trust agreements provided for re-establishment of the prewar holding company setup under its original Dutch control, as soon as the war emergency was over.

This holding company arrangement was good business so far as the Philips company was concerned. All of their properties, both in United Nations and in Axis territories avoided seizure by alien property custodians throughout the war; and none of the branches was even blacklisted by any of the belligerents. Every time an agency of the United States government began to ask questions about the setup through which relations were being continued between Philips branches in the United States and other elements of the Philips network, especially those in Axis territories, diplomatic representations were immediately made to the State Department. This sounds at first like a small annoyance which should not have prevented government agencies from doing their jobs. But we found that every time a formal complaint is lodged with the State Department about the activities of even a minor official of some department, the offices of two cabinet members and their highest ranking subordinates are tied up for days drafting formal letters and replies to one another. The offending official soon learns that whether he is right or wrong, it is not a good idea to cause questions to be raised. In our case, we told our staff to go ahead and ask questions about Philips; but we had to pay for it by helping to draft a series of replies from the Attorney General to the Secretary of State.

In effect, the business arrangements of a company like Philips got into the diplomatic pipes. All the procedures that normally apply to serious questions of intergovernmental relations were turned on to stop even the simplest inquiries. The effect was something like what happens in slapstick comedy when the plumber and the electrician get power lines and water pipes mixed up: frost on the radio, Bing Crosby in the bathtub, and bedlam in between. A hard-working section chief tries to find out whether a Philips official from the Argentine, whose wife is a member of the Falange, and whose yacht carries a fascist motto for a name, ought to be allowed to enter the United States and have the free run of Philips plants turning out secret radio equipment for the army. Suddenly he finds the State Department behaving as though he had committed an act of military aggression against the Netherlands government in exile. After one or two such experiences, even a very good section chief might prefer frost on the radio.

To make matters more complicated, Philips executives assigned to the United States somehow persuaded some colonels and generals in Military Intelligence that it would be a good idea to give Philips permission to ship materials through the blockade into Axis territories. The idea was that company officials from our side would be able to go with the materials and meet their partners from the other side. Then they could bring back information about conditions

in Axis territory. Some of us suggested that such a pipeline could easily be a two-way affair. We wondered what kind of return information was valuable enough to exchange for goods and information both. We had already showed how it was possible to get such things as blueprints of the Eindhoven plants from the files of American insurance companies which had handled the re-insurance on Eindhoven before the war. Other types of business data, accurate up to a month or two before Pearl Harbor, could be obtained from businessmen already in the United States who had been in Holland. What "up-to-date" information of a kind available to businessmen was worth the price? It seemed likely that what came back through the pipeline would be the gossipy chitchat of intelligence reports. Most of those we were already receiving from Switzerland were less informative than dispatches from the front page of the *Times*, though stamped "secret." But the lure of vicarious espionage prevailed. When Corwin D. Edwards, chief of the Policy Section of the Antitrust Division, disclosed in a monograph for the Kilgore Committee early in 1944 what we had been able to piece together about the operations of the Philips companies, without having access to "secret" sources, officials from the Dutch Embassy cried that publication of these disclosures had endangered the lives of Philips officials in Axis territory.

While Philips officials played junior G-man with American officers of the chairborne division in the Pentagon, relations of a more substantial sort continued among the Philips companies in United Nations, neutral and Axis territories. In 1942, Philips executives in the United States proposed to transfer the ownership of certain patents in Spain, owned by a Spanish Philips company, to other Philips interests in United Nations territory. The German-controlled Philips company in the Netherlands protested. The Philips officials in the United States reversed their decision and even transferred to the Spanish company all Spanish patents held by the Curaçao head office.

In Sweden, the Swedish Philips company and the German radio concern, Telefunken, who were partners in a number of agreements, had joined in some patent litigation against other Swedish companies in 1942. The Philips interests in the United States helped out in this joint venture between Swedish Philips and German Telefunken by sending their power of attorney to the Philips interests in Stockholm to aid in prosecution of the suit.

In Portugal, the Portuguese subsidiary, acting under the American trusteeship, got supplies from both the United States and England. At the same time it also received patent applications from Eindhoven and filed them in Portugal to obtain patent protection in Portugal on behalf of the Netherlands company. The Portuguese branch sent to New York reports of agreements between the Netherlands company and German industrialists, and it received from New York reports of Philips activities in the United States and Latin America. The Portuguese branch received financial support from the Argentine Philips company, which was subject to the United States trusteeship; but its accounts were audited by accountants of the Netherlands office.

Philips officials in the Axis-controlled territories did not get quite the same run of the roost as did their opposite numbers in neutral and United Nations territories. One member of the Philips family, Frits Philips, stayed in Eindhoven to manage the properties in Axis territories. But the Nazis put officers from the German branches in charge of Philips properties in all Axis territories, and also replaced many of the Dutch officials at Eindhoven.

For our purposes, we were not so much concerned with who had done what in the Netherlands, as we were in reaching accurate conclusions about the working of the system in Germany, and its effects in other parts of the world. In the case of these electric companies the German group in the international ring had again been playing "*king of the mountain*." But the source of their monopoly power was not so immediately apparent. In the struggle with France over control of the iron and steel industry, the Germans had perched on top of a huge coal pile placed in Germany by nature. In the struggle for dominance in chemicals and light metals, they had perched on a heap of patented technology, placed in Germany by the historical accidents of war, the shortage of natural raw materials, and the willingness of foreign competitors to trade control of technology for protection of their own domestic markets. In the field of electrical equipment, lacking undisputed control

of patents and technology, they had built a "mountain" of contracts and gentlemen's agreements. The electric lamp agreement was only one out of many arrangements in electrical equipment.

In the case of electric lamps, the world's principal manufacturers shortly after World War I set up an organization named Phoebus in Switzerland. The different companies then transferred to this Swiss company their rights to control the particular bits of lamp technology which each of them had previously acquired or developed. By a pyramid of agreements, many of them individually worked out through protracted negotiations, the lamp companies built Phoebus into a supranational planning center that could be used to control and plan the lamp trade of the world.

Actually, the opening maneuvers for control of the world electric-lamp trade began with a series of internal arrangements in Germany at the end of World War I, before Phoebus was born. At that time the German lamp market was supplied almost entirely by three German manufacturers: Siemens & Halske, A.E.G., and a smaller company, the Auergesellschaft, subsidiary of Degussa and better known to an earlier generation of Americans as the source of the patented "Welsbach" gas mantle. During World War I, all three companies lost their foreign branch factories and their rights abroad to the use of the trade-mark "Osram" for electric lamps. Custodians of enemy property in the countries with which Germany was at war took away these foreign subsidiaries and the rights to the trade-mark "Osram," and turned them over to non-German nationals.

In 1919 the three German companies created a new company known as Osram G.m.b.H., Kommanditgesellschaft, a limited liability partnership, for the purpose of combining their forces to regain the lost foreign properties and markets. Each partner transferred to the new firm, Osram, its own lamp-manufacturing division, its lamp patents, and its technical personnel and files. The founding companies agreed to refrain individually from lamp manufacture. With their combined power they were then able to merge into the Osram firm all the remaining independent manufacturers of Germany.

Osram then started to get control of foreign lamp companies. In two notable instances, in the cases of the leading American and

British companies, Osram confined itself to reaching working agreements. It was not necessary for them to engage in a struggle for power. The A.E.G. of Germany was largely controlled by the American company, General Electric. Similar ties made cousins and nephews of all the other interested firms in Germany, Britain and the United States.

Possible "foreign" competition outside of Britain and the United States led Osram to formalize the international organization. It was in 1924, to reach agreement with large companies such as Philips of Eindhoven, that the Osram group proposed the formation in Switzerland of Phoebus, with each of the participating companies sharing in the ownership and management. The Phoebus setup enabled the British, German and American companies to bring in some twenty-seven other firms. All of them agreed to pool their interests and to establish quotas for the sale of lamps in world markets. The quotas and voting rights in the control of Phoebus were fixed by the bargaining positions of the participants at the time the organization was formed. Osram became the largest quota holder, and had the largest voting rights.

By July 1929, Osram and General Electric's subsidiary for foreign operations, International General Electric, created a "partnership for all time." At the time of the 1929 agreement the American ambassador to Germany reported to the State Department that Osram, by making General Electric a full partner, had succeeded in enlarging its markets and at the same time drawing General Electric into the established arrangement of the international electric-lamp business. He pointed out that General Electric, on its part, not only had made an attractive capital investment and gained greater influence in the international lamp business, but also, at one sweep, had established a close working connection with all branches of the central European electrical industry.

From 1929 onward, the relations between Osram and International General Electric developed along lines similar to the working arrangements of I.G. Farben with its foreign partners. The American firm, by adhering to quota agreements and arrangements for keeping out of marketing areas reserved by the Osram group for itself or its other partners, received in return the protection of the

combined technology and patent rights of the whole group. With this power, General Electric could and did beat down any threatened competition in the American domestic market.

With the world trade in electric lamps arranged by agreement, it became possible for all the Phoebus companies to direct some of their technical research toward increasing the "efficiency" but at the same time reducing the lifetime of their lamps. The lamp bulbs which we have to replace more and more frequently in our home light sockets burn out quickly by international agreement. The two biggest worries of lamp manufacturers were the possibility of price-cutting and the danger that electric lamps might last too long. The General Electric Company persuaded the other Phoebus companies to adopt the General Electric "formula" for arriving at the "economic life of lamps." Upon the adoption of this formula in 1924, General Electric's European representative wrote home: "This is expected to double the business of all parties within five years, independently of all other factors tending to increase it." Thanks to the Phoebus arrangement, an average householder like myself now replaces sixty burned-out electric lamps of all shapes and sizes in the course of a single calendar year, instead of the fifteen which would have been a good average twenty-five years ago.

As early as 1934 some members of the Phoebus group became worried because other members were manufacturing lamps designed to operate at voltages slightly higher than those of the standard home lighting circuits. These lamps would last too long when operated at normal voltages. A.F. Philips, head of the Dutch firm, wrote to Clark Minor of General Electric on January 30, 1934 that ". . . there seems to exist in various territories a growing tendency to supply lamps for higher voltages than in the past, which therefore leads to the conclusion that in a great many cases such lamps are being underrun.

"This, you will agree with me, is a very dangerous practice and is having a most detrimental influence on the total turnover of the Phoebus Parties. Especially with a view to the strongly decreased prices in many countries, this may have serious consequences for Phoebus and after the very strenuous efforts we made to emerge from a period of long-life lamps, it is of the greatest importance that we do not sink back into the same mire by paying no attention to voltages and supplying lamps that will have a very prolonged life."

Mr. Minor wrote back: "I quite agree with your proposal."

Whenever this point is raised publicly, which is seldom, the stock answer of the producing companies is that they have reduced the lifetime of the bulbs to increase their efficiency in the use of electric current; so that less current is required to produce the same amount of light. Savings to the consumer from short-life bulbs would depend on using bulbs of smaller wattage, thereby cutting electric bills. It may be that in localities where electricity is expensive some consumers have cut down wattage enough to make up the cost of buying more bulbs. But no financial benefit comes to the average householder who goes on replacing sixty-watt bulbs with sixty-watt bulbs, regardless of whether or not there has been a slight increase in candle power. Besides, in all this close figuring, no consideration is given to the trouble of frequent replacements, or to the fact that the price of bulbs could have been reduced to present levels without shortening their life.

A spokesman for General Electric put the case for the short-life bulb this way: "When the life of an incandescent lamp is shortened its light output is increased." What he did not mention was that there are ways of increasing light output without shortening lamp life. Technicians long since have discovered new filament materials — patented, of course — which could make "high-efficiency" bulbs that would last many times the present life of seven hundred and fifty hours. The lifetime bulb, like the "everlasting safety match," has stayed on the shelf since the time of its discovery.

Many more illustrations of practices like these have been spread on the record of Senate committees in the United States; and we found nothing amazingly new in the cascade of further particulars that turned up in Germany. What did become clearer was the range of new possibilities that such a union of forces opened up. One of the original motives was to establish uniform practices and uniform conditions among all producers. If possible, the public should be kept from noticing the difference when the product was gradually cheapened structurally faster than it was cheapened in price. But

in any event, even if the public did notice the difference, there should be no easy alternative like buying another brand.

So far the motive could be classed as a "business" motive, leaving aside questions of good or bad. But once the means had been devised to present an unbroken front in all dealings with the "public," we had found that — in Germany at least — it was only a step to the unbroken front of the Himmler Circle.

This was what we had to face. We knew that if anyone should try to wade into a system of this kind and talk about it in terms of supply and demand, competitive marketing by independent enterprises, and other notions of a "free economy," the confusion could be practically boundless. Yet even as we completed our findings, new arrivals were pouring in from the United States to take up jobs with the occupation forces and military government. Their fresh faces showed mixed horror at the bomb damage and pity for the German civil population. The phrase "just like us" could be heard more and more often in the big army mess at the Farben building in Frankfurt. As mid-August came on, with its shorter days and cooler nights, echoes of "not Nazis, but businessmen" made some of us feel suddenly chilly, and a little old, and a little tired.

PART II

The Lapse of a Policy

CHAPTER 12

The Call of the Wild

"BRITISH Seize Ruhr Industries." On December 18, 1945, this headline appeared on front pages in the United States. British military government had taken over the coal and steel industries. Some sixty directors and managers of the coal syndicate, United Steel, Good Hope, Mannesmann and Klöckner were in jail as part of a clean sweep to start the reorganization of Ruhr heavy industry.

I saw the headlines as I boarded a plane at Chicago, heading for Washington to prepare for return to Germany. Since late September I had been in the United States to consult with the State and War Departments on plans for ending the "concentration of economic power" in Germany. Now I had been asked to transfer to the War Department as director of the Division of Investigation of Cartels and External Assets, a new agency set up by General Clay at Berlin in October.

Late Thursday afternoon, December 20, after completing routines and forms, I started out of the Pentagon expecting to spend Christmas in Chicago. General John H. Hilldring, director of the Civil Affairs Division, met me in the hallway within sight of the exit. "Hello! When are you off?" he said.

"They tell me they expect to start processing the papers the day after Christmas, and I should be able to leave about January 15."

"The hell you say!" he roared. "Come on into my office." And to his executive officer: "Colonel, now, what's all this about taking three weeks to get Mr. Martin to Berlin? Who's in charge of this case?"

"I believe Colonel Forney will be handling it, General," said Colonel Laux.

"I want him in here tomorrow morning at seven-thirty to give me a full explanation of this proposed delay! General Clay was on the phone this morning and asked when Mr. Martin was coming."

The next afternoon, after a day of racing through corridors behind jet-propelled army officers, I began forcing my way through the crowds that jammed airports, railway stations and every conceivable mode of transportation. The first "peacetime" Christmas was turning into a nightmare of confusion for everyone. "Peace on Earth" was in every shop window, while men of good will tore each other to pieces trying to get on trains.

At LaGuardia airport, the crew of the C-54 looked glum as they prepared to spend Christmas in Newfoundland; but an hour out of New York the pilot detected something wrong, and back we went. After one more try, the crew went off for a forty-eight-hour leave, and another crew took over. Again we went up, found difficulties and returned. "No more flights until the day after Christmas" was the announcement. Most of the passengers melted away fast. I asked to see the commanding officer, told him of my embarrassment at seeing two colonels chewed up on my account, and mentioned General Hilldring's ultimatum.

Two hours later, in a new plane, with five other passengers and some mail sacks, we were over Boston and heading for Stephenville, Newfoundland. For the first time in a week I had a chance to sit still and think about the job ahead. I would be stopping first at London for a few days to have some conferences at the British Foreign Office, then going to Berlin to report to General Clay.

The reason for the proposed stop at the Foreign Office was that the British contingent at Berlin was already blocking four-power agreement on reorganization of the German combines. This made no sense in view of the abrupt action the British government had just taken to seize the Ruhr industries. True, representatives of the new Labor government had reached an understanding with the State Department at Washington on the terms of a law that would define and prohibit "excessive concentration of economic power" in Germany. But Sir Percy Mills was still in charge of economic matters for the British at Berlin, in spite of the change of governments at the July elections. Sir Percy was vetoing proposals of the French, Russians and Americans, and even talking back to his own Foreign Office.

It was difficult to see why the British element at Berlin, in spite of directives from London, was blocking the deconcentration of heavy industry instead of striking a new balance between heavy and light industries in Germany. We already knew that certain amounts of coal, transportation, communications, power, machinery and equipment would be needed to keep chinaware, leather goods, textile, food-processing plants, and the like in a good state of repair and operation. Then it was necessary to decide what kind of materials should be produced for export so as to pay for imports of food and raw materials. That should be settled by finding out what kinds of products would be easy on coal and transportation and the other weak spots. What kinds of things would use domestic raw materials instead of imported ones, especially if the imports would be expensive? Instead of answering such questions, Sir Percy and his staff seemed to assume that German industry should again produce whatever it had produced before and during the war. This attitude ignored both the facts of war damage and the policies of postwar adjustment.

The position assumed by Sir Percy Mills on behalf of his group in British military government showed a striking parallel with the attitude we had encountered in our own Economics Division back at Bushy Park. It was the revival of an argument that was supposed to have been settled many months before so far as official American policy was concerned. Nothing was being brought up in the new arguments over Germany that had not been thoroughly canvassed by the executive departments and by congressional committees at Washington during the war. In the end, all these discussions and arguments had been codified into a coherent plan. President Roosevelt had turned to Secretary Hull at a cabinet meeting in August 1944 to ask whether our government had settled upon definite measures for dealing with the cartels and the "excessive concentration of economic power" in Germany. Stripped of State Department phraseology, Secretary Hull's reply was "No." President Roosevelt then said it was about time the matter was finally settled, and he appointed a cabinet committee consisting of the Secretaries of State, Treasury, War and Navy to prepare and submit an over-all scheme.

Almost at its first meeting, this cabinet committee split over ways of meeting two requirements for a satisfactory settlement of Germany's future place in Europe, namely: 1) that the European economy as a whole must be highly productive; and 2) that Germany's future place in the European economy must not let Germany dominate or control Europe from a military, political, or economic standpoint.

The basic heavy industries in other parts of Europe had been reorganized into a position of dependence upon the industries of Germany. Some said that one way to end German control would be to uproot the basic heavy industries of Germany, rebuild new heavy-industry centers in other parts of Europe, eliminate German financial control and management of industries outside of Germany and finally let Germany build its economy around agriculture and light or consumer-goods industries. German financiers and industrialists who had been concerned largely with planning and consolidating their controls over the European economy would have to be removed, since it was precisely their kind of economic planning which was not wanted.

Proposals along these lines were prepared in the Treasury Department and put forward by Secretary Morgenthau. Parts of these proposals were too drastic and showed too little concern for the economic needs of Europe as a whole. Some of the details of the Morgenthau Plan leaked to the press. Bedlam broke loose.

The War Department seized the opposite horn of the dilemma and focused attention exclusively on quick German economic recovery, with only perfunctory attention to "prevention of future military activity," or to the economic balance of the rest of Europe. Ignoring completely the fine points of how German finance and industry had been able to control the entire European economic system, these proposals stressed rapid and "efficient" industrial recovery. The War Department prepared a draft of a handbook to be issued to military government officers. This proposed handbook followed the view of the Economics Division of the U. S. Group Control Council at Bushy Park, leaving out all consideration of reform in the basic shape of the German economy.

President Roosevelt became furious when he saw a copy of the proposed War Department guide. He sent a stiff letter to Secretary of War Stimson, instructing him to call in all copies and impound them, and to find out who had been responsible "all the way up and down the line." The President said, "It gives me the impression that Germany is to be restored just as much as the Netherlands or Belgium, and the people of Germany brought back as quickly as possible to their pre-war state. . . . There exists a school of thought both in London and here which would, in effect, do for Germany what this Government did for its own citizens in 1933 when they were flat on their backs. I see no reason for starting a W.P.A., P.W.A. or a C.C.C. for Germany when we go in with our Army of Occupation. Too many people here and in England hold to the view that the German people as a whole are not responsible for what has taken place — that only a few Nazi leaders are responsible. That, unfortunately, is not based on fact."

Two documents finally settled the controversy. The first was a directive issued in April 1945 by the Joint Chiefs of Staff and addressed to the American commander in Germany. This document, known as JCS 1067, was kept in a top secret classification until October 17, 1945. If it had been released for study, most of the wrangling over the Morgenthau Plan would have been unnecessary. Pending final Allied agreements, this directive provided that rebuilding of heavy industries, including iron and steel, chemicals, nonferrous metals, machine tools, radio and electrical equipment, automotive vehicles, heavy machinery and components, should be kept to a minimum. Conversion of facilities to the production of light consumer goods was to be encouraged. All possible measures were to be used to restore transportation services and public utilities, repair and construct housing, produce coal, and do anything else necessary to prevent starvation, disease or serious unrest among the German civilian population.

The exclusion of Nazis from office and from important positions in industry and public life was explicit.

All members of the Nazi Party who had been more than nominal participants, and all active supporters of Nazism or militarism, were to be removed from important positions in private enterprises as well as in government. No such persons were to be retained in any of the listed categories "because of administrative necessity, convenience or expediency." At least it was clear that our forces went into Germany with the idea of digging out the members of the Himmler Circle and their friends from their cozy quarters in the substructure of Europe's economy.

The directive also gave special attention to the concentration of economic control:

> You will prohibit all cartels or other private business arrangements and cartel-like organizations . . . providing for the regulation of marketing conditions, including production, prices, exclusive exchange of technical information and processes, and allocation of sales territories. Such necessary public functions as have been discharged by these organizations shall be absorbed as rapidly as possible by approved public agencies.
>
> It is the policy of your government to effect a dispersion of the ownership and control of German industry. To assist in carrying out this policy you will make a survey of combines and pools, mergers, holding companies and interlocking directorates and communicate the results, together with recommendations, to your government through the Joint Chiefs of Staff. You will endeavor to obtain agreement in the Control Council to the making of this survey in the other zones of occupation and you will urge the coordination of the methods and results of this survey in the various zones.

The second document that settled the controversy over postwar policy was agreed upon by the heads of the Big Three at Potsdam on August 2, 1945. It was known as the "Potsdam Agreement."

The joint conference of the Big Three at Potsdam in July and August occurred at a peculiar turning point in European history. The British conservative coalition of the war period had been upset by the Labor party victory in the July elections. Prime Minister Attlee replaced Winston Churchill as British representative midway in the Potsdam conference, and Ernest Bevin replaced Anthony Eden as Foreign Minister. The British conservative view of German industry had been like that held by our War Department in the first sessions of the cabinet committee in Washington. Now the change of governments at London replaced the top negotiators. But the rest of the British delegation at Potsdam was still composed of Tories who shuddered at the very thought of upsetting the prewar relations between British and German heavy industry. Looking at German industry from a quite different point of view, the Soviet delegation was preoccupied with the devastation of territories and industries in Russia. They wanted, first and foremost, to assure a very large amount of reparation from Germany, and were less concerned about the rest of Europe.

Thus it was the task of the American delegation to produce an agreement that would assure a productive European economic system and redistribute the balance of economic power in Europe so that Germany and German industrialists could not resume a dominant position. The Soviet urge for quick reparations had to be curbed. Indiscriminate reparations, including reparations taken from current industrial production, might rebuild an undesirable concentration of plant capacity in Germany, even while lowering the standard of living of the German working population to a depression level. On the other hand, the British conservative urge for re-enactment of the Düsseldorf Agreement of 1939 had to be blocked, too. Retention of the combines and the old German financial and industrial arrangements could give the Germans too much control even though plant capacity was cut down.

Politically, the Potsdam Agreement provided that the reorganization of government in Germany should be directed towards "the decentralization of the political structure and the development of local responsibility." The same principle was applied to German economic institutions. The agreement provided that "at the earliest practicable date, the German economy shall be decentralized for the purpose of eliminating the present excessive concentration of economic power as exemplified in particular by cartels, syndicates, trusts, and other monopolistic arrangements." It went on to direct that "In organizing the German economy, primary emphasis shall be given to the development of agriculture and peaceful industries." The industries that had served as a medium for centralizing power in Germany were the ones that had become overdeveloped. By throwing the emphasis on a more balanced German economy, the new plan could end the consumer-goods shortage which had been an incitement to looting of other countries, and make it impossible for any clique of elite guardsmen in striped pants to mobilize the German population for such a purpose.

The decentralization of power meant delegating the work of organizing production onto a broader base, throwing responsibilities to a greater variety of people operating under common policies or principles. Germany, during the period of occupation, was to be treated as a single economic unit, in the sense that common policies were to be established, with modifications to suit varying local conditions. The common policies were to govern: a) mining and industrial production and allocations; b) agriculture, forestry and fishing; c) wages, prices and rationing; d) import and export programs for Germany as a whole; e) currency and banking, central taxation and customs; f) reparation and removal of industrial war potential; g) transportation and communications.

The Potsdam plan was far from a sweeping "de-industrialization." Measures to build up a productive economy were to be taken immediately. The occupation authorities were instructed to take steps promptly: "a) to effect essential repair of transport; b) to enlarge coal production; c) to maximize agricultural output; and d) to effect emergency repair of housing and essential utilities." Payment of reparations was to leave enough resources in Germany so that the people could live without an American WPA. The German people were to be given "the opportunity to prepare for the eventual reconstruction of their life on a democratic and peaceful basis."

These constructive steps had a double purpose. Far from removing machinery from the coal mines and closing them, the plan called for the greatest possible coal production. But at the same time it would make no sense to enlarge coal production if Germans were allowed to reopen too many of their coal-hungry heavy and synthetic industries. Repair of the wobbly transport system would not mean much if, at the same time, the Germans rebuilt too many of the complicated industries that employed cross-shipping of intermediate products back and forth across the country in the course of production. For many similar reasons, the attempt to maintain detailed central administration of great networks of interconnected companies was discouraged.

Constructive plans for the control of Germany had to put emphasis on transportation and fuel because these were the parts of the German economy which the air forces had picked for a quick knockout blow. In spite of any popular impression that German industry as a whole had been knocked out, these were the two weak points. The United States Strategic Bombing Survey had found that German industry was in operating condition except for coal supplies and transportation. Up till April 1944, the 421,656 tons of bombs dropped by the Allied strategic air forces did not even take the starch out of the German economy. The Survey concluded: "Neither the direct effects of the attacks, nor the indirect effects resulting from the drain on manpower and materials, were significant. In 1943, the basic industries were not yet strained by the demands of war production and marginal reductions in the output of basic materials had no effect on war output. The most that can be said is that, without the raids prior to the spring of 1944, the basic industries might later on have been somewhat less pressed to meet the increased requirements of the armament and reconstruction programs."

In the six months from April to September 1944, another 757,364 tons of bombs were dropped, with heavy emphasis on transportation facilities and oil production and storage installations. These targets alone took 336,590 tons with the remaining 420,774 scattered in "area bombing" of cities and miscellaneous industrial targets. This bombing brought a two-thirds reduction in the supply of finished oil products, and an even greater reduction in aviation gasoline, as against the over-all average of one fifth for all industry.

After September 1944, there was a still greater concentration on transportation and oil targets, for a total of 578,261 tons dropped on these installations out of the grand total of 830,959 tons for the period. This finale brought the so-called "collapse" of the German economy. The Bombing Survey concluded that the continued attacks on oil had prevented reopening of oil facilities, and that the heavy bombing of transportation in the Ruhr and Rhineland had slowed production of coke and steel and reduced power production. The Survey report added: "It seems clear that the devastating blow to basic materials was dealt by the strategic and tactical attacks on transportation facilities primarily in and about the Ruhr area." The transportation attacks cut off coal shipments. Since Germany was far more dependent on coal than most other industrial countries, the collapse of coal shipments "had decisive effects which were felt throughout the entire economy, even in transportation itself. In the first quarter of 1945, the shortage of coal set the limit to the operation of the German economy, and the lack of transportation facilities set the limit to the supply of coal."

The policies agreed upon at Potsdam were not only in line with the policies worked out by our own government at Washington, but they had another important advantage. Even in the event that we could not get the agreement of the other powers on practical steps to carry out these policies, still there were constructive moves that could be carried out in our own zone. It was untrue, as some newspapers had claimed, that in the division of zones we got only the scenery, while Britain and France got the industry, and the Soviets the breadbasket. Actually, of the eighty-five combines that dominated most of German industry, thirty-four had the head office and principal place of business in the British zone, nineteen in the Soviet zone, five in the French and twenty-seven in the American. Furthermore, the greater number for the British zone was offset by the fact that most of them were in coal, iron and steel, whereas those in our zone covered the greatest variety of industries, and included some of those most involved in international cartel deals.

These facts about the situation in Germany were already part of the background I had to consider as our plane crossed the North Atlantic. Now that the JCS 1067 directive and the Potsdam Agreement had settled the American position, I thought the one serious obstacle standing in our way would be the attitude of the British. But I soon got forewarning of more trouble ahead. In the waiting room in Keflavik, Iceland, were two of my colleagues in military government, General McSherry, former head of SHAEF G-5 and now director of the Manpower Division at Berlin, and Fred

Winant, director of Trade and Commerce and brother of the wartime ambassador to England. They were westbound for Christmas leave.

General McSherry greeted me with the news that I had been "abolished." The Cartels Division had been disbanded the previous week. Some functions relating to German assets abroad had been transferred to the Finance Division. But a new organization known as the Decartelization Branch was to take over the remaining duties of the Cartels Division, some of the duties of the Legal Division, and all of the I.G. Farben Control Office. The new branch in turn, along with four other divisions, Industry, Food and Agriculture, Trade and Commerce, and Reparations, had been swallowed up by the very large Economics Division, headed by Brigadier General William H. Draper, Jr.

Fred Winant added the news that civil service regulations had just descended upon the military government organization, so that in addition to the usual military red tape, it was now necessary to "describe" all jobs in each division and branch according to civil service procedures. While Army officers perspired over organization charts, job descriptions, and rules for behaving like a lifelong bureaucrat, civilian directors were sweating over tables of organization, "201" personnel files, staff studies, concurrences, passes, travel orders. In the meantime efficiency experts from Washington were having a field day.

When the westbound plane left we were still waiting for weather clearance from London. I sat down to digest the fill-in I had just been handed on Berlin, and then began to read a New York newspaper for Sunday, December 23, that I had picked up at LaGuardia but had not yet opened. In a statement datelined Washington, December 22, Senator Kilgore charged that certain military government officials were countenancing and even bolstering Nazism in the economic and political life of Germany. He went on to say that these officials "take the position that German businessmen are politically neutral and that no effort should be made to penalize German industry or prevent it from recapturing its prewar position in world markets. . . . They look forward to resuming commercial relationships with a rehabilitated German industry whose leading figures are well-known to them, rather than to striking out on new paths of economic enterprise." The Senator mentioned, in particular, General Draper; Rufus Wysor, president of Republic Steel Corporation and head of the Steel Section under General Draper; Frederick L. Devereux, retired vice-president of an American Telephone & Telegraph subsidiary and General Draper's deputy; and Colonel Pillsbury, my predecessor as control officer for I.G. Farben. "Nazi industrial organization is not repugnant to them and they have shown every disposition to make their peace with it." I recalled Graeme K. Howard's book, *America and a New World Order,* and our previous encounter with him at Bushy Park.

I had with me a bulletin issued by the Department of State on April 2, 1945, making public some documents found in Germany. These documents contained plans prepared by the Nazis for a future bid for power, based on their industrial holdings and wealth concealed abroad. Among other things they had planned to appeal to the courts of various countries, through dummies, who were to protest the "unlawful" seizure of industrial plants, patents, and other properties by alien property custodians. If these moves failed, they planned to repurchase the properties through friendly cloaks and dummies.

These were things that could be tested. If Germans had spirited away several hundred million dollars, as reported, to furnish a nest egg for propaganda campaigns and other operations, we ought to be able to detect actual results.

Another part of the German plan, according to the State Department, was to have German technicians and other experts secure positions abroad to circumvent the expected bans on military research and development in Germany. Such people were to be made available at low cost to industrial firms and technical schools in foreign countries. It was also thought that German help in the construction of modern technical schools and research laboratories could be offered on favorable terms, to afford Germans an opportunity for designing and perfecting new weapons. The bulletin went on to say that one immediate aim of this German program would be to soften up the Allies through a plea for "fair treatment" of Germans; and to secure the removal, as rapidly as possible, of

Allied control measures. The program was to provide for a rebirth of German nationalist doctrines and give the German inner circle new bases of operation.

We arrived at London the afternoon of Christmas Day; and on Thursday, December 27, I went with Theodore Achilles, First Secretary of the Embassy, to the Foreign Office. We met with William Ritchie and two others of the staff of the Honorable John Hynd, Chancellor of the Duchy of Lancaster, in charge of German occupation affairs. It soon became obvious that someone in our Economics Division at Berlin not only disagreed with the official Washington policies on cartels and combines, but also had communicated that disagreement to Sir Percy Mills and others in the British element.

Negotiations had been under way for two months between the State Department and the Foreign Office to break the deadlock over the "decartelization law" at Berlin. Mr. Achilles and I pressed for a firm note from London to Sir Percy Mills. Instead of agreeing, Mr. Ritchie told us that we had better get our own lines straight, since the position we were taking did not coincide with that held by our own Economics Division at Berlin. We pointed out that the State Department at Washington and not the Economics Division at Berlin fixed American official policy; but the British group turned this aside and pressed their advantage for all it was worth.

Following this setback, Mr. Achilles and I prepared to move to a "line of retreat" that had been suggested by the State Department in the event that negotiations threatened to break down. This "line of retreat" would be to suggest that, pending agreement on a legal definition of "excessive concentration of economic power," we should agree to prepare a list of German combines that were in any event clear and obvious cases of the type of economic concentration that had to be cut out. Actually it was the British group, in the end, that suggested some such solution; and I prepared to leave for Berlin to undertake the negotiations on this new basis.

At this point a heavy fog settled on England and the continent, holding all air and channel transportation fogbound for several days. It was an appropriate comment on our progress to that date.

CHAPTER 13

The Hollow Squares

TURNING Berlin into a seedbed of democracy through the instrumentality of a military organization was, to say the least, an ambitious project. After my first introduction to the setup as a going concern in January 1946, I thought ambition should be made of sterner stuff.

General Clay's Office of Military Government for Germany (U.S.) occupied a former Luftwaffe headquarters. On Saturday mornings a panorama of the individuals and problems that made up the core of American military government was assembled in General Clay's conference room. Four long, polished tables arranged to form a closed hollow square occupied the center of the room. Around this hollow square sat the thirty-two men who constituted the top staff and who headed the offices and divisions of military government. For two hours, General Clay talked with each of us, proceeding clockwise around the table, hearing reports of progress or failure in four-power negotiations or in the execution of policies in the United States zone.

In another part of the American sector of Berlin was another building, this one full of conference rooms, each with its hollow-square table. The building, splendid in its park setting, where the four powers set up their Allied Control Authority, was a former court of commercial justice. It was now the seat of a strange kind of international government. At the top of the ACA was the Control Council, composed of the four military governors, whose word was law. Next was the Co-ordinating Committee, the four deputy military governors, who decided what matters to pass along to the Control Council for final approval. Then there were the directorates,

corresponding roughly to the executive departments of a government, and in each case made up of the four directors of the appropriate division. The directorates, in turn, delegated specific duties to various committees and working parties.

To establish a "democratic" basis for Germany's future, General Clay ordered the staff of military government to turn the execution of most policies over to "the Germans themselves." We were to restrict ourselves to giving advice to the Germans, and "observing" the results. If we did not like what we observed, our complaints had to be forwarded through military channels.

Before the occupation was a year old one could begin to observe that when the "Germans themselves," meaning the top echelons of the German administrative agencies, liked the advice they were given, they followed it. When they did not like the advice, there were difficulties. One could also observe that advice tending toward the re-establishment of the old patterns was well liked. Advice that smacked of reform was distasteful.

By drift and by an inner logic of military organization, military government was moving from its role as an enforcer of reform policies to the role of a trustee or custodian of German "recovery," and moving along lines well charted in the habits of past generations. Back in the Ruhr, in May 1945, I had seen how the commanding general of the corps area would crack the whip because his divisions were not getting the streetcars running and the rubble cleared fast enough. The sense of being responsible for the welfare of the people transcended directives that would have required this responsibility to be turned over to Germans.

Now, at Berlin in 1946, under General Clay's order that responsibilities should be turned over to "the Germans themselves," it was the reform policies that were being thrown first to German administrative bodies. The directors of divisions watching over repair of transport, reopening factories, re-establishing telephone lines, allocating coal and other scarce materials, clung tightly to the programs they had mapped out and offered arguments for delays and exceptions.

One Saturday morning in February 1946, General Clay discovered from the report of the Public Safety Branch that the Transport

Division had secured exemptions for several thousand Nazis working as supervisors on the railway system. The argument was that if the Nazis were removed the trains would stop running. This report confirmed a charge which had appeared in several unfavorable press dispatches from Germany. General Clay's eyes snapped an electric spark across the hollow square to the offending division director. He ordered all the Nazis removed by the following Wednesday, whether the trains ran or not.

The Nazis were removed and the trains still ran. But the next week it was something else of the same kind; and the next, and the next. The net effect was that while parts of the military government organized boys' baseball leagues, parent-teacher associations, and leagues of women voters, and pasted strips of paper over the swastikas in school textbooks, top Nazis and Nazi supporters who think democracy ridiculous moved into the key positions in the economic and administrative life of Germany, or were never thrown out.

Getting rid of Nazis or finding something useful for ex-Nazis to do had been a spectacular proposition ever since the time, shortly after V-E Day, when General Eisenhower relieved General Patton of his command for saying that the difference between Nazis and non-Nazis in Germany was like the difference between Republicans and Democrats in the United States. But the Nazis were only a surface phenomenon compared with the deep-seated and persistent mania of the Germans for centralizing authority and concentrating power. That the mania was not alone a German one may be gathered from what happened when the four occupying powers, the United States, Britain, France, and Russia, tried to agree on the text of a law to end what the Potsdam Agreement called the "excessive concentration of economic power" in Germany.

The matter had been taken up officially for the first time at the second meeting of the Co-ordinating Committee of the Allied Control Authority held at Berlin on August 17, 1945, with General Clay in the chair. The Co-ordinating Committee had decided as a first step to draft a control council law to govern the process of economic decentralization. A few days later, at the third meeting on August 21, General Clay presented for consideration a draft law

which would have set up a four-power Commission for Economic Decentralization. The commission would be empowered to investigate and to order the dissolution of enterprises or the termination of contracts having a restrictive or monopolistic effect. Under this law, contracts or other arrangements in restraint of trade would have been declared illegal, and excessive concentrations of economic power in the form of cartels or combines would have been prohibited. The Co-ordinating Committee could not reach an agreement and referred this draft to the Economic Directorate for study.

In the Economic Directorate, the Soviet representatives on September 12, 1945 offered a counterproposal. The principal difference was that instead of leaving it in the hands of a commission to determine for itself in each case what constituted excessive concentrations of economic power, this law would have defined large concentrations in terms of certain standards of size. The enforcing agency would have the right to grant exemptions if there was evidence that the exemptions were necessary and would not defeat the purposes of the law. The Economic Directorate agreed to use the Soviet proposal as a basis for discussion and referred the draft to a working party for detailed consideration.

At this point a serious hitch developed. The new text proposed to establish definitions of the practices and the types of corporate structure that were to be considered illegal. This became known as a "mandatory" type of law. The British objected to a "mandatory" law and proposed instead to set up an administrative tribunal with power to investigate and make its own rules and regulations. From the standpoint of American policy, there were two objections to the British "nonmandatory" conception. In the first place, unanimous agreement of the four powers would be required to take action in any particular case; whereas, if the law itself defined certain standards, subject to certain exceptions, unanimous agreement would be required to make an exemption. In the second place, a nonmandatory law would violate American notions of constitutionality, because such legislation would not tell the German businessman in advance what was illegal and what was legal. The enforcing agency would make up the rules of the game as it went along.

During the discussions of the draft law Sir Percy Mills, the British member of the Economic Directorate, had made no secret of his strong opposition to any law that would do more than establish an administrative tribunal, proceeding case by case, and by unanimous vote. He had insisted, of course, that his government agreed with the purpose of the law "in principle." At the meeting of the Economic Directorate on September 27, Sir Percy had stated that he could not consider the proposed draft as if it were to be a law, because only the Legal Directorate could draft a "law." On October 5, the Economic Directorate forwarded its draft to the Legal Directorate to be rewritten in legal form.

For the next two weeks it had been anybody's guess whether the higgling over theoretical legal points was a genuine disagreement, or whether the proceedings were being deliberately stalled by delaying tactics. Wide differences in the constitutions, statute laws and legal practice of the four occupying powers made a month's delay in settling a legal point not an unusual occurrence. But in this case, we had noticed in the cables coming to Washington from Berlin that Sir Percy Mills's grounds for objecting shifted from time to time. We had noticed also that he was constantly driving for an arrangement with the broadest grounds for making exceptions, and one requiring a unanimous vote before anything at all could be done. This meant that if we hoped to do more than put ink marks on paper, the agreement at Berlin, whatever its form, must start some action that could be stopped only by unanimous consent; and not the other way around.

On October 24 the British objections were the subject of a transatlantic conference by teletype between Berlin and Washington. General Clay, along with Ambassador Robert Murphy, his Political Adviser; and Charles Fahy, head of the Legal Division; Laird Bell, Chicago attorney representing General Draper from the Economics Division; Russell A. Nixon, acting director of the Division for Investigation of Cartels and External Assets; and several others at Berlin, discussed the question of a "mandatory" as against a "nonmandatory" law with representatives of the State Department and other government agencies at Washington. The instructions from Washington were clear that the American policy called for a "mandatory" law, in the sense that some definition should be

included to indicate what types of power concentrations were considered illegal. Though Berlin should have wide discretion in negotiating the precise content of the definition, the enforcing agency must not be left with arbitrary power to pick and choose what things to hit and what to miss. In view of the objection of the British representative, who rejected even the idea of trying to work out definitions of "excessive concentration," the State Department said it would negotiate directly with the Foreign Office in an effort to overcome the British opposition.

By November 27, 1945 the negotiations at Berlin had reached a stalemate in the Co-ordinating Committee. At that time the United States, French and Russian representatives were in agreement on a draft law that conformed with the statements of United States policy and the specific directives from Washington.

The British veto put the matter temporarily on the shelf. It was still there when I arrived at Berlin in January 1946, after the conferences at the Foreign Office in London. When I took over the job at Berlin and read the back files of what had been happening since September, it became clear that the deadlock had not been due entirely to British opposition. During the negotiations, Mr. Bell and others from our Economics Division had continued to work out "compromises" with the British and had dealt informally with the French and Russian representatives in an effort to get them to make compromises which Sir Percy Mills would accept. This crosscurrent had gone on even after the teletype conference of October 24 in which the official American policy was made clear. The negotiations had fallen into an almost hopeless muddle with the Economic Directorate holding to the British view, and the Legal Directorate to the American. There the argument rested.

As I went over the papers before reopening negotiations, I realized that not all of this had been a tempest in a teapot. The wrangling, on the surface, was childish; but the future of the big combines in the British-held Ruhr lay in the background. Certain phrases in the Düsseldorf Agreement of 1939 began to take on a new meaning. The Federation of British Industries had felt at that time that Hitler's occupation of Czechoslovakia made no difference to the soundness of the collaboration program with the

Reichsgruppe Industrie. Hitler's march had merely "created a situation which, while it lasts, has made further progress impossible."

Now that British troops held the Ruhr, was "further progress" possible? In the Düsseldorf Agreement, the British and German groups had said that their objective was "to ensure that as a result of an agreement between their industries unhealthy competition shall be removed."

Looking back on this agreement after the war, the point was not that industries in Britain and Germany had eliminated competition among themselves, but that they had done so as part of a new "way of life." Private industries were to arrange markets to suit their own convenience, and then enlist the help of their governments to beat down opposition. A particular enemy was the antitrust legislation in the United States, which stood in the way of this new form of private world government. As the men at Düsseldorf had put it: "The two organizations realize that in certain cases the advantages of agreements between the industries of two countries or of a group of countries may be nullified by competition from the industries in some other country that refuses to become a party to the agreement. In such circumstances it may be necessary for the organizers to obtain the help of their governments and the two organizations agree to collaborate in seeking that help." This provision had been so evidently aimed at the United States, whose industries could not legally join in such a scheme, that the head of the British Board of Trade, Mr. Oliver Stanley, was questioned on it in the House of Commons on March 21, 1939. His reply had a double meaning. He said, "There is nothing in this agreement intended to be or that would be in conflict with the interests of American industry."

Now the British element at Berlin, under Sir Percy Mills's direction, was plugging for enough exceptions to make possible a revival of the German cartels and combines under other names. The argument was that the combines in heavy industry should be kept intact so as to make it easier to "nationalize" them. Sir Percy, a hard-bitten Tory, was talking like a socialist, as though he favored public ownership of industry. It was centralization of power he was after. Sir Percy was battling to retain certain focal points of economic

power, especially in the Ruhr, to help the British position in international trade. For that, he seemed willing to risk setting the German juggernaut loose again. In the background was the need to make Britain independent of dollar loans. Before Lend-Lease came to the rescue in the early stages of the war, practically all British foreign investments had been liquidated to supply the British Treasury with foreign exchange, especially dollars, for military supplies. Now we could expect some desperate gambles on the revival of German power as Britain tried to write the Declaration of Independence in reverse English.

The wrangling and cross-purposes in the American element at Berlin likewise were not just word battles. Soon after I arrived I was asked to attend a meeting of all branch and section chiefs of the Economics Division, to explain the policies and program of my new branch. We met around the hollow table in General Clay's conference room. My explanation was greeted with a chorus of objections, especially from men like Rufus Wysor, former president of Republic Steel Corporation, who was then head of the Steel Section in the Industry Branch. These objections were not directed merely at my proposed program, but at the whole policy of reorganizing the German cartels and combines. All findings of the wartime investigations were rejected as though we had learned nothing. The argument started from the very beginning. "What's wrong with cartels, anyhow?" "Why shouldn't these German businessmen run things the way they are used to?" "What proof have you that any of these agreements ever restricted any production?" "German business is flat on its back. Why bother them with all this new stuff?"

Given a little time, it is not hard to meet arguments of the "What's wrong with that?" variety. The question was how to do it at Berlin, in five-minute snatches, when dealing with people who felt no hesitation about rejecting official policies, and who claimed to have no knowledge of the things on which the official policies had been based. For one thing, the documentation to back up the policies was in thousands of volumes of testimony, government reports, and court records in the United States. At Berlin, where we were supposed to execute policy, not make it, we had only the documents one could carry in a brief case or send by pouch. Mr. Oliver Stanley had been right when he told the House of Commons in 1939 that there was nothing in the Düsseldorf agreement "that would be in conflict with the interests of American industry," if we were to judge by the men from American industry who staffed our Economics Division.

After the first barrage of questions from General Draper's assembled branch and section chiefs, I knew that this was to be a job requiring patience. The fact that the gentlemen of our Economics Division found it easier to agree with Sir Percy Mills than with the policy of the Washington government was not an isolated phenomenon. We could expect difficulty on every kind of economic reform. The director of the Federation of British Industries had been quoted in the London *Times* on his return from the Düsseldorf conference of 1939 as saying that "Their talks in Germany were conducted in a very friendly spirit, with the great desire on both sides to see the other man's point of view." I wondered whether I could look forward to meetings around the hollow squares in Berlin with gentlemen who would show "a great desire to see the other man's point of view."

CHAPTER 14

Reducing Exercises

THE slogan that Sir Percy Mills used as a battle cry in the arguments at the Economic Directorate in Berlin was that "great size alone is not excessive concentration of economic power." His favorite dictum was that passing a law against certain practices or certain types of corporate organizations was the same as convicting the German companies of a crime. He was fond of combining the two ideas and exploding with the question, "Is it a crime to be big?"

This kind of argument served very well in four-power negotiations. Because of language difficulties, it was never possible to express complicated thoughts without the greatest difficulty. A short, sharp challenge which begged three or four questions was a good way to throw any discussion into the wildest confusion. One was always forced to remember that four languages were being spoken: English, French, Russian and American. Even with perfect translation by all the interpreters, there was still too much time lag for any complicated rejoinder to be effective. With average translation by the interpreters it required constant practice to speak simply and to be accurate.

Before we undertook to prepare an answer to Sir Percy on the question of whether or not it was a "crime" for a German combine to be too big, we had some matters to get straight within the confines of our own military government organization. Differences within General Clay's own Economics Division over the interpretation of the directives were so violent that some of the branch and section chiefs had reached the point of incoherence.

I found that in the months I had been away, my two predecessors had, in turn, become involved in sharp disagreements with

General Draper and his staff in the Economics Division. Colonel Bernstein had resigned in October 1945. Russell Nixon, who followed Colonel Bernstein as acting director of the Cartels Division, had resigned on December 15, 1945, at the time of the reorganization that made the new Decartelization Branch a part of the Economics Division.

In one of my first talks with General Draper, I found that the investment banker's view was uppermost. He was fundamentally opposed to the idea that the cartels and combines required immediate reorganization, and was convinced that the "experienced German management" had to be retained. He considered Colonel Bernstein and Mr. Nixon impetuous, if not ruthless, in their constant pressure for action to replace the old Nazi and Nazi-supporting managements and to reorganize the big companies. To start on a fresh footing, I said that I believed the question of how to go about eliminating the cartel system and reorganizing the German combines should be accepted as part of the whole economic program. General Draper disagreed. In his view, the war, the bombing, the division of Germany into zones, and the fact of the occupation itself, meant that the cartels as such no longer existed and that the combines were "flat on their backs." There was no need to take action in these first years of the occupation beyond enacting a law to declare certain practices illegal in the future. The current economic program should be one of economic recovery. Until the German economy was in a "reasonable" state of operation, it would be unnecessary, and in fact harmful, to undertake "drastic" reforms. Therefore a program to eliminate "excessive concentration" was not to be an important part of the immediate plan.

I countered by citing two specific booby traps that had shown up in my first talks with General Draper's branch and section chiefs. First, it was expected that a reparations program would take certain surplus industrial plants out of Germany. The way in which these plants were selected could have an effect on the shape of the future German economy. If the plants belonging to the few independent industrial firms were removed, while those belonging to the large combines were left intact, the degree of control left to the management of the large combines would be increased. Second, the Industry Branch and certain appointed German authorities were jointly handling the allocation of coal and other scarce raw materials to industrial plants. Under General Clay's order, this authority was to be turned over more and more to the Germans. The power to allocate was the power to withhold. If materials were allocated to plants of the big combines and withheld from plants of independent firms, the proportionate power of the combines would be increased. If materials were allocated for the revival of the heavy industries and withheld from the light industries, the resulting economic balance would be the opposite of what we wanted.

The allocation authorities were already withholding materials from plants which were expected to be removed as reparations; so that even though plants of independents might not be removed for some time, the effect of letting combine-owned plants get further ahead of the independents in material allocations would be the same as actual dismantling and removal. I suggested that the Decartelization Branch should work with the Industry Branch on interpretations of the reparation and allocation policies, since reforms of this kind would have to be built in from the beginning. They could hardly be carried out at some future date, after Germany's industrial plant had been rebuilt according to another blueprint. General Draper did not concur. He held that if we "decartelized" the big combines properly, there would be no difference between industrial plants owned by the combines and those owned by independent firms. There would be no need to "discriminate."

At the end of these conversations, I felt like a doctor confronted with a patient who weighed three hundred and sixty pounds, who was too big for his own good, and who was always stepping on the toes of innocent bystanders. General Draper was saying that if I "reduced" the patient properly, there would be no need to change his weight, shape, or size, or to take any fat off him. Also, once we had him properly "reduced," it would not be necessary to take any special steps to stop him from tramping on other people.

Echoing the "recovery first, then reform" idea, the other branches of the Economics Division promptly made it clear that they did not want advice on the relation between the cartel policy and their particular operations. That could wait until later.

The control of I.G. Farben plants, however, and the disposal of these facilities, was a requirement that could not wait for a period of "reform" after Germany had "recovered." By order of the Control Council in its Law No. 9, approved in November 1945, the I.G. Farben plants had already been seized, the bank accounts impounded, and the old management ousted. Those plants which were to be given up as reparations had to be selected. Plants having only a wartime use had to be picked out and dismantled. Plants that were to reopen under new management had to have managers. Scientific research in the Farben laboratories had to be supervised to prevent further work on new military weapons.

Here again I had something to learn. As Control Officer of I.G. Farbenindustrie, despite the language of the Control Council's order I was not actually to carry the responsibility for executing Law No. 9 in our zone. I must immediately delegate many functions to other branches over which I had no control. I found that the Industry Branch was to make the selection of plants to be shipped as reparations, dismantled, or reopened, and to pick the persons "qualified" to operate the reopened plants. Another branch was to control scientific research. Still another branch had custody of the impounded funds and responsibility for preventing unauthorized dissipation of the assets. By military theory all responsibility rested on the shoulders of the commanding general, and everyone else was an adviser only. Stripped of special military language, then, my job was to sit with the French, British and Soviet control officers and try to arrange a plan for final disposition of the I.G. Farben properties. Meanwhile, with the help of a small staff, I was simply to observe what the Germans and the other branches of military government did with the property.

In the same way, my over-all job as head of the Decartelization Branch was to try to get British, French and Soviet representatives to agree on the text of a law to prohibit the "excessive concentration of economic power" in Germany, while assembling a staff of lawyers, economists and investigators to make recommendations through General Draper to General Clay on any steps we might

think necessary. On matters of initiating reforms we were to follow the military rule that the man at the top took all the blame and had all the say. The written orders from Washington meant whatever the commanding general at each level said they meant. What he said, in turn, depended on what his staff furnished him as proposals to be approved or rejected. But when it came to criticism of orders from Washington, we discovered that army officers were protected by the "civilian" rights of "free speech" instead of being subject to the military formula that "orders is orders."

We soon found that the decartelization law negotiations were not the only ones in which violent divisions of opinion existed within the American headquarters. The same kind of thing had been happening to the arguments over the economic unification of Germany and the level of heavy industrial production. The physical plants of German industry, except for spectacular but superficial damage to the buildings, had come through the bombing and fighting very largely intact. After the fighting it was lack of transportation and coal that kept the plants closed. The United States Strategic Bombing Survey showed that the temporary stopping of production was quite different from "destruction." Actual destruction of physical plants had amounted to some 15 or 20 per cent of the expanded wartime capacity. The rest of the machines and equipment could operate if they had coal to burn and transport to bring raw materials.

Under the Potsdam Agreement as much of the coal as possible was to be fed into light or consumer-goods industries. These were the ones to be encouraged in postwar Germany, and the ones of which Germany had few enough to begin with. On the other hand, there was the heavy-industry concentration of the Ruhr that the industrialists of the 1920's had deliberately cut off from its former balance with the heavy industrial areas of French Lorraine. The proposal, then, was to take some of the heavy-industry plants out of the Ruhr, where they could not hope to have coal and iron ore for years to come. This excess equipment was to be used to restore heavy-industry areas in France, Belgium and other countries which had been the victims in Germany's economic war. The principle was clear, but the details had to be worked out.

The first steps in working out the details were the four-power negotiations that started in the Economic Directorate in the fall of 1945 and concluded with the Level of Industry Agreement of March 29, 1946. The path to this agreement was not strait and narrow. The American and British elements were working toward a restoration of the Ruhr as a center of economic power. Both elements brushed aside the German labor unions and joined forces with the industrialists. The Soviets preferred the political arena where numbers count and they might hope to gain support from organized labor, which was being so pointedly ignored by the Americans and British. The failure of the American and British elements to make any overtures to middle-of-the-road labor groups is still one of the unexplained phenomena of the occupation.

The French position was fairly clear. Even though the French had not themselves been a party to the Potsdam negotiations, they had a great deal to gain and nothing to lose by a straightforward execution of the part of the Potsdam Agreement that dealt with reparations and the level of German industry.

The British position was a little more complicated. The British held the Ruhr. At home Britain was short in raw-steel capacity. If they allowed steel production to rise in France and remain low in Germany, British experts felt that their chances of getting their hands on raw steel for the British processing industries would be remote. Whoever has raw steel — in this case it would be the French — wants to process it. If the British were to get new supplies of raw steel for their processing industries, they would have to build steel plants in Britain; or, since they were in control of the Ruhr, they could hold out for enough surplus steel capacity to supply their additional requirements, as well as German needs. Sir Percy Mills plugged for two things: a high rate of steel production, and authority for the zone commander, in this case the British commander, to interpret and carry out agreed four-power policies. There were to be no "international" commissions or controls if they could be avoided. International agreements on the level of generalities, yes. But international interpretation and applications, no.

The Soviet position was peculiar in another direction. The Russians wanted reparations out of Germany, either in the form of in-

dustrial plants or of finished products. They began packing and shipping factories almost as soon as the shooting stopped in 1945. But then trouble developed. Many of the factories proved useless in their new setting, which was an economic desert. The scorched-earth policy had left none of the satellite industries that are needed to supply special equipment and services to a big plant. A large part of I.G. Farben's "Leuna works," the synthetic-gasoline plant near Leipzig, was packed up and shipped eastward in August 1945. Before many months, however, the carloads of equipment from Leuna were being shipped back again and put into operation on the original site.

This situation led to a sharp disagreement. The Russians attempted to designate some plants as reparations, but operate them in their original location in Germany. The other powers held this to be a violation of the reparations policy. The reason given at first was that taking "reparations from current production" would leave a dangerously large number of industrial plants inside Germany. That it was a mistake to leave the Germans with a large industrial potential to pay reparations had been one of the great lessons of the other war. But by the end of 1946, the cry against reparations from current production was to be based not so much on the danger of industrial potential in Germany, as on the fact that it would subtract from the total goods available to the German population. That would force the United States and Britain to import materials into Germany at their own expense to help support the Germans.

Another point where Russian policy crossed with the others, and with British policy in particular, was in the matter of international control. The British and Russian forces had their respective reasons for wanting to retain independent authority to interpret agreed policy in their own zone of occupation. But, for other purposes, both also wanted "unification." A feud was inevitable over what kind of unification. The Russians wanted the political unification of a central German government. The western powers preferred the economic unification of industry and trade.

In the beginning, in 1945, the lines had not yet been drawn on the issue of "economic unification," which later became the chief bone of contention. It was only after the level of industry agreement that the Soviets began to insist they could not agree to make Germany one large free-trade area, without a corresponding agreement on a government for the whole of Germany; and the western powers said they could not agree to discuss a central government until trade barriers had been removed and Germany was functioning as a single economy.

The four-power arguments in the early stages of the occupation, beginning in the summer of 1945, left real recovery and reform on the sidelines. To get the political support of large landholders the occupying powers might abandon land reforms needed for agricultural recovery. To get the support of established industrialists, coal might be given to the politically most powerful. For the same reason, licenses to engage in business might be so allotted as to restrict new production, instead of expediting it. We knew that Germany was almost bound sooner or later to become a football. Once it did, recovery would follow the same lines as in the past. Therefore it was especially important to keep the issues clear; but the Americans at Berlin, especially on the economic side, dropped the ball, fumbled, dropped it again. Everything got very muddy.

The Potsdam Agreement had been in effect for two months when Dr. Don Humphrey, adviser in the Economics Division, circulated a memorandum dated October 15, 1945 in which he proposed that the intentions of the Potsdam directive should be reversed, that coal should be kept and used industrially in Germany instead of being furnished to countries like France, and that the greatest emphasis in German production should be on highly manufactured items like machinery. He said: "It is recognized that the claims of the nations importing coal are persuasive, and that *for the moment we are operating under a directive.* [Italics added.] Nevertheless, the point must be driven home that this decision is tantamount to subsidizing the coal-importing nations from the German economy, thereby forcing us, the Americans, to subsidize the German economy. Coal is, and during the next year will remain, the factor limiting production. It should therefore be used in the manner best calculated to limit our liabilities—that is, to balance Germany's foreign trade. This means that at the earliest possible moment, coal should be converted into the most valuable form for export. This probably is machinery."

The "moment" during which "we" were operating under the Potsdam directive soon passed, and in a short time it was fashionable to say that the economic decisions at Potsdam had "proven unworkable." Two years later, the press was reporting a remark by Dr. Humphrey at a meeting in Paris to the effect that the Potsdam Agreement was a "dead duck."

The "duck" had begun life as a very sick chicken. Early in the fall of 1945, even before Dr. Humphrey's memorandum, Dr. Calvin B. Hoover, Duke University economist, had been hired as an adviser by the Economics Division at Berlin. His assignment was to prepare specific proposals for reducing German heavy industry and building up the light industries. His report was to be used as a basis for establishing the American position on details during the four-power discussions then in progress on the level of German industry.

The report by Dr. Calvin Hoover, instead of showing how the economic readjustments required by the Potsdam Agreement could be carried out, argued that they were impossible. Looking at Germany alone, and largely disregarding effects on other European countries, the Calvin Hoover report urged restoration of Germany along the lines of its prewar and wartime economy, with a high degree of emphasis on heavy industry and the retention of coal and semifinished products inside Germany. Proposed coal exports to coal-consuming countries like Belgium and France were to be cut down and iron and steel production schedules in Germany boosted. The theory was that this would be the quickest way to get valuable exports out of Germany to exchange for food and raw material imports, thereby limiting American expenditures.

At that time no Marshall Plan was being discussed. Therefore, the presumption apparently was that delayed recovery in other parts of Europe would not add to the burdens of the American taxpayer, whereas the slightest delay in German recovery would entail added costs to be paid by the United States.

The United States ultimately took it on the chin both ways. The coal that was kept in Germany was allocated largely to rehabilitation of the heavy industries instead of producing exportable goods. As late as 1947 we were still finding glass factories and other light-industry establishments which were all set to produce for export, but which were still shut down for lack of coal. Coal and machinery, meanwhile, were being poured into "rehabilitation" of heavy-industry plants. The export program lagged behind estimates, requiring more and more dollars in food and raw materials from the United States. Later, when the Marshall Plan came along, the extra costs of delayed recovery in the other European countries which had been deprived of German coal also fell on the backs of American taxpayers.

When the Level of Industry Agreement was finally reached in March 1946, the British appeared to have lost their argument for a very large German iron and steel capacity. Germany was allowed to retain enough plants to produce 7,500,000 tons per year or about a third of the wartime output; but actual production was not to exceed 5,800,000 tons in any year without approval of the Control Council. However, even with the agreement signed, the argument did not stop. By July 1947, though the steel industry of the Ruhr was producing at the actual rate of about 2,500,000 tons a year, the United States and Britain agreed to raise the ceiling on production from the four-power agreed figure of 5,800,000 tons to a new figure of 10,700,000 tons per year. French protest held up the conclusion of this new agreement until three-power negotiations were undertaken in London, but finally the French had to capitulate. They got only the promise of a little more coal from Germany in the future, after German production had increased.

Throughout the time from March 1946 to the new jump in permissible steel production in this London agreement of 1947, a stream of American "experts" was brought to Germany on short visits to see the German economy at first hand, under the guidance of the Economics Division. The reports of these visitors echoed the conclusion that German recovery demanded greatly increased emphasis on heavy industries. In their reports the visitors frequently referred to the "proven impossibility" of something which no one had yet tried to do. With equal frequency they reported the "mounting chaos" that was supposed to have resulted from the ruthless

"Morgenthau Plan of deindustrialization." Other damage was alleged to have been done by drastic reforms and alterations that were never actually imposed upon the German economy. It became customary to refer to the urgent necessity for "reversing the former policy of destroying German industries."

These comments on Germany became standard fare in the United States within a year after the occupation began. At this point no steps had been taken to carry out an "antitrust" policy anywhere in our zone of Germany except for two cases: the seizure of plants and assets of I.G. Farbenindustrie; and, in February 1946, the appointment of a trustee to administer the coal wholesaling firms in our zone that had belonged to the big Ruhr collieries. Yet the impression was now being conveyed to the American public that the lag in Germany's recovery was to be ascribed not to German indifference or apathy, or to deliberate sabotage of recovery by the old management groups, evidence of which had been steadily accumulating, but to the decartelization program and the removal of Nazis from high positions in business management. With Heinrich Dinkelbach of United Steel running the iron and steel industry of the British zone; with Ernst Helmuth Vits of VGF running the synthetic textile program; with Hermann J. Abs of the Deutsche Bank moving up fast as a "financial adviser"; with Hugo Stinnes and the men of the coal syndicate being groomed for the expected bizonal coal authority; and with all the others "back again and better than ever," it was hard to discover which important Nazis were supposed to be missing.

Public impressions of what was happening in Germany changed swiftly from the time when reforms had to be delayed in the interest of recovery to the time when delayed recovery was blamed on the drastic reforms. Looking back, it is hard to fix the particular moment at which the transformation took place. If the German heavy industrial "fat man" had actually been reduced, when and how was it done?

CHAPTER 15

Sabotage

WHILE the Economics Division was beginning to complain of impediments to German recovery, any such remarks aimed in our direction were gratuitous. For a long time, as far as German combines were concerned, we had no authority to do more than plan steps for the future. When our plans were finally worked out, they took account of the need for a sound economic recovery and were approved in principle by General Clay. The only reorganization which had been sanctioned by a four-power agreement was that of I.G. Farben. While we waited for four-power agreement on a broad program of reorganization for other combines, or for General Clay's permission to proceed alone in our own zone, we concentrated our efforts on the Farben plants. The idea was to use the reorganization of this one giant as a proving ground for ways to handle the others; but eventually it stood out as the only industrial reorganization that our military government attempted — a dance of the skeletons in the army's "greatest show on earth."

Colonel Pillsbury, my predecessor as control officer for I.G. Farben, had established a Control Office at Griesheim, near Frankfurt, with a staff of thirty officers. To get ready for the first meeting of the four-power Committee of Control Officers in the last of January 1946, General Draper and I agreed that we should ask for a report from our I.G. Farben Control Office on the condition of Farben plants and assets in our zone, and on what, if anything, had already been done since the seizure of the properties on July 5, 1945. Several officers came up from Griesheim to prepare the report. We discussed the project first in General Draper's office before they went off with their papers and figures to write the story. I noticed

that Senator Kilgore's blast in the press on December 23, 1945 was still fresh in the minds of General Draper and the men from Griesheim. They were eager to make a good showing in the number of plants made available for reparations, or destroyed as primary war plants, and in the controls that were being maintained over the properties that remained.

We presented the finished report to the three other I.G. Farben control officers at the first meeting of the four-power committee, and furnished copies to the Economic Directorate. We also presented a tentative plan already prepared at Griesheim as a basis for the reorganization of the I.G. Farben complex into separate economic units.

Much of the report became inaccurate with the passage of time because it had been written in optimistic double meanings. Plants were listed as "declared available for reparations," which sounded like an accomplishment. Later many plants were withdrawn by the Industry Branch pending "further study" of Germany's needs, or they were included in General Clay's blanket order to halt reparations deliveries until the Russians agreed to economic unification of Germany. Plants listed "to be destroyed as war plants" were actually treated much less drastically. Parts which could be converted to some other use were retained and reopened. At Gendorf, for example, was a poison-gas plant which had used slave labor from Auschwitz and in turn had supplied both gas and candidates for the Auschwitz gas chambers. Part of the Gendorf complex was a plant producing ethylene glycol, an intermediate product in the manufacture of poison gas, but also used as an antifreeze. This was retained for peacetime use.

So with other parts of the war-built plants. Reinforced concrete bomb-resistant buildings which could serve as warehouses were saved. Shell-loading equipment that could be adapted to some other use was kept. Only the few buildings and the equipment that could not possibly be turned to some other purpose was blown up in a spectacular demonstration of our "determination to extirpate the German war machine, root and branch."

While much of this was explained as only good common sense — saving as much as possible from the wreckage — we found that more often than not a "bargain-basement" mentality was dictating the action. The German cellar was becoming cluttered with things that could be had cheaply and might come in handy some day.

On one of my first return trips to the Ruhr in February 1946, I found that an armor-plate mill at Haspe, designed to roll the heaviest sections, was being prepared with all its slow and ponderous bulk to roll thin sheets for transformers or for tin-plating. I knew from my own work in steel plants that this was a far cry from the efficiency of a high-speed continuous strip mill — which can not be converted, by the simple turn of a screw, into an armor-plate mill.

Without wasting time in argument with the industrial brains who were pawing through the German junk-pile looking for salvage, the four-power I.G. Farben Committee set up a working party to study the entire maze of Farben plants in all four zones. The working party was to find out which plants or groups of plants could be operated economically as separate units. The raw materials must be either self-contained in the unit or available on the open market; and the products must be salable. With those instructions, the working party got busy, and by January, 1947, we had four-power agreement designating twenty-one separate manufacturing units and seven mining and extractive units in the United States zone, employing over eighteen thousand workers, out of the complex of nonwar plants that had employed about thirty-five thousand. Within another six months, practically all the remaining plants had been grouped into a total of fifty separately operating units. At the same time, similar units were being carved out of the Farben properties in the other three zones.

We designated other working parties to line up questions on patents and trade-marks, on I.G. Farben's former stockholding in other firms, on international and domestic cartel agreements, and on the formerly centralized selling and accounting arrangements. We reached agreement on the American proposal that in each zone, pending final decisions establishing the new ownership of the separate units, the control officer might designate a trustee for each unit and transfer the legal ownership of the properties from the Allied Control Council to this trustee.

We knew these first steps had a great weakness. They left the physical and economic basis of the old I.G. Farben empire intact, except for the removal of common financing and selling, centralized accounting, and centralized direction from a single board of managers and supervisors. If German trustees could be found to operate the plants independently in good faith, and not under secret agreements to "co-ordinate" their activities through the ousted management, there was a chance that plant groups which formerly had concentrated on particular products or on intermediate raw materials would branch out and manufacture whatever products they could sell. In that way the old interdependence of plants and cross-shipping of intermediate products would be replaced by a new pattern of independent and possibly competing chemical industries. Such independent industries would be easier for single German states to control or to take over. But if the new trustees were stooges and stand-ins for the old guard, the accomplishments of this reorganization would be nil because the old ties would remain intact.

We knew that those of the old management who were not in jail still met secretly but regularly at Frankfurt and other places in the western zones and planned for the day when they could once more weave I.G. Farben back together. At one time the manager installed by the Industry Branch to run the big Farben plant at Höchst reported work stoppages and other production troubles which he blamed on our German custodian. Upon investigation we found that the manager himself was attending meetings of the ousted management in an abandoned store in Frankfurt and was building a bad production record to discredit the new setup. When I ordered the manager removed from the plant, the Industry Branch complained that we had taken away an experienced and indispensable operator. He stayed fired, however, and the plant continued to operate; but the ex-manager kept turning up at meetings of the chemical association for Greater Hesse, where the other German industrialists accorded him as much respect as formerly. There was no law to touch him or the association.

In the first year of the reorganization, the initial thirty "independent units" in the United States zone were operating on the whole successfully and some were even producing more than ever before, in addition to diversifying their output. Since the shortage of transportation would have made it difficult for these plants to operate in the old way, as interdependent units, we felt at least that our test-pattern was vindicated from the "recovery" side, however dubious and experimental it might be as a completed "reform."

While we were proceeding during 1946 with the I.G. Farben test, and also negotiating for the passage of a cartel and combine law, the Finance Division, headed by Jack Bennett of the Treasury Department, and later by Theodore H. Ball, also of the Treasury, commenced the reorganization of the big commercial banks. They ordered the German minister-president of each *Land* (state) government to appoint an independent custodian for the local assets and business of the branches of the Deutsche, Dresdner, and Commerz banks. The custodian was to pay no attention to former stockholders and managers of the banks and he was to give the new institution a new name having no similarity to the old one. It is interesting to note, however, that the present letterhead of the "Hessische Bank" has under it in dark letters, "formerly Deutsche Bank," and the "formerly" is so small as to be almost illegible.

Later a group corresponding to the Board of Governors of the Federal Reserve System was set up in the western zones, consisting of one representative from each of the eleven *Länder* and one chairman, to operate a "Federal Reserve Bank" known as the Bank Deutscher Länder.

Jack Bennett and Ted Ball met the same arguments that were put up by the British economic group and by our own Economics Division against reorganization of the big industrial combines. Since representatives of the "Big Six" banks, and especially of the "Big Three," had voted the majority of the proxies at stockholders' meetings of all the important industrial combines, the slashing of this function alone was expected to play havoc with the recovery of industry. Other evils from "drastic reorganization" of the banking function were cited in a running argument that lasted for over a year.

Both the I.G. Farben reorganization and the Finance Division's banking reorganization provided some contrast with the complete absence of steps by the Economics Division under the same general

directives. At first, there were press releases claiming progress in carrying out directed changes. On February 2, 1946, a dispatch from Berlin reported:

> Some progress has been made in converting Germany to an agricultural and light industry economy, said Brigadier General William H. Draper, Jr., chief of the American Economics Division, who emphasized that there was general agreement on that plan.
>
> He explained that Germany's future industrial and economic pattern was being drawn for a population of 66,500,000. On that basis, he said, the nation will need large imports of food and raw materials to maintain a minimum standard of living.
>
> General agreement, he continued, had been reached on the types of German exports — coal, coke, electrical equipment, leather goods, beer, wines, spirits, toys, musical instruments, textiles and apparel — to take the place of the heavy industrial products which formed most of Germany's prewar exports.

General Draper's reference to the "prewar" German exports as having been predominantly in the fields of heavy industry was strictly true only of exports in the *immediate* prewar years while German heavy industry was being deliberately overbuilt.

The wonder is that neither the British nor the Americans continued this progress in converting Germany toward a light-industry economy which General Draper cited in his press statement. If the economics authorities had steered away from heavy demands on transportation and oil, and recognized that the coal shortage was the main factor limiting production, the way would have been open for General Clay to write his own ticket. With a green light and a pile of coal for the light industries, and yellow or red lights for the others as indicated, there was no good reason for failing to get results. This was the situation when the four powers reached their Level of Industry Agreement on March 29, 1946.

On April 3, I was forced to leave for the United States to recruit a staff for my Decartelization Branch. Practically all the experienced investigators had returned to the United States following the deadlock with the British and the wrangles between the Cartels Division and the Economics Division. At Berlin, my "staff" had dwindled to one man with antitrust experience, Creighton R. Coleman.

In view of the press reports of our troubles at Berlin, people with cartel experience were refusing to accept jobs with us on the strength of cabled appeals.

At Washington, I worked at one desk in the Pentagon recruiting for the Decartelization Branch while down the hall in another office Frederick L. Devereux, General Draper's deputy, interviewed candidates for the Industry and Trade and Commerce branches of the Economics Division. As head of the Industry Branch, Mr. Devereux selected Colonel Lawrence Wilkinson, who had had some prior experience in Germany as representative of American banks which had underwritten loans to Germany. Colonel Wilkinson was to replace Colonel James Boyd, who was returning to the United States to become, eventually, director of the Bureau of Mines.

Most of the new men recruited at Washington were permitted to move their families and household goods to Germany. The regulations were amended at the same time to allow employees already in Germany to send for their families. Before I flew back to Berlin, I saw my own wife and two children aboard an army transport. The prospects seemed good for a long occupation, during which arguments over policy could be settled and constructive results accomplished.

On my return to Berlin on June 24, 1946, after a very difficult time rounding up some forty lawyers, economists, investigators and secretaries, most of them with outstanding records in public service, Creighton Coleman met me with news that was like a sudden blast of cold air. The replacements Mr. Devereux had selected for the Industry and Trade and Commerce branches had been coming in with only the barest briefing on what official policy was supposed to be. Almost with one accord they were blaming the visibly slow pace of German recovery on "reforms." They were condemning the Trading with the Enemy Act, which prevented unrestricted direct dealings between American and German businessmen; the denazification program, which they said was denying German industry the services of the "best management"; the decartelization program, which they claimed would "break up" the efficient industries into unmanageable little fragments. They assailed the proposal to open up the patent pools of the German combines for use by all German industries on the ground it would discourage new inventions and the disclosure of new technology.

Considerably disturbed by the swiftness of these moves, I went to General Clay to report on the Washington trip. He said that the decartelization program had lost ground considerably in my absence. Congress was becoming economy-minded, the spotlight was turning to "recovery" and "saving the American taxpayers' money." In his opinion we would have to move rapidly, because the pressure to do nothing at all might be expected to increase. Several visitors from the United States, including some congressmen, had gone home with the impression that the decartelization program was a combination of the Morgenthau Plan for deindustrializing Germany and a scheme to break up the remaining industries into thousands of unrelated plants.

It did not take long after I left General Clay's office to discover at least part of the reason for the strange tales being carried back to the United States. That very evening I was asked to attend a dinner sponsored by General Draper and the Economics Division for a group of six visiting American industrialists who had come to Europe for a meeting of the International Chamber of Commerce at Paris. They were just rounding out two days spent at Berlin with the Economics Division in a "survey of the economic situation." After dinner they were to hear brief summaries from two branches which had not been heard from in the earlier discussions.

To preface the two summaries, General Draper explained his view that the great and immediate need was recovery, to save the American taxpayers' money. Of the two less important branches of his division, one, Restitution, was necessary to correct certain evils of the Nazi regime, regardless of what the cost might be. The restitution of looted property was not expected to retard recovery unduly. The other branch, Decartelization, was concerned with certain changes that might have to be made in the future although for the present the cartels had been "put out of action" by the war. At the end of the proceedings, as the guests twisted in their chairs and finished their cigars, I had five minutes to present a picture of the aims and program of my branch.

The six distinguished guests on this occasion included Philip D.

Reed, chairman of the board of General Electric and head of the American delegation to the International Chamber of Commerce; Robert R. Wason, president, and Robert Gaylord, chairman of the executive committee, of the National Association of Manufacturers; John Abbink, chairman of the National Foreign Trade Council; Randolph Burgess, vice chairman of the National City Bank of New York; and Benjamin H. Beckhart, economist of the Chase National Bank. Several of the visitors were friendly as the dinner broke up, said the National Association of Manufacturers was of course on record as opposing cartels, but they were not sure that "trust busting" on a large scale was called for in Germany "at the present time," and it might do a great deal of harm. I had spent my five minutes describing how a body of less than a hundred men had been able to deliver the German economy to the Nazis bound hand and foot, and how we proposed to establish a less centralized control over German industry. Yet it was clear that the net impression of the guests at the end of two days was a stereotyped impression that we were "trust busting" indiscriminately among struggling businessmen who were already prostrated by the war.

This was no isolated case. Throughout the rest of the summer, when visiting groups arrived from the United States, we found again and again that the Decartelization Branch was allocated a brief period of time toward the end of each program to make a statement, and always after an adverse context had been built up by other speakers from the Economics Division. The previous speakers, nominally allocated ten or fifteen minutes, often ran on for twenty or twenty-five; but invariably General Draper, or whichever of his deputies happened to be in charge of the meeting, would introduce the subject of decartelization as if it were an afterthought, emphasize that it was not important at the present time, and heavily underscore the point that the talk would be *very short.*

We decided to direct our attention first toward clearing up the four-power negotiations for a decartelization law. The American position had been confused on this matter ever since the squabbles of October and November 1945. If we were being misunderstood, our cue was to get all issues clear and our position straight on the

record as fast as possible. Once we knew the exact points of difference with the French, British and Russians, we could go to General Clay with concrete proposals for a settlement of the stalemate.

During July we had an uphill fight in the four-power committee to define the points of agreement and disagreement. The Soviet delegation occupied the chair in each committee and directorate for that month, under the rotation system. Our chairman was Sergei Bessonov, who had served a short prison term after the Moscow trials in 1938, and who was proceeding carefully and cautiously on each point. It took a little over four weeks of patient statement and restatement of the American position to find whether or not the differences with the others were fundamental.

At our second meeting in August, we at last had three-way agreement on a draft of a law which in one section defined the kinds of cartel and monopoly practices which were to be prohibited. In another section, the draft law set out three ways of measuring "large size" in an industrial combine: by percentage of control over the industry, by total value of its plants and other assets, and by total number of employees. It was proposed that a combine should be permitted to control a greater percentage of an industry, or a greater aggregate of properties, or to employ a greater number of workers only if a four-power commission or the Control Council found that the exemption was necessary.

Though the British member of the committee, Brigadier Caton C. Oxborrow, still had to disagree with three points, we had unanimous agreement on a statement of those points. The same agreement on the exact points in dispute prevailed in the Economic Directorate, where our paper had to be approved before going to the Co-ordinating Committee. The British could not agree to any explicit definition or prohibition of economic practices fostering monopoly. They could not agree to adopt any standard of size that would raise a legal presumption of "concentration." They could not agree to give a four-power agency the authority to judge cases and issue binding decisions, but only to make recommendations to the commanders of the respective zones.

On Saturday, August 3, 1946, before the division directors' meeting, I went to General Clay's office to report the agreement with the British on points in dispute and with the French and Russians on the text of a law. I took with me a three-page summary of a program to be carried out in our own zone while we went ahead and worked for four-power agreement. This proposal was based on a statement of policy prepared at Washington by the Interdepartmental Committee on Cartels and Monopolies and approved by the President's Executive Committee on Economic Foreign Policy. My memorandum pointed out that of the eighty-five outstanding German industrial combines, twenty-seven had their head office or principal place of business in our zone. These could be reorganized from the top down, while individual plant groups belonging to combines with head offices in other zones could in most cases be treated as independent enterprises and severed from their "foreign" parent corporations.

The specific steps of the program suggested by the President's Executive Committee were as follows:

> a. *Elimination of Holding Companies.* Wherever companies have been held together by stock ownership, all top holding companies and all intermediate concerns which are merely holding companies should be dissolved. All operating companies should be required to divest themselves of any securities held in other companies, and should be confined to ownership and operation of physical plants. Future stock acquisitions by such concerns should be forbidden.
>
> Mergers of any parts of divested or dissolved companies should be prohibited unless permission is granted after an affirmative showing of public interest. Transfers or purchases of physical assets among remaining companies should be similarly prohibited, to prevent the effect of mergers through transfers of assets.
>
> b. *Elimination of Interlocking Directorates.* To prevent combines from being held together through common top personnel, all officers and directors of companies included in prohibited combines should be required to surrender all their offices and directorships except those in the one company in which they are principally concerned.
>
> c. *Elimination of Contractual Ties.* Contractual and intercompany service arrangements having the effect of maintaining common management should be canceled. Specifically, arrangements for performance of central office services, central accounting, central finance, interchange of personnel, exclusive agencies, and preferential or exclusive trading rights, should be prohibited.
>
> d. *Elimination of Patent Restrictions.* Enterprises which have been members or parts of prohibited combines should be required to grant nondiscriminatory licenses to all applicants under patents which they now hold and under licenses which give them rights to sublicense. They should surrender exclusive or preferential rights under licenses granted by other enterprises. They should be required, for a considerable period of transition, to make available to all comers, on nondiscriminatory terms, any technology or patent rights which they make available to other concerns which have been part of the same combine.
>
> e. *Elimination of Large Single Enterprises.* Single operating companies which, standing alone, still are so large as to fall within the "mandatory" size standards set out in the draft law, should be separated into technically and economically operable independent units. Parts of a company should be separated from one another if they are in unrelated industries, if they have had a separate corporate existence within the past ten years, if they were acquired under "Aryanization" or other National Socialist economic policies, or if they are so separated from one another physically and technologically that they do not in fact have a common operating management.

After reading this paper and discussing it, General Clay wrote across the top, "Approved in principle — LDC." He then told me to inform the British, French and Russian representatives at our next meeting that, pending four-power agreement, General Clay was going to issue a decartelization law for the United States zone. If any of the others wanted to follow suit, we would be glad to co-operate with them in enforcement. Later, at the directors' meeting, General Clay repeated his instructions to me to make them a matter of record.

It was my hope, though not necessarily my expectation, that this restatement of the way in which we proposed to approach the problem of economic decentralization might put a stop to some of the misunderstanding of our purposes. Much of our opposition from old hands and newcomers in the Economics Division seemed to come from ignorance of the official policies and of the many findings that lay behind those policies. If we at least had a military government law on the subject, possibly the arguments could be confined to the issues and findings in specific cases.

Getting the law issued was another matter. First, Ambassador Robert D. Murphy, the Political Adviser, questioned General Clay's decision to act without the agreement of the British. General Clay replied with a note saying that if the Americans, French and Russians reorganized the combines and broke up the restraints of trade and monopoly practices in their zones, and left the British alone with their cartels, that in itself would to some extent end the centralized controls over German industry. In addition, it might force the British to act, he said. Actually, that is what did happen in the case of the banks, some months later, when the British found that their opposition was not going to delay the Finance Division's decentralization of the banks in our zone.

We prepared a draft law, together with an appendix listing those of the eighty-five major combines which had properties and assets in the United States zone. Within a week after General Clay gave his order we had circulated the draft, together with the listing of the combines, to all interested branches of the Economics Division. In all cases where other branches of the Economics Division did not concur in the listing of a given combine, we discussed the particular case with the branch or section chief concerned and, in the end, either got concurrence or else dropped the combine from our list in order to eliminate delays in getting the law to General Clay for signature. After nearly a month of delays caused by objections from the Economics Division and from some other divisions which wanted special exemptions for German activities under their control, the law was ready to be presented to General Clay. All that was needed was the signature of the director of the Economics Division.

In the first part of September 1946, before signing the draft of the law General Draper returned briefly to the United States for discussions of the proposed bizonal merger agreement with the British. Upon his return to Berlin on the evening of Friday, September 13, General Draper called me from Tempelhof, just after

his plane arrived. He said that he had talked about the decartelization law with William L. Clayton, then Assistant Secretary of State for Economic Affairs. These talks, he said, had revealed a shift of position at Washington on the subject of a "mandatory" law. Also, there was some doubt in the State Department about going ahead without the British.

The following morning, Saturday, September 14, 1946, General Clay called me to his office. Among other things he asked how we were coming with the decartelization law for the United States zone. He said he had instructed me to prepare such a law more than a month before. How long did it take to change a few words? Actually it took from August 3, 1946 to February 12, 1947 to push these few words through the machinery of military staff procedure that General Clay had set up, but now I merely reported my telephone conversation of the preceding evening. General Draper felt that in view of the possible shift of policy in Washington, we should hold up the issuance of the law until we had tried once more to get the French and Russians, as well as the British, to agree to a law instead of proceeding unilaterally in our zone. General Clay's face clouded up and his speech became even more controlled and precise than usual. He stated that his instructions from Washington had been that the law must be "mandatory." He would not alter his position unless Washington put the order in writing. If he did receive a written order he would make a vigorous protest against the State Department's shifting of the American position while we were in the midst of dealing with the situation that had arisen under the original policy. He went on to say that he was not certain that someone from the Economics Division had not done a certain amount of selling of the "nonmandatory" position in Washington.

I agreed that the position which General Draper had reported the previous evening was precisely the position that the Economics Division had been trying to sell since October 1945, when the confusing issue of a "nonmandatory" law as against a "mandatory" law first came up. I repeated again, as on several earlier occasions, that I was finding my double position as a "division director" and a branch chief intolerable, since I knew what the official policy was and had been trying to carry it out. He asked me to bring up the question of issuing the law later that morning at the division directors' meeting so that he could make his position once more perfectly clear. So, at the meeting I said with a straight face that recent developments had led to some doubt about whether we should go ahead with the unilateral law for our zone alone; whereupon, with General Draper looking on, General Clay laced into me for delaying after he had given his specific instructions. This slightly conspiratorial way of saving the surface was disturbing.

Meanwhile there were rumors from Washington of a possible Senate investigation of military government. Several officers returning from Germany had complained to the former "Truman Committee," now headed by Senator Kilgore, that important policies were not being carried out. The rising tension that followed the rumors had no visible effect, however, on the Economics Division's "briefings" of visiting delegations from the United States. What at first had appeared as off-the-cuff statements by men new to their jobs began to look more like an established routine. The issue over such "briefings" reached a climax after a session with a group of visiting editors from the United States, held in the Economics building on October 9, 1946. Peter V. Martin, deputy director of the Economics Division, was in charge of the meeting. He introduced Colonel Wilkinson, as chief of the Industry Branch, to make a statement. Colonel Wilkinson repeated his favorite theme that the denazification and the decartelization programs, which he often confused with one another, were responsible for delaying German economic recovery.

This time Colonel Wilkinson waxed poetic. He said that in trying both to help Germany recover and to get rid of Nazi management and the centralized controls of the cartels and combines, we were "pulling a man up by the hand while we kept one foot on his neck." He went on to assert that, "as everyone knows," in an economy of scarcity there must be highly centralized controls "to avoid wastage of materials and manpower." Only a rich country, like the United States, could afford to waste materials, manpower, and plant capacity on an "antitrust" policy.

At least we were getting close to a clear statement of how the new crop of administrators viewed the German economy. I thought

of the intercepted telephone conversation, reported two weeks earlier, between a German official at Stuttgart and one at Munich. They were agreeing on a new method of reporting production figures so as to give a "more pessimistic picture," and thereby save plants from being taken as reparations. Now we were being told that the men who had had undisputed control of the German economy even under the Weimar Republic, and had run it so far off the road that only a war and an organized looting program could save it, were "indispensable." Shades of "Great Gustav" and the trouble Albert Speer had getting the Krupps and others to bend to the needs of their own war program!

On the morning of October 10 I went to General Clay, told him about the "briefing" of the editors and publishers, and asked to have the Decartelization Branch removed from the Economics Division and restored to its original status as a functional division of military government. I pointed out that we could not hope to see our program represented accurately to the outside world so long as the Economics Division controlled what was said about it. If this routine occurred once more I would have to fight back regardless of how spectacular the "briefing" might become. I could no longer remain silent and dutifully "subordinate" if such statements were made in my presence.

We had to expect a swing of the pendulum, General Clay replied. It might have to swing even further away from the original objectives of the occupation before any backswing could be hoped for. He asked me to stay in the Economics Division while he studied the matter. With a senatorial investigation possibly in the offing he did not want to shift a major unit in such a way as to imply criticism of the Economics Division. In the meantime, to deal with the immediate issue, he called in his secretary and dictated this memorandum to General Draper:

> It has come to my attention that at a meeting of editors visiting from the United States, statements were made to the effect that the revival of economy in Germany was made more difficult (a) by denazification and (b) by decartelization, thereby indicating that two major policy objectives of the United States were at least in part responsible for economic conditions in Germany today.

As you know, I have never attempted to restrict anyone's personal views or the expression of these views as personal views. However, in officially presenting OMGUS policy to representatives from the United States, it does not seem quite fair to me to express personal views.

The extent to which denazification has affected the revival of German economy is a matter of opinion. I am still of the view which I held from the beginning that the denazification program has affected the labor groups and lesser employees so favorably as to have a beneficial rather than a harmful effect. I am sure that the failure to have denazified industry would have resulted in a battle between management and labor which would have been disastrous to all of our objectives. I can not agree or accept a conclusion that denazification has had a harmful effect on the German economy.

The same applies equally to decartelization. Actually, our decartelization program has not progressed sufficiently as yet to have any real effect on the German economy, as the physical condition of industry has in itself prevented cartel actions of any magnitude during the past year and a half. I am convinced, however, that the re-creation of small businesses in Germany will do more to revive its economy and to provide a far more satisfied population than in the regrowth of cartels which, in many instances with the government support, were able to dictate their own terms to their customers.

It seems to me that a lukewarm attitude toward decartelization is certain to develop if we begin to preach that decartelization will stifle German economy. As you know, many sincere people believe that the foundation of free enterprise in America rests in small business, particularly where ownership and management are combined to work closely with employees. While I am not attempting to carry a brief for small business against big business in the United States, I am certain that the revival of democracy in Germany is dependent on our ability to develop an economy which is not controlled by a handful of banks and holding companies.

I would appreciate it if you would make this policy fully understood as representing the official view of OMGUS.

The following Saturday, October 12, 1946, at the meeting of division directors, General Clay abandoned his usual procedure of calling for progress reports from all directors and instead invited "gripes" or criticisms from all of us in turn as we sat around the table. General Draper, whose turn came third on the list, stated that his first "gripe" was decartelization. He singled out the policy instructions from the State Department that had to do with limiting the "size" of the chains of companies kept under one management. "Germany in the accredited world markets, which it is going to have to enter, has got to have the opportunity to have efficient industrial organization; and where that requires sizable industry or plants, that should be permitted," he said.

General Clay had previously said that he would withhold comment on particular complaints until everyone had been heard. But at this point he interrupted the proceedings. With his black eyes flashing, he said: "I don't believe that we can accomplish our purpose without striking out the large corporations in Germany. The conduct of those existing in the past condemns them. I personally am fully in sympathy with decartelization based on size until we have destroyed conditions which did exist in Germany, accompanied by an antitrust law that will prevent the most harmful effects of cartelization." He went on to remind General Draper of his duty as an officer, regardless of his personal opinions, to adhere strictly to policies which were fixed by official statements from Washington.

Clearly we were talking more and more at cross-purposes with the critics who spoke always of our "breaking up" industries, trying to establish "small business," and setting up a "wasteful and inefficient" German economic system. Actually, men like General Draper were right when they said the war had "broken up" the combines, in the sense that the operation of their plants was now decentralized. With Germany divided into four zones and Berlin an island one hundred and twenty-five miles inside the Soviet zone, how could the management of Siemens & Halske at Berlin really supervise the work of hundreds of subsidiary corporations located all over Germany? How could men in the Haniel family's top holding company, Good Hope, at Nürnberg, really oversee the operations of steel plants at Oberhausen in the Ruhr, coal mines near Dortmund, river shipping companies on the Rhine, and machinery and diesel engine works in Bavaria? We were not interfering with production. We simply wanted to make the operation of the separate plants legally independent, so that the old management would not be able later to pull everything together on the old basis by a simple stroke of a pen.

The "concentration of power" we were talking about was a form of over-all economic planning, carried on privately, out of sight, by the kind of men who had made up the "Himmler Circle." We were not talking about the way even "mass production" business is supposed to be carried on in the United States. We decided to do what we could to put the discussion in a new light, with attention focused on German business as we had found it. We put part of our growing staff to work on a summary of all that we had learned about Germany's cartels and combines.

CHAPTER 16

The Christmas-tree Economy

WE wanted to lay down side by side our picture of the cartel and combine-ridden German system, and the guidelines Washington had provided to help military government deal with the problem. Beside these, on the table, we wanted to lay the new crop of ideas about the need for keeping the "old experienced management," the need for centralizing management, and the other conditions that some people were now considering essential to Germany recovery. How did the new ideas square with actual conditions in Germany? Where the Washington policies were not being followed, were the substitutes actually contributing to a more orderly and speedy recovery, or to security against future German troublemaking? Since some of our colleagues at Berlin found the official policies unworkable, what kind of economic ideas and developments did they find acceptable? What were they doing?

We began to pay closer attention to some of the day-to-day problems that came up, and the action that the Economics Division took to meet them. Were there some difficulties which Washington had not foreseen and which were forcing military government to improvise?

The Netherlands government, in a letter dated July 10, 1946, requested military government to allow a German, Dr. Alexander Kreuter, to visit The Hague for three weeks to take part in discussions of economic and financial problems involving important interests of the Netherlands. The letter said that Dr. Kreuter had been a trustee of various interests of the Netherlands government since 1921 and had carried out his duties with great care and loyalty. Such a request had to be passed upon by the Combined Travel Board made up of military government representatives of the United States, Britain and France to determine whether the request would jeopardize any of the goals of the occupation. The Combined Travel Board asked the opinion of the Economics Division, because Dr. Kreuter was serving as a German consultant in the office of the director of the division. The Economics Division found no reason for denying the request of the Netherlands government, and the Board issued the necessary exit permit.

Though the purpose of Dr. Kreuter's visit was to discuss both economic and financial problems, the Finance Division did not learn of the trip until after Dr. Kreuter had left. Jack Bennett, director of the Finance Division, had previously raised a question about the military government employment of Dr. Kreuter, who was listed in the records of the SS as a contributing member. Dr. Kreuter claimed his connection with the storm trooper organization had been purely nominal and for business reasons only. Bennett asked the Visitors' Bureau to put a stop order on further travel abroad by this particular consultant until his record had been cleared up.

During the German occupation of western Europe, Dr. Kreuter had been busy not only as a trustee of various Dutch properties in Germany and the occupied countries, but had operated with considerable latitude throughout Germany and German-occupied territory on other financial affairs. He had been manager of the German branch of the French collaborationist bank, Worms et Cie. He had also been for many years head of the Deutsche Kredit-Sicherung K.G., or German Credit and Investment Corporation, which had been set up in the 1920's with the help of a loan of ten million dollars from American investors, floated through Dillon, Read & Company. He had likewise headed the corresponding American firm, the German Credit and Investment Corporation of New Jersey. Another officer of the latter firm had been the Secretary-Treasurer of Dillon, Read, William H. Draper, Jr., whom Dr. Kreuter was now serving as a consultant.

Dr. Kreuter had been very busy during the war. In the spring of 1942, when persons in the occupied territories still considered a German victory likely, a group representing French, German and

American business interests, operating through Vichy in unoccupied France, had formed a syndicate to engage in banking operations in German-occupied Europe. This syndicate, the Société de Crédit Intercontinental, combined American, French and German capital and banking personnel in Europe.

The French group, headed by the Banque de l'Indochine, included the investment bank of the Schneider-Creusot armaments interests and the French insurance syndicate. The American group included the French subsidaries of Ford, the International Business Machines Corporation, the Corn Products Refining Company and some others. The German group was headed by Dr. Kreuter of the *Deutsche Kredit-Sicherung* K.G.

According to the plans, the chairman of the board of directors was to be General Count Adalbert de Chambrun, father of Count René de Chambrun, Laval's son-in-law. The board of managers was to include, in addition to Dr. Kreuter: Seymour Weller, nephew of Clarence Dillon, who had been acting as Dillon, Read's French representative; the Marquis Gabriel de Mun, former manager of the Paris office of the National City Bank of New York; and several representatives of the French banking and armaments firms. The legal department was to be managed by François Monahan, formerly with the Dulles law firm, Sullivan & Cromwell, and a business associate of Count René de Chambrun.

The rather ambitious plans of this new banking syndicate had been considerably curtailed after a storm of protest when a United Press correspondent in Vichy cabled back a description of the project in a dispatch to his papers in the United States.

A few weeks after Dr. Kreuter returned from his trip of July 1946 to The Hague another request was made for an exit permit. This time the request was turned down by the Visitors' Bureau. In a few days a trio of Dutch officials appeared at the office of Ted Ball, deputy director of the Finance Division, to ask why the exit permit had been blocked. They were told of the unanswered questions about Dr. Kreuter's SS contributions and other collaborationist activities. The three men left, but were back the next day to visit Jack Bennett on the same matter. Ball and two of his staff joined in the discussion. The Dutch officials wanted to know first what was the relation between the Finance Division and the Economics Division. Then they pointed out to Bennett and Ball that there were also certain American interests involved in the matters being discussed in the Netherlands.

Bennett replied that the Finance Division and the Economics Division were separate and co-ordinate organizations each reporting directly to General Clay. He went on to tell the gentlemen from the Netherlands that all of the military government were representatives of the government of the United States, rather than of particular "American interests." He cited the questions about Dr. Kreuter's record and suggested that they report them to the Netherlands government. If the Netherlands government wanted to renew the request after being informed of the reasons why it had been turned down, the question could be discussed further. The request was never renewed.

As we counted the number of such vaguely defined projects that occupied much of the daily routine, the Economics Division showed few signs of having a consistent plan for carrying out the objectives of the occupation. Instead there was a great deal of improvisation that followed the formula, "Here's good old Henry! What can we do for Henry and what can Henry do for us?"

On June 30, 1946, an announcement had been made at Berlin that certain restrictions on travel into Germany were being relaxed. Selected representatives of American firms which owned factories and property in Germany would be allowed to visit Germany for limited periods to make an inspection, though not to engage in direct business transactions. Throughout the war, an organization known as the Foreign Property Holders' Protective Association, representing American firms with industrial plants in Germany, Japan and enemy-occupied territory, had kept a delegation at Washington to confer with the army's Civil Affairs Division on the treatment of their overseas interests. The new rule of June 30 was in line with the recommendation of this and like groups. The Economics Division complied with the new rule by setting up a special office under a lawyer named Frank Fritts, whose job was to expedite clearances for such visits and to see that accommodations were made available.

In the absence of an agreed policy the trouble in admitting some businessmen but excluding others was not that those who came in would be crooks, but that the economic design that emerged in Germany might be full of improvisations.

One of the earliest men to come in on an inspection trip was Mr. Gordon Kern, vice president of the International Telephone and Telegraph Corporation, owner of a group of corporations which together formed the third largest electrical combine in Germany, ranking next to Siemens and A.E.G. The I.T. & T. group included principally the Standard Elektrizitäts-Gesellschaft, Mix & Genest A.G., and C. Lorenz A.G. The chairman of the board in all three was Gerhardt A. Westrick, von Ribbentrop's "unsuccessful" propagandist. He had protected the companies from seizure by German authorities by turning the top management over to SS leaders and other Nazi Party members. These men had made sure that all the companies contributed regularly to the Himmler Fund through the confidential account "S" maintained by Baron von Schröder at Cologne.

As early as 1938, with the approval of the American parent company in New York, one of the German subsidiaries, C. Lorenz, had acquired a 25 per cent interest in the Focke-Wulf military aircraft company. Throughout 1938 and 1939, the German company laid out large sums in plant expansion to take on advance orders for armaments from the Nazi government. Before the war actually started, Colonel Sosthenes Behn, then head of the New York corporation, had given Westrick general power of attorney to control the American shares in the German subsidiaries. Before the fall of France, Westrick had been given the additional power of attorney to take control of other I.T. & T. companies in the rest of Europe wherever German troops should move in.

Though Mr. Kern came in at first on a thirty-day permit, he stayed on with extensions from month to month. His activities rapidly broadened beyond "inspection" of the condition of the company's properties. Before long he had the Lorenz factory operating on a contract with the Army Signal Corps to supply repeater tubes for the long-distance telephone circuits of the American zone. When Washington cabled a query about the length of Mr. Kern's stay, the reply was that he was managing a plant supplying services considered essential to the occupation forces. Somewhat later, his activities broadened still further. We received from the postal censorship a copy of a letter written by a German patent lawyer in Westphalia to the patent attorney of an I.T. & T. subsidiary in New York. According to the letter, Kern had promised to arrange military permission for the German lawyer to go to Switzerland to discuss the "patent situation" with the I.T. & T. subsidiary in Switzerland. This much was hearsay. But a few days later a request sponsored by Mr. Kern went to the Combined Travel Board asking permission for the Westphalian attorney, who was described as old and in ill health, to make a brief visit to Switzerland to recuperate. At this point, representatives of the Decartelization Branch and the Finance Division demanded that Mr. Kern's permit to remain in Germany be canceled; but the Economics Division decided instead merely to caution him about observing the rules.

We objected not only because an American firm was "doing business" on a preferential basis, while competitors were excluded — the presence of competitors is often better than police supervision and censorship — but also because under the Potsdam Agreement, radio and electronic equipment manufacture was to be eliminated from Germany as soon as German exports of other materials were enough to pay for imports of this kind of product. To make complicated items of these types, it is not only necessary for the factory itself to be revived, but a number of "feeder" industries, tool and die shops, and other satellites also have to be rebuilt. Many of these require expensive raw-material imports. Granted that the Signal Corps needed repeater tubes, was this way of acquiring them part of a coherent and well-conceived program? Or had the historical accident of an American firm's interest contributed to the revival of this plant in preference to glass factories, leather works, or other light industries?

Preferences in reopening plants were not the only visible signs of "planless planning." We had been hearing a lot about the superior efficiency and technological skill of the "well-established" firms and their experienced management. Early in 1946 General Clay had insisted that German chemists must be put to work to

produce penicillin for the German public-health services in order to cut down on expensive imports. The Industry Branch quickly picked the biggest chemical plant in our zone, the I.G. Farben works at Höchst. They turned over to the Farben chemists all the available descriptions of American penicillin production methods.

After six months the Höchst chemists were still fumbling around. General Clay was becoming more and more acid in his comments, and the Industry Branch sent a technical team to investigate the delays. They came back with a report that new funds would be needed to build extensions to the Höchst plant before quantity manufacture of penicillin could get under way. The Industry Branch then asked me, as I.G. Farben control officer, to negotiate a four-power agreement that would allow me to turn over the equivalent of a half million dollars out of the I.G. Farben funds for preliminary plant expansions, with the expectation of turning over about ten million more before the project was finished.

At this point we decided to make some inquiries of our own. We were already having trouble with the French control officer, Colonel J. J. Franck. He was insisting that I should agree to turn over twenty million dollars in Farben funds for rebuilding the synthetic rubber facilities at Ludwigshafen, even before any fundamental agreements had been reached on plans to prevent I.G. Farben from being woven back together. If there were any reasonable alternatives it was hardly the time to open the dikes and start pouring out the equivalent of two hundred million dollars which I held in impounded funds.

What we found was that the German managers at Höchst, besides failing to find the answers to the technical problems, were sitting on the American information and refusing to allow technicians from other German chemical companies to see it. The Höchst managers wanted to keep the information as a "trade secret." They had also demanded from the Industry Branch the assurance that, if they did succeed in producing penicillin in quantity, they would be given a monopoly of German production. In the meantime, in order to establish themselves in the market, they even wanted to sell American-made penicillin under the

Höchst label. Otherwise, they said, the penicillin project would not be a commercially attractive venture.

It was not nearly so strange to us that the German management should have looked at the operation in this way, as that these facts, which we found confirmed in the report of the Industry Branch, should have been accepted without comment by military government officers. I refused to release any funds under these circumstances and Colonel Wilkinson took the issue to General Clay. General Clay, too, challenged me, "If you were a German businessman, wouldn't you do the same thing?" However, he did not order me to release any funds.

The penicillin problem was still unsolved early in September 1946 when a Lieutenant Colonel W. E. Ryan came to my office. He had just been assigned, he said, to the Industry Branch. He had been connected with the Heyden Chemical Corporation in the United States. The president of Heyden, Mr. Bernard R. Armour, he said, was interested in acquiring some I.G. Farben plants in Germany, including the Höchst plant, to add to the chain of chemical properties which his group had been buying in the United States. These latter had included the purchase from the Alien Property Custodian of the controlling interests in American Potash and Chemical Corporation, the Schering Corporation, the Ore and Chemical Corporation, and the Pembroke Chemical Corporation, all of which had been American subsidiaries of German firms.

Colonel Ryan had with him copies of correspondence between Mr. Armour and General Draper covering a proposed arrangement under which the Heyden firm would take charge of the project and would supply its penicillin expert, Dr. Gregory Stragnell, formerly of the German Schering firm, to supervise the work at Höchst.

The Heyden Chemical Corporation itself had been founded in 1925 as an American subsidiary of the Chemische Fabrik von Heyden A.G. of Radebeul, near Dresden, Germany. The German interest in the company had been seized by the Alien Property Custodian and the Armour group was now in control under an arrangement worked out with the Custodian. The Treasury Department, as well as the Alien Property Litigation Section of the Department of Justice, had been vigorously opposed to the Custodian's disposal of the Heyden and Schering properties, especially because men like Dr. Stragnell, who had had close prewar connections with Schering A.G. of Berlin, were to be active in the future management of the American firms. Our Industry Branch, however, insisted that it was necessary for them to deal with those who were best qualified to do the job, regardless of other considerations.

Negotiations with the Heyden firm continued over our objections until the middle of November, when General Draper received a letter from Charles P. Kindleberger, chief of the Division of German and Austrian Economic Affairs in the State Department. Included with the letter was a Treasury Department memorandum summarizing the objections to the establishment of new links between the Heyden group in the United States and firms in Germany.

Mr. Kindleberger said, "I am assured that Treasury does not propose to do anything about it. However, I am not unaware that memoranda such as this have a habit of well-timed leakage to certain columnists." General Draper wrote back that he "had gotten some hint concerning this general picture from one of our people here," and added that "entirely aside from these considerations, it would be obviously preferable to have one of the real leaders in the American chemical field and in penicillin furnish the supervision and know-how, provided the question of necessary capital investment in dollars can be satisfactorily arranged."

Thereupon, a new proposal was made to have the American firm of Merck & Company undertake the job, using the facilities of the German firm, E. Merck, of Darmstadt. This arrangement, in turn, would require an agreement by the Attorney General to modify a decree, entered by a Federal District Court in an antitrust case, under which further business arrangements between the American and German Merck firms had been forbidden. The struggle over penicillin went on and on for many more months.

Relying on the "leaders of the industry" was one of the formulas of the Economics Division. In the fall of 1946, George Allen, of the Reconstruction Finance Corporation, visited Germany to work out an arrangement under which loans could be extended to help stimulate production. The Economics Division for some time had been reporting that unless new capital investments and loans were poured in, German recovery would take a very long time. At first, loans and investments from private sources were out of the question because of the uncertainties of returns. To fill the gap, it was proposed at first to extend dollar credits from the RFC through two RFC subsidiaries, the U. S. Commercial Company and the Commodity Credit Corporation. These credits would be used to buy raw materials in the United States, ship them to Germany, have them processed in German factories and then sold in export markets. Part of the proceeds of the exports would be used to pay off the RFC loans. Once this business had been established with government money, it was expected that private capital could be attracted to finance this trade.

General Clay went to Washington to complete the arrangements, following George Allen's visit to Berlin. Shortly after he arrived in Washington for the discussions, General Clay became concerned over the possibility of unfavorable publicity and other repercussions if materials should be allocated to German firms which had had prominent roles in the "cartel" system. He sent an urgent cable back to Berlin. The Economics Division should "at once take steps to designate objectionable firms." Under no circumstances should these receive imported materials until they had been reorganized into groups of economically independent companies.

This cable fell as a bombshell at Berlin, because the Trade and Commerce Branch had been building its export program around the "recognized" products of the "well-established" firms, including Siemens & Halske, Robert Bosch, the I.T. & T. subsidiaries, the Wintershall potash combine, the Friedrich Flick steel plants, and others. They had been instructed months before not to turn over export business to firms that were likely to lose their plants in the reparations program, and the Industry Branch had listed plants of many independent firms as reparations.

It gave us very little satisfaction to say, "I told you so." Nearly a year before, the Economics Division had rejected our proposal to keep plants of independent firms off the reparations list as far as

possible, and to start first with plants that could be separated from the big combines. At that time we had been told that if we "decartelized" the big combines properly, there would be no difference between the plants of a big combine and the plants of an independent firm. Now General Clay's cable from Washington demanded immediate steps to reorganize the "cartel" firms whose plant facilities were needed in the export program.

We immediately drafted a proposal showing how the plant groups that had belonged to the "objectionable" combines could be made economically independent. The Trade and Commerce Branch chose instead to argue that General Clay's order would bring the export-import program to a standstill. It was not until March 13, 1947, that our "staff study" outlining the reorganization procedure was approved by the Economics Division and sent to General Clay's chief of staff.

General Clay never signed the proposed order. Gradually the restrictions against allocations of raw materials to "cartelized" firms were relaxed without a formal order, "in the interest of promoting the export-import program."

Relaxations of policies sometimes extended even to "reform" measures which had already been carried out. For example, under Control Council Law No. 9, requiring the dissolution of the I.G. Farben combine, a four-power agreement eliminated the use of characteristic "I.G." trade-marks on chemical products. The State Department had emphasized the need for such a decision, because shipping drugs and chemicals with I.G. Farben trade-marks to foreign markets, especially in Latin America, would be a violation of the "replacement agreements" of the war period. Under those agreements the Latin American countries had bought up such trade-mark rights and retired the marks from local use, or had permitted private firms to buy them and retire them.

The Trade and Commerce Branch at Berlin found two reasons why this policy "interfered with recovery." In the first place, all the pill-stamping molds in the I.G. Farben plants had the I.G. Farben trade names on them and it would delay production to change the molds and reprint the labels. In the second place, they had been counting on the "good will" of the I.G. Farben reputation throughout the world to help promote sales of the goods. If they had to adopt some new trade-mark and establish the markets all over again, the goods would be much harder to sell. Besides, there was no money for a high-powered advertising campaign to launch any such new selling venture. So, in order to get their job done, they wanted to trade on the reputation of the I.G. Farben name.

The performance of some of the "established" German firms was sometimes less vigorous on behalf of German recovery than were the efforts of our export-import officials. Under the RFC program for financing raw-material imports, the U. S. Commercial Company made an initial shipment of some hundred and ten thousand bales of cotton for processing into textiles, with another shipment of the same amount to follow shortly after. The cotton was allocated to such firms as Christian Dierig A.G., Germany's largest textile combine, whose management had played an important part in Hans Kehrl's synthetic-textile program under the Four-Year Plan. As one memorandum circulated in the Economics Division put it, "The conviction is growing on all hands that resumption of textile production and exports in Germany can work out satisfactorily only if the selling end of the business is placed in private hands, and preferably in the hands of those who were experienced in the trade before the war."

After a few months of the textile program, a minor flurry occurred when a shortage of sheets for the use of German hospitals in the American zone led to the discovery of shortages in the supply of finished textile products for essential uses and for export, as compared with the amounts of raw materials imported. At the same time, possibly by coincidence, rather large quantities of rough cotton "gray goods" began showing up in the black market in Frankfurt and other cities in the zone.

Such incidents led us to make a few inquiries about the types of controls being maintained by the German authorities over scarce raw materials and the products of reviving German industry. Cleaning up the cartels and combines was being delayed because of the need for the centralized powers of the combines and trade associations, to avoid "waste" of materials. We found some remarkable cases. For example, a ceramics factory had produced twenty-two hundred tons

of chinaware, of which one thousand tons were of first quality suitable for the export trade and twelve hundred tons were "seconds," with slight defects. Two hundred tons of the "seconds" had been sold to the army for the use of occupation families, and the other one thousand tons sold legitimately to Germans. Of the first quality chinaware, however, one hundred and twenty tons had been sold to occupation personnel through gift shops; sixty-five tons had been actually exported; and the other eight hundred and fifteen tons had "disappeared" without a trace, presumably into the black market.

The point of the story is that when these facts came out it developed that no regulation had ever been issued by military government to require German manufacturers to hold goods of exportable quality for export. None of the firms which showed up with shortages had violated a single military government regulation in using up their allocations of coal on production that never saw the light of the legitimate domestic or export markets.

The urge to cling to the "respectable" firms with "well-known" names was very deep throughout the Economics Division, regardless of what the problem was. At one point the Economics Division came under criticism for failing to dissolve agencies of the Nazi Party, including commercial firms which had been set up to carry out parts of the war program. One of these was the Nazi government-owned corporation known as "Roges," one of the subsidiaries of the Rowak Handelsgesellschaft, a government corporation somewhat like our Defense Supplies Corporation of the war years. Roges had been a stock-piling organization set up by the Nazis to gather semiprecious metals and alloys used for tool steel and other special purposes.

The question was what to do with the large supplies of these metals when Roges was dissolved.

The Industry Branch came up promptly with a solution. They proposed that the Roges stocks be turned over to the Metallgesellschaft. It would not do to turn these metals over to just anyone, because, among other things, they said that might lead to competition, which would be inflationary. The Industry Branch proposed to make Metallgesellschaft responsible for the proper use and disposition of these metals, because the company was an outstanding firm with "well-established" world-wide connections and was "strong" enough to do the job properly.

The apparent laxity of the Economics Division was partially explained by what had been happening in the United States as the export-import program got under way. Resistance to imports from Germany was developing especially from businesses that would be facing German competition in the fields of light industrial products. These products had dwindled in export markets in the prewar years. By the summer of 1947, Secretary of Commerce Harriman and other high government officials had to tour the country making speeches to chambers of commerce and other associations to persuade businessmen that the United States must be willing to accept imports from Germany.

Under the threat of "resistance" from firms in the United States, the export-import program was being shaped around specific contracts. First, the industries would be started "running," and then special contracts would be negotiated between American merchants and German manufacturers for the production of specific goods. In this way, it was said, the goods could be marketed in the United States without coming into conflict with pre-established marketing arrangements among American companies.

Here was a driving force that could, in itself, do a great deal to press the lines of German recovery back into the old patterns and grooves. To the reluctance of military government officials to change was added criticism from business interests in the United States if they did change. Through it all, representatives of particular companies — those with prewar property interests in Germany — came through in an ever-increasing stream. They not only looked, but they stayed to ask what plans military government had for the future of their companies. After I had resigned from military government, I was asked by newsmen at La Guardia field on July 24, 1947 for a statement. I cited among other things the pressure of specific American companies like General Electric and General Motors to prevent changes in Germany that might affect their properties and business interests. The next day's press quoted General Clay's reply from Berlin: "I wish that General Motors and the others could read that [charge] so I would cease being accused of not having given them an even break."

A single isolated case might have had no visible effect on the shape of the postwar economy. But as the occupation went on, we saw more than a scattering of plants revived and put into full production, not because their product proved necessary to the orderly development of the economy and the best use of the scarce materials, but because the plants happened to belong to the Singer Sewing Machine Company, the International Harvester Company, the Chicago Pneumatic Tool Company, or General Motors; or because Swedish SKF, or Dutch AKU, or British Unilever, or American Bosch, claimed an interest in the German company; or because an American, Belgian or British company had had a prewar arrangement that made it desirable to get military government to reopen a particular line of German production.

This became what might be called a "Christmas-tree" economy. It differed remarkably from Colonel Wilkinson's picture of a strictly controlled system in the hands of the "ablest" men. Germany could scarcely be pictured as a clear, flat plain on which men of vision executed an efficient and orderly reconstruction, taking account of the realities of war damage and the postwar needs of the entire European economy. Special economic revivals were popping up all over the place. The plants of the favored firms were all decked out with priorities and ornamented like Christmas trees. Around them clustered the little satellite industries, protected by "hands off" and "do not touch" signs. Military government officials were supposed to work out their economic programs without disturbing anything.

Though the "Christmas trees" were exempt from tight control, the garden variety of Germans who were not of the industrial combines felt the full force of the controls. Military government, almost from the beginning of the occupation, put into the hands of "the Germans themselves" the strategic power to allocate coal, transport, and electricity. At the insistence of the Industry Branch, old licensing laws were kept to give the German authorities a better grip on the use of production facilities.

By 1947, our files contained hundreds of complaints from independent German businessmen that although their plants were ready to operate, they had been refused the necessary license.

A glass works in Bavaria was ready to turn out glass containers, needed to preserve the fruit and vegetable crop; but the licensing authority was in the hands of a man who came from a rival firm. That firm's factory had been bombed out. Only one license to engage in this type of business was to be issued, according to the "policy" of the German administration in Bavaria, and the license had already been granted to the firm which was not yet ready to produce.

An artificial-limb manufacturer who had been bombed out of Hamburg and had migrated to Munich in 1945 could not get a license to manufacture or repair artificial limbs in Bavaria. The appropriate official in the Economic Ministry consulted with the trade association of Bavarian artificial-limb makers, as required by the licensing law; and the association said there was no more room in the business. The outsider from Hamburg could not even get a license to repair artificial limbs of his own original manufacture, let alone make any new ones.

A master plumber who had been bombed out of Rostock and ended up in a small Bavarian town, wanted to help his friends repair their plumbing. Local plumbers had a backlog of work to keep them busy for a generation, at least. But when the newcomer tried to buy ceramic fixtures, tiles, and drain piping, the head of the trade association called all the possible suppliers and ordered them not to sell any material to this outsider.

Between 1946 and 1948, while licensing restrictions kept up barriers against newcomers, many more "Christmas trees" dotted the German countryside, all with well-known trade-marks. Late in 1948, just before the scheduled arrival of an investigating commission appointed by the Secretary of the Army, military government put into effect a directive we had prepared back in 1946 to order the repeal of the licensing laws. The policies cited in support of the directive had been unchanged since the beginning of the occupation. Military government officials offered no explanation for the two-year delay.

CHAPTER 17

Double, Double Toil

LATE in October 1946 the Senate War Investigating Committee, then headed by Senator Kilgore, sent George Meader, the committee's counsel, to investigate charges that some of the important policies for the occupation were not being carried out. General Clay, displaying his usual courtesies to important visitors, welcomed the investigators and instructed all of us at the Saturday morning conference to co-operate fully in the investigation and withhold nothing.

One of the first things the investigators discovered was that negotiations having equal effects on the occupation were being carried out in two quite different channels. If any branch or division wanted to initiate action of any sort, the staff had to prepare a "staff study." This required a written discussion of the problem, together with annexes containing supporting documents, and a draft of the letter to be signed or the order to be issued. All of these papers had to be circulated to other interested divisions and branches for "concurrence" before they went to the head man for signature. Some division directors found this formal procedure cumbersome. They had developed a channel of their own and transacted important official business simply by dispatching letters on a "Dear Bill" or "Dear John" basis to former business associates and friends in the government. Military government had developed a split personality. Outwardly, most policies remained exactly as they had been from the start of the occupation; but the principal opponents of reform policies began quietly to propose moves that went in the contrary direction, as if they were confident that changes were coming.

After the Republicans won a congressional majority in the November elections of 1946, the Republican members of the War Investigating Committee released Mr. Meader's preliminary report, together with the hundreds of documents the investigators had picked up at Berlin. The findings of the Meader report began to break in the American press on December 3. The full details did not reach Berlin for several days. When they did, it was clear that military government was operating in such a way that serious clashes over policy had continued for many months without being resolved. This was particularly true of the policy of breaking up economic concentration.

Actually the question was not whether our colleagues were working on or off the record in favor of policy changes, but whether we had a right to insist that the policy — whatever it was — should be clear, and that public statements about what we were doing should be accurate.

On December 7, 1946, fifth anniversary of the day President Roosevelt said would live in infamy, Philip D. Reed, chairman of the board of the General Electric Company, arrived at Berlin on a mission he had undertaken at the request of W. Averell Harriman, Secretary of Commerce. Secretary Harriman wanted to know what the Commerce Department could do to help military government with its economic program. General Draper arranged a meeting with Mr. Reed in the office of Jack Bennett, General Clay's financial adviser. The purpose was to discuss obstacles which stood in the way of German recovery so that Secretary Harriman, as a member of the cabinet, could help remove them.

After preliminary remarks to the effect that the limitations imposed by the Trading with the Enemy Act, the denazification program, and the decartelization policy were a handicap to German recovery — however necessary they might be for other purposes — General Draper introduced Richard Spencer, head of the Patent Section of the Legal Division. Since the Patent Office is part of the Commerce Department, Mr. Harriman would be interested in the defects in American plans for dealing with German patents. Mr. Spencer launched into a twenty-minute diatribe against a policy which was actually that contained in a directive approved by President Truman on September 17, 1946. He did not indicate, however, that it was the official policy which he was attacking. He expressed himself as setting out the "military government" view on patents.

At the end of this speech General Draper turned to me, five minutes before we were to go to lunch, and said: "Now Mr. Martin has some other views on patents, and perhaps we ought to hear from him." These "other views," thus introduced as though they were a personal product, were those contained in the presidential directive. Even this brief discussion was interrupted by a cross-fire from General Draper and Mr. Spencer; and when I talked to Mr. Reed after the meeting, he was still quite confused about what the directive had told military government to do.

The purpose of the patent policy was to set the conditions for reopening the German patent office without allowing patent pools and restrictive patent licenses to give German groups a new whip hand in world economic affairs. The American forces at Berlin were instructed to work out a four-power agreement on changes in the German patent laws before the patent office was allowed to register new inventions and grant the inventors the usual monopoly of production and sales. The German patent system had developed without a context of other laws, such as antitrust laws, to protect the public against discriminatory uses. The Patent Section of our military government objected to the inclusion of anything in the German patent law that was not already in the patent laws of the United States, even though the policy had been framed at Washington with full consideration of the great differences between the German and American legal systems.

Mr. Reed's report to Secretary Harriman recommended a complete review of the patent policy. After months of argument at Washington, however, the Executive Committee on Economic Foreign Policy in May 1947 reaffirmed the basic directive. In the meantime the other elements at Berlin, especially the French and British, had used the dissension in the American ranks to carry the argument in another direction.

We had already run into trouble over the I.G. Farben patents in the latter part of 1946, because the French showed a growing distrust of our intentions. According to one report prepared by a committee of the French National Assembly, they felt that we were talking about breaking up the Farben combine, while other Americans were getting ready to make a good thing out of exploiting the Farben processes without having to pay patent royalties. The British, too, had ideas about what we intended to do with the Farben patents. The presidential directive had instructed us to eliminate the restrictive licensing schemes of firms like I.G. Farben. If we could not get agreement on a less drastic means, we were to suggest complete dedication of the patents to the use of the German public. But the British evidently suspected us of trying to maneuver them out of control of the "Bayer" processes, centered in the big British zone plant at Leverkusen, as part of a drive to capture markets for American firms. So they held that the patents were valuable assets of I.G. Farben, and that we had no right to "destroy" their value by eliminating the monopoly feature.

Both the French and British I.G. Farben control officers asked me how I came to hold views on patents which were so different from those of my colleagues in the Economic and Legal Directorates. Puzzled by the split in the American camp, they insisted on complete restoration of the patent privileges of the I.G. Farben pool. Compromise was practically impossible because they felt that if they held on long enough the American position would change; and if they did not, they might in some way be "outfoxed."

The Soviet control officer, Colonel A. C. Bayar, strongly supported the view that the Farben patent monopolies would have to be eliminated. However, he appeared to find the split on the American side more amusing than sinister, partly because Soviet foreign trade was little concerned with "patented" items, and partly because his wartime position with the Soviet Purchasing Commission in the United States had made him familiar with family squabbles in American government agencies.

With the inconclusive end of our patent discussions in Jack Bennett's office that December day in 1946, our entire group adjourned for lunch at the Harnack House. We were joined by the other branch chiefs of the Economics Division and by Sir Cecil Weir, who had succeeded Sir Percy Mills as president of the British economic subcommission. An undercurrent was provided by Colonel Lawrence Wilkinson, head of the Industry Branch, who had a copy of the *New York Times* for December 5, 1946. A Washington dispatch described in some detail the documents and copies of correspondence which I had furnished the Meader investigation at Mr. Meader's request. Some of these were decidedly critical of the Economics Division's handling of developments in the cartel field up to that time. General Draper showed no outward sign of the agitation he later expressed over my statements, however, and the conversation turned quickly to the issue of German currency reform. This was rapidly supplanting the cartel and patent policies as a subject of debate.

The contingent from Economics undertook a characteristically bold treatment of the fiscal policies that were getting in their way. In the case of currency reform the American official directives from Washington had proved inconvenient to the Economics Division, even though actual negotiations were in the hands of the Finance Division and Financial Directorate. The head of the Finance Division, who had not found it hard to understand what Washington wanted to accomplish, was somewhat surprised to hear several from Economics suggesting the possibility that Sir Cecil Weir might arrange to have certain points raised by the British in the four-power discussions, inasmuch as the directive from Washington would prevent the Americans from raising these points directly. It would then be possible to cable Washington to the effect that the British were insisting on a different solution, and to ask for authorization to change the American position in order to reach a compromise with the British.

As I listened to this talk certain phrases from the *New York Times* dispatch of December 5 kept coming back to me: "The documents . . . seemed to represent a cross-section of the American way of doing things in Germany — virtues, faults, bungling, conniving, suspicion and loyal adherence to the American program. That is what access to a good sampling of the papers indicated today."

General Clay returned to Berlin from Washington in the middle of December at the conclusion of the bizonal merger talks. He had also appeared before the Kilgore Committee to answer questions that rose out of the Meader report. We discussed briefly the charges I had made during the Meader investigation, which were the same as those we had discussed on several occasions throughout the summer and fall of 1946. General Clay wanted to know if it would not be possible to avoid further public outbursts on these issues.

I could suggest only one way, which was to have all matters that concerned economic concentration and cartels referred to the Decartelization Branch. We did not like to find out about such matters through chance, after action had been taken by the Economics Division. The issues would be kept clearer if decartelization were removed to another division rather than kept in Economics, where the program was a constant source of friction. I offered to resign if that would help to carry through a reorganization with less embarrassment to General Clay. He declined the resignation because, as he said, "I like you and I like your work." But he insisted the turmoil over the Meader report had made a reorganization impossible, at least for the present. General Clay had no suggestion for improving our situation other than that, as a first step, we do everything possible to bring out a satisfactory decartelization law.

General Clay's reluctance to bring the outstanding issues to a head was disappointing. A question of executing or not executing written instructions from Washington was being silted over by what some people might come to consider personal feuding. But in the end we did have a "standstill" agreement to focus the arguments onto specific issues. The Economics Division was to give the Decartelization Branch an opportunity to comment on criticisms of the cartel policy contained in official papers. Previously, "action" papers prepared in other branches had contained statements that the position of the Decartelization Branch was this or that, usually attributing to us an unreasonable position which our staff would have been the last to adopt. In some cases, cabled inquiries from the State Department about discussions in our four-power committees had been answered without any help from the participants.

Imperfections in the standstill agreement became evident very soon. Philip D. Reed's report to Secretary Harriman attacked the decartelization policy as the work of "extremists" from the Department of Justice, and ignored the fact that the policy itself had been set down by the Big Three at Potsdam. The Reed report went on to say that decartelization was hampering German recovery, but cited

no evidence to support the statement. Its conclusion was that the enactment of a law to prohibit "excessive concentration of economic power" in Germany would be harmful and unnecessary. The prohibition of "cartels" was an idea peculiar to the United States, and was not shared by the British, French, Russians, or other Europeans. Until an international agreement on the subject should be reached through the United Nations, Germany ought not to be saddled with "antitrust" laws.

Copies of this report, almost every statement of which was easily subject to refutation, were received by General Draper but not circulated to the Decartelization Branch. I got a copy later from the Finance Division.

General Clay, on his return from the bizonal talks at Washington, appeared to consider himself bound to change course and issue no decartelization law for our zone without the concurrence of the British. In General Clay's absence, General Draper had initiated some discussions with Sir Cecil Weir to see whether a compromise law could be worked out. He had reported these talks by cable to Washington. This, in turn, appears to have led Will Clayton or members of his staff to suggest that unilateral action for the United States zone should be abandoned. Though both the French and Soviet military governments were preparing to issue laws similar to the three-power draft of August 1946, we had to start drafting a new version in consultation with Sir Cecil Weir and Brigadier Oxborrow. As a result, the French broke off the attempt to stay within the terms of the draft which had been agreed upon by the French, Soviet and American delegations in the four-power discussions. They later issued a law of their own, framed in terms of French law, while the Soviets likewise set up a different system. That was the end of any likelihood of arriving at a uniform treatment of the problem, though four-power discussions continued for another year. By August 1947 those discussions had produced a new three-power draft agreeable to the American, French and Soviet governments and much closer to the British version. This was a further attempt to meet British objections by drafting a four-power law whose chief provisions were modeled on the British military government's own drafts. But the British continued to disagree over methods of carrying out such a law, and this final attempt at four-power agreement failed.

We had no difficulty in reaching agreement with the British on a common text of a law to be carried out in the two zones of "Bizonia," once the decision had been made by General Clay to drop the idea of a "mandatory" law. By February 1, 1947, we had worked out with Brigadier Oxborrow a new draft law prohibiting specific practices in restraint of trade and also providing for investigation of all German firms employing more than ten thousand persons. If any such firms were found to represent an "excessive concentration of economic power," they were to be reorganized and separated into workable but independent economic units. This law was issued on February 12 as Military Government Law No. 56 for the United States zone, and a similar text as Ordinance No. 78 for the British zone.

Early in February, opposition from an older and more familiar quarter showed itself. We had been so absorbed with details of passage of the law that the chief problem — controlling the mainspring of German economic warfare — had been briefly eclipsed. The reminder came with Herbert Hoover's visit to Germany at the suggestion of President Truman. Though he had been asked principally to study the German food problem, Mr. Hoover fanned out very broadly into all phases of economics and politics. A restatement of the traditional German resistance to reform was the result. The specific problems of feeding occupied only one part of his report. The principal focus was on general economic problems, and on these the advice came from the late Gustav Stolper, former German economist, who was at Mr. Hoover's elbow throughout the trip.

At Berlin there was the usual "briefing" of the Hoover party by the Economics Division, with the bulk of the time allocated to problems of German reconstruction and a brief period at the end for problems of economic power. This time there was a difference. After representatives of the Industry and the Trade and Commerce branches had made their usual remarks about the hampering effect of the anticartel program, the Decartelization Branch representative replied by describing the new law. Thereupon Herbert Hoover

remarked that he could see nothing wrong with such a law, and thought an "antitrust law" might be a very good thing in Germany.

After the "briefing" Dr. Stolper showed some agitation over Mr. Hoover's remarks. He circulated among the group, arguing that the new law was a "very bad" thing for Germany. It was just like the denazification policy. The main job of denazification had been done by Hitler himself when he committed suicide. Even the hanging of the other top Nazis had gone too far. The same was true of the cartels and combines. The war had ended Germany's "concentration of economic power." Decartelization and other such reforms were in reality aimed at destroying Germany and the German character, including the many good things in the German tradition.

The text of the Herbert Hoover report of 1947 did not reflect any of Mr. Hoover's favorable remarks about "antitrust" laws. The report concluded that concessions must be made to the old-line financiers and industrialists in order to obtain the help of their management abilities in European recovery. The "reform" policies showed up as deterrent to recovery.

At the time of the Hoover report, the fear that the decartelization law would stop German recovery was like a horse's fear of a scrap of paper. Law No. 56 was still nothing but paper and printer's ink. Until enforcement machinery was set up no German was obliged to do anything. The law was a declaration of intention to carry out something that was already in the Potsdam Agreement and in the Joint Chiefs of Staff directive.

We began the long process, again through the "staff study" routine, of getting the concurrence of the rest of the Economics Division on proposed procedures to carry out the law. We could see at the beginning that this might be just as big a job as getting approval of the text of the law itself; so we divided up the work among the different parts of our staff. The deputy chief, Phillips Hawkins, undertook to work out with the British and with the Economics Division the organization of a bizonal enforcement agency and a set of procedural rules for bringing cases under the law. The four assistant branch chiefs undertook more specific jobs.

Johnston Avery, who had joined our staff at Berlin from his former position as executive officer of the Antitrust Division, prepared an enforcement program. Creighton Coleman carried the four-power negotiations and also prepared drafts of supporting legislation that would have eliminated large holding companies, interlocking directorates, the issuance of "bearer" shares, and other foundations of concentrated power. Captain Francis W. Laurent, a retired naval officer from the Navy Department's legal division, began to prepare draft orders to require the reorganization of the outstanding big combines in our zone. Colonel Richardson Bronson, deputy I.G. Farben control officer, was to carry further the Farben reorganization. Finally, all the staff was to contribute material to a four-volume *Report on German Cartels and Combines,* to be edited by Charles C. Baldwin, formerly of the Economic Warfare Section of the Department of Justice.

Our objective was to prepare as quickly as possible some actual cases involving German combines whose structures and past history made them unquestionable examples of the "excessive concentration of economic power." We would push for definite action to reorganize these combines, and at the same time prepare a full discussion of all the big combines and their place in Germany's distorted industrial development of the period between wars. We wanted to throw as much light as possible not only on the problem but also on what we were trying to do.

We had discovered an almost pathological fear of the light of publicity in some parts of the Economics Division. Men who basked in press handouts and glowed warmly under the light of favorable publicity turned pale when confronted with a pertinent direct question from a seasoned press correspondent. Delbert Clark, head of the Berlin bureau of the *New York Times,* was such a correspondent. After watching the reaction in the Economics Division to a series of Clark's stories, one observer remarked, "They would cheerfully give three weeks' rations of PX cigarettes to avoid being mentioned in one of Delbert Clark's dispatches." A carton of PX cigarettes at the time had a barter value of about $100. Another correspondent who had covered the earlier phases of the occupation with considerable effect had been Edd Johnson of the *Chicago Sun.* Johnson's dispatches had cited case after case where official acts did not jibe with official policies. His final interview

with Russell Nixon in January 1946, just before Nixon left Berlin, became a classic in blowing the lid.

In our favor was the fact that the official policy in our field had remained unchanged for the first two years of the occupation, and had been restated on many occasions by General Clay even after the conditions of the occupation had begun to change. We knew that if the policy was sound and if the program was sound, either we would get some results or someone sooner or later would want to know the reason why.

Three volumes of the four-volume report were in rough draft form by March 1, 1947; but we then discovered that there would be difficulty in publishing such a report. It would have to be "edited" by the Reports and Statistics Branch of the Economics Division and then cleared with "all interested branches and divisions" before publication could be approved. This might take months, and even then the Economics Division would have the final word on what material was included. We also found that we faced a possible "stop order" preventing the staff from doing anything further on the report until it had been cleared. At this point we commandeered every typewriter and typist in the branch and in one day cut five hundred eighty-four mimeograph stencils to get out a draft copy of the full report. Charles Baldwin found a German print shop to bind some two hundred copies, which we immediately distributed as widely as possible to government agencies. It was a "draft submitted for comment only," and not an "official" document.

Early in April 1947, the State Department asked for my return to the United States on temporary duty to discuss our report and our proposed program of action under Law No. 56. I flew back and spent several weeks on these discussions. It was apparent from the first that the changes in Congress after the November elections of 1946, more than the changed conditions in Germany, were responsible for the growing confusion on German policy matters. The mood was not so much one of change as of indecision.

We needed an issue that would crystallize the points of indecision. Was the United States still opposed to the centralization of German economic power? On May 3, a Berlin dispatch announced the end of another in a series of tours of Germany and Austria which the

War Department had been sponsoring to enlighten influential people about the problems of occupation. In this case, as the *New York Times* put it, "Fourteen top business executives of the United States concluded today a two weeks' tour of the key cities of Germany and Austria. They made the trip at the request of Secretary of War Robert P. Patterson to study German industry and the Military Government's industrial program."

The War Department on May 8, 1947, released the report prepared by the fourteen top business executives. The statement began by affirming their "complete and unanimous agreement" with the conclusions of the Herbert Hoover report. On the basis of their two weeks' tour they found it a "masterful summary of the situation in Germany." Then the executives presented their first recommendation. They said:

> We now set forth several major issues with which the Office of Military Government has to deal, together with our comments and suggestions thereon.
>
> 1. *Decartelization.* Law 56 and Regulation No. 1 embody a series of controls and regulations, many of which represent economic principles quite new to the German mind and to the past industrial development of the country.
>
> Since we are now confronted with the urgent necessity of bringing about as rapidly as possible recovery of the economic life of a starving people — it is our belief that too strict adherence to the Law in its administration will seriously retard this primary objective.
>
> With no desire to criticize the principle of this law as it has been written — we do, however, recommend, if at all possible, that the enforcement of these regulations be postponed, or at least substantially modified, until the industrial economy is in a reasonable state of operation.

Other recommendations included the need for "incentives" to German industry, agriculture and labor, the promotion of exports, the downward revision of reparations, the end of denazification, and change in the level of industry.

I discussed this report with the Attorney General, Tom Clark. A few days later Mr. Clark was approached on another matter by M. S. Szymczak, a member of the Federal Reserve Board who had been serving in Germany first as head of Trade and Commerce and later as director of the Economics Division after General Draper moved up to become Economic Adviser to General Clay. Among other things, Mr. Szymczak raised the question of modifying the antitrust decrees in the Merck case so as to allow the Merck companies to co-operate on penicillin production in Germany. Mr. Clark in return suggested that there should be first a general discussion of the decartelization program. He asked Mr. Szymczak to arrange an informal conference with representatives of the State and War Departments, to be held in the Attorney General's office on May 20. Willard Thorp, Assistant Secretary of State for Economic Affairs and two members of his staff attended for the State Department, and two men from the Civil Affairs Division for the War Department, in addition to Mr. Szymczak and myself.

At the end of a brief discussion, the Attorney General asked me to prepare a memorandum setting forth the views I had just stated and with which all those present had concurred. He wanted to submit my memorandum for discussion at a meeting of the cabinet on May 22.

In brief, I said that we wanted to know first whether the cartel policy had been changed, and if so, what the new policy was. Secondly, whatever the policy might be, we wanted military government to be instructed to carry it out instead of debating it. In particular, I pointed out that the report of the fourteen industrialists was based not on direct observation but on the "briefing" which all such groups had been receiving from the Economics Division at Berlin.

The Attorney General told me after the cabinet meeting that the members had agreed with the substance of my memorandum and had seen no reason for changing the government's policy on decartelization. This conclusion was then made official in a new version of the JCS 1067 directive, which had been undergoing revision to take account of changes during the two years of occupation.

The new directive of July 15, 1947 stated: "Pending agreement among the occupying powers you will in your zone prohibit all cartels and cartel-like organizations and effect a dispersion of ownership and control of German industry through the dissolution of such combines, mergers, holding companies and interlocking directorates which represent an actual or potential restraint of trade or may dominate or substantially influence the policies of governmental agencies. You will not, however, prohibit governmental regulation of prices or monopolies subject to government regulation, in fields where competition is impracticable. In so far as possible, you will co-ordinate your action in this field with the Commanders of other zones of occupation."

After the cabinet meeting of May 22, I cabled my resignation to Berlin. I knew that the policy was being reaffirmed on paper; but no official notice was being taken of the fact that its execution had been deliberately delayed. My resignation would make it impossible for those in charge to attribute their delaying tactics to alleged "feuding" between the chief of the Decartelization Branch and the Economic Adviser to the Military Governor. I hoped that General Clay would appoint a new chief who would be, beyond question, *persona grata* to the Economics Division. He appointed my deputy, Phillips Hawkins, whose engagement to General Draper's daughter had been announced during my absence.

In a final note to General Clay on July 14, 1947 I reviewed the Economics Division's record of obstruction to the program which General Clay himself had said he approved. I concluded by saying, "My decision to return to the United States was based upon a desire to contribute to the clarification of United States policy on cartels, monopolies, and concentrations of economic power. It is my feeling that such efforts will be more likely to succeed if they are vigorous, but constructive rather than recriminatory; and therefore I have no particular desire to engage in unnecessary argument about the past performance of the Economics Division unless called upon to do so."

CHAPTER 18

The Decline and Fall

GENERAL Clay exhibited a well-developed historical sense. Yet a future generation of historians may find that, ironically, it was this sense of history, combined with the lifetime habits of a military career, that contributed most to the defeat of the occupation. General Clay, in my first talk with him in January 1946, said that he was determined to make the four-power occupation succeed. He was convinced that failure to make four-power government work would be a catastrophe, and perhaps the biggest single step toward a third world conflict.

The end of battle in 1945 had signaled the start of a new kind of war — a post-war. Germany's classical military theorist, von Clausewitz, is famous for having declared that "war is the continuation of diplomacy by other means." In dealing with a Germany which had gone to school with von Clausewitz for generations, we knew that, conversely, a post-war is the continuation of war by other means. Since Bismarck, wars and post-wars have formed a continuous series, changing the quality of the events only slightly from year to year, with no such thing as a clear distinction between heat of battle and calm of peace. This post-war of the German occupation was different from the "cold war" between the United States and Russia, which broke out at about the same time. The latter complicated the diagnosis, like a man getting typhoid fever and pneumonia at the same time.

In the first years of the occupation of Germany, the two struggles had not yet become confused. General Clay said the best contribution we could make to peace would be to get four-power co-operation in carrying out the agreements for the control of Germany.

Later, others with less historical sense began to support anti-Russian Germans on the theory that "any enemy of Russia is a friend of the United States." The two wars became interwoven, and men who saw no difference came to make up the effective bulk of General Clay's staff. When the Economics Division chose to ignore agreements to limit heavy industry and expand light industry, this departure was "necessary" to build up a strong Germany. When the French or Russians objected to economic "unity" under the leadership of old-line Ruhr coal and steel men, the same people held that failure of the French and Russians to live up to the Potsdam agreement for economic unity was an act of international bad faith. Here, instead of cracking down on his own staff, General Clay let the pendulum swing. He allowed his sense of history to tell him such developments were inevitable.

On our last day in Berlin, July 24, 1947, my wife and I invited General Clay to lunch with us before we left for Tempelhof. For about two hours we exchanged views on where everything was heading. It was a more illuminating kind of talk than the business conversations and social chatting during the previous year and a half. General Clay explained some of his ideas about the course of history, with several references to works like those of Arnold Toynbee, describing the patterns through which civilizations have developed and changed. Among other things he mentioned that he had been through the last occupation of Germany, too. With his wry sense of irony he said that we had done a better job in the present occupation: within the first nine months we had made mistakes that were not made in the former occupation for nearly two years. We asked him to account for the difference. Why did it seem that, far from having learned a lesson from Germany's part in World War I, people were pressing to repeat the same mistakes sooner?

General Clay answered that the last time, one man, Woodrow Wilson, pointed the objective that he wanted to reach. Even though Congress later disavowed the objectives and turned the policies about, still in the first years of the occupation it was possible to know what "Washington" wanted. In this occupation, an unwritten law had decreed that all statements of policy must be bipartisan, supposedly to avoid the possibility of repudiation of a Democratic administration's acts by a Republican Congress. But this meant that on many critical points the statements from "Washington" had included contradictory points of view.

It was one thing, he implied, to believe in his own mind that the objective was clear, and another thing to charge any of his subordinates with violation of orders if they adopted different interpretations. I knew that this much was true. For example, the policy against renewed emphasis on German heavy industries was subject to an all-inclusive exception for acts necessary to prevent "starvation, disease and serious unrest." The Economics Division had invoked this phrase to justify all manner of departures from the spirit of the Washington instructions, and to fly in the face of the Potsdam agreement, merely asserting that each exception was necessary to avoid "disease and unrest."

General Clay did not flatly admit criticism of his subordinates, and especially did not mention the Economics Division; but the implication was that he had tolerated the undercutting of his own policies because of these verbal formulas. The total effect was failure to carry important objectives; but each step had had a plausible ground in the wording of the directives. General Clay offered no explanation of his failure to cut through the wordy arguments and put the official policies back on the track. We left Germany with that question unanswered.

It was a fair guess that confusing the cold war with the post-war was leading to competitive wooing of the most strongly entrenched German elements. That would mean the end of reforms — not merely the end of decartelization and denazification, but of land reforms, intensive agriculture, the rebalancing of heavy and light industry, political decentralization, re-education, and the others. But the "civilian" and "military" habits under such circumstances are sometimes different. A civilian may fight back on a matter of principle; and if defeated will resign. The military habit is to argue back until stopped by a direct order from higher authority, and then knuckle under. General Clay, sensing a swing of the pendulum or a wave of the future, had held his fire in cases when he, as "higher authority," had the power to give a direct order. As a result he was steadily losing both civilians and officers who had been in charge of the "reform" programs. The fights for the reform programs looked like mere quarreling if the opponents of reform were not declared "wrong." Yet the reform policies remained "unchanged," while the reforms were totally blocked.

My own resignation made me the third director of the cartel program to withdraw after what newsmen persisted in describing as a "bitter feud." Colonel Bernstein and Russell Nixon, my predecessors, had had the same experience. But the cartel program was not the only one stopped in that way. Dr. John H. Canning, deputy chief of the Food and Agriculture Branch, left his position in August 1947, declaring that the farm program had been completely mismanaged through lack of authority to carry out reforms. His chief, Brigadier General Hugh B. Hester, left a little later at the end of a long but unsuccessful struggle to establish a food program in line with the directives. General Hester had been one of the most outspoken officers around General Clay's table from the beginning of the occupation. He finally applied for an army assignment to another command after General Clay disapproved his basic program for increasing the productivity of farms in our zone. Dr. John W. Taylor, president of the University of Louisville, resigned as chief of the Education Branch after finding every pathway blocked. While resignations took many, reductions in staff took many more. When divisions like Economics were ordered to reduce their total staff, the "reform" agencies took the biggest cuts.

Even the few steps taken to rebalance heavy and light industry bogged down. General Clay in 1946 had halted all but a minimum of dismantling and removal of plants from the American zone under the reparations agreement, and the British did likewise in their zone, until the effects of disagreement with Russia over "economic unification" should be determined. In 1948 British and American authorities announced that 682 plants, worth about $203,000,000, would be made available for reparations as the first step in the delayed reparations program. Sir Brian Robertson, the British Military Governor, pointed out that these removals were so small as to be practically insignificant. There were approximately 50,000 plants in the British zone, of which 496 were included among the 682 to be taken from the British and American zones. He said, "Admittedly, some of the 50,000 are small plants — so are some of the 496."

A wave of protest, not only from Germans, but from sources in America and Britain, soon stopped the program once more. Organized groups denounced the reparations program as uneconomic and unrealistic. General Clay this time came to the defense of the dismantling program. He said, "It is my own belief that a considerable quantity of these plants that are to go into reparations can, in fact, be placed in production elsewhere quicker than in Germany and, if that is true, would provide an increase in European production which is so essential for the economic recovery of all Europe." He pointed out that with the shortage of coal, practically all of these plants were lying idle and could not, in any event, be used in Germany for a long time to come.

The shock and outrage felt by German sympathizers in the United States over the resumption of dismantling was shared only slightly by the German business community. Ernst Matthienson of the Dresdner Bank in Frankfurt said that when early reports leaked out indicating that a reparations program was to be resumed, the stock market fell. When the list was finally announced, however, "we saw that it affected a small portion of German industry. It was what you might call an 'agreeable disappointment.' The market recovered quickly."

Even the token removal of 682 heavy industrial plants was cut down. The Economic Co-operation Administration sent an industrial advisory committee in November 1948 to examine 381 of the 682 plants, to see if some could be used for German recovery. The committee recommended retention of 167 of these, pointing to the "incongruity of dismantling and removing equipment at the same time that we are trying to promote [German] industrial recovery." The committee overlooked the purpose of the reparations program, which was to shift some heavy industry to other parts of Europe, while lighter industries were to be rebuilt in Germany.

During 1948, the United States poured in $650,000,000 and Britain $70,000,000 to "prevent disease and unrest" in Germany, and the Economic Co-operation Administration supplied another $400,000,000 to help expand industrial production. The use of nearly three quarters of a billion dollars to avoid disease and unrest, largely through food shipments, was itself incongruous in the light of what had happened to the food and agriculture program. Not only did General Clay refuse to approve agricultural reforms, but his military government was not permitted to enforce the equitable distribution of food. In 1947 and 1948 the bizonal area had a German population of 42,000,000, about 33,000,000 living in cities and 9,000,000 in rural areas. During this time, food raised in Germany was actually delivered from the farms to the markets at the rate of 1645 calories per day for each of the 42,000,000 inhabitants, if evenly distributed. Shipments from the United States during this period included four and one-third million tons of food, largely bread grains, equivalent to 945 calories per day for each of the 42,000,000 inhabitants. This was an over-all average of 2590 calories per day for all inhabitants, even including the 9,000,000 rural inhabitants who were normally self-sustaining. The items included in this count comprised the basic foodstuffs: wheat, potatoes, milk, meat and fats, and sugar. Other foods like vegetables, fruits and fish obtained in Germany simply added to the total. If military government had maintained an adequate staff to supervise German food authorities, and had done nothing more than see that these foodstuffs went to the 33,000,000 city-dwellers, the domestic food in the city markets would have averaged 2100 calories per person, and the imports from the United States 1200 calories: an over-all average of 3300 calories of basic foodstuffs, more than double the "starvation" figure of 1550 usually cited.

Yet there were food "shortages" in German cities. By order of General Clay, military government by the end of 1946 had stopped employing American food and agricultural inspectors, except for a dozen American officers and civilian employees for the whole zone. By the middle of 1947, spot checks in parts of the American zone had indicated that estimates furnished by German farmers figured their crops too low by as much as 60 per cent, and that actual farm-to-market deliveries varied quite substantially from official estimates and quotas. Thefts of imported grains were running as high as 10 per cent in transit between the ports of Bremen and Hamburg and the cities of the Ruhr.

German officials had nothing to gain by antagonizing their constituents with enforcement activities, especially when the only effect of their bungling was to increase donations of food from the United States. Early in 1947 General Clay told the German ministers-president at a meeting in Stuttgart that they had bungled the food program and that the degree of co-operation among themselves and with the military government was "less than at any time in the past two years."

A battle was being waged among the occupying powers to see who could win the support of "the Germans themselves." In Bizonia, a German economic administration was vested with constantly widening powers to shape the industrial and commercial development of the area under United States and British control, with the military governments restricting themselves to "observation and advice." The effect in Germany was the same as if the original architects of the New Order had been in charge.

The bizonal German administration was not long in becoming the rallying point for extreme conservatives and others committed to a plan of centralization. By the spring of 1948, Robert Pferdmenges, the Cologne banker, a long-time associate of Franz von Papen, Friedrich Flick and Hjalmar Schacht, and the richest man in postwar Germany, was reported to be in the midst of negotiations with the French de Wendel family to arrange joint Franco-German ownership in certain Ruhr industries. Two years later he was one of the first men named by Chancellor Adenauer to negotiate with the French when Foreign Minister Schuman proposed a coal and steel pool, supposedly as a means of avoiding the old cartel. While he did not take an official post in the bizonal administration, Pferdmenges remained very close to his German associates who did, including Ernst Helmuth Vits of the rayon combine and Heinrich Dinkelbach of United Steel, both of whom assumed control of their respective fields for the new administration.

Baron Freiherr Edouard Otto von Maltzan, who became chief of the export-import division of the economic administration, had served as a member of the Franco-German armistice commission. Previous to that time, he had served in the foreign affairs department of I.G. Farben, under Max Ilgner.

When the military government approved setting up a bizonal

German bank, the Bank Deutscher Länder, the German board of directors proposed Hermann J. Abs, of the Deutsche Bank, for president. For chairman of the board they proposed August Schniewind, formerly a director of the Reichsbank under Dr. Schacht. Schniewind in April 1948, when the new bank was being set up, was serving as liaison officer for the European Recovery Program under the bizonal economic administration. Both Abs and Schniewind declined to take posts in the new bank unless they were given the power to override the eleven-man board of directors in certain cases. Military Government balked at going quite that far; but Schniewind then became the chairman and Abs the deputy chairman of the Reconstruction Loan Corporation, a government corporation with power to select the private firms that were to get loans for industrial expansion.

Dr. Johannes Semmler was one of the few whose opposition took a form that General Clay's military government would not tolerate. Dr. Semmler was ousted as chief of the bizonal economic administration after he made a violent public speech denouncing the policies of the bizonal occupying forces.

Dr. Schacht, the financial mastermind of the Nazi era, was acquitted at Nürnberg in 1946 of charges that he had participated in waging "aggressive war." His contribution had been the plan of economic war that set the stage for the shooting war; but he had left the Reichsbank before the shooting began. One of our men, Richard Kirby of the Düsseldorf detachment, interviewed Schacht at the prison in Stuttgart where the financial doctor was awaiting "denazification." Schacht said that if he were given three weeks, with access to his personal files and thirty or forty sheets of paper, he could present a plan for postwar German recovery that would not cost the occupying powers a dollar. He refused to go into details unless he could talk directly with officials at the top who would have power to put his plan into effect. To Kirby he would give only a brief sketch.

In outline, Schacht's idea was an economic union of Germany with other European countries, with some control of prices but without the general lowering of trade barriers which characterizes a "customs union." Germany would become the industrial center of such an economic federation, and would produce machinery and heavy equipment in exchange for food and consumer goods. Under this plan, American and British interests would be admitted to joint ownership with the former German owners and managers of the big industries, especially in the Ruhr. This was to be "international control of the Ruhr" in reverse, with a German group taking the key position in an international organization that would control all basic industries of western Europe.

Though Dr. Schacht's plan was not immediately accepted by the occupying forces, Schacht himself was declared by the American military government in 1949 to be eligible for responsible administrative posts in German agencies. The position taken by the western German government in negotiations with the French over the Schuman plan in 1950 bore a striking resemblance to Schacht's ideas about Germany's place in a European economic union.

The increasing boldness of German proposals in the later years of the occupation went along with the growing uncertainty of American policies. During the first years, while many things that were happening seemed inconsistent with the objectives of the occupation, the guiding policies were said to be unchanged. By the end of 1947, the arguments for a "new policy" came out into the open.

Early in 1947 a cable came from the War Department to General Clay with the news that Lewis H. Brown, chairman of the board of the Johns-Manville Corporation, a firm of the Morgan group, proposed to visit Germany to offer advice about how to get German industry on its feet. The reply cable from Berlin was a polite demurrer, indicating that General Clay already knew his job and suggesting that Mr. Brown's proposal should first be discussed with Frederick L. Devereux who was still in Washington recruiting personnel for high military government positions. Shortly thereafter, Mr. Brown made his trip into Germany with General Clay's approval. This visit was especially significant because it was the only visit by a supposedly private businessman to eventuate in a semi-official "report" of such sweeping dimensions.

In the fall of 1947, Mr. Brown published his *Report on Germany,* which he introduced as follows: "Learning that I was coming to

Europe on a special trip, General Lucius D. Clay suggested that I spend as much time as possible in Germany to get first-hand information as a basis for a report on what should be done to get German industry on its feet and off the backs of the American taxpayers as soon as possible. . . . In view of the urgency of the problem, I could not, as a patriotic citizen, refuse to take the time from my scheduled trip for intensive study of the German problem."

The Brown report repeated conclusions that had already become familiar as the outcome of briefings at Berlin. But this time a new note was added: the recommendation that German industry, controlled by its former managers, should be built into a powerful bulwark against Russia. The report pointed up the assurance given to Mr. Brown by a number of leading German industrialists that in the event of war with Russia, the Germans would be on the side of the United States.

The Brown report was, technically speaking, unofficial. But the year 1947 marked a turning point. Officially the purposes of the German occupation were those set forth in the revised Joint Chiefs of Staff directive of July 15, 1947, approved by the President. Actually, the occupying powers, through a curious parallelogram of forces centered in Germany, were doing things for Hitler's New Order that Hitler himself had never been able to do. Both sides of the cold war were openly feeding German nationalism. Both were building up industrial potential, the Russians offering full employment to workers, Britain and the United States offering a free hand to industrial leaders. What was emerging was a European economy dominated from a central hub of German heavy industry, with an outer ring of satellite areas supplying food, raw materials, and light industrial products.

CHAPTER 19

The Nineteen

DESPITE the general downhill direction of reform programs in Germany two years after V-E Day, the program to curb the powers of the cartels and combines stayed for some time on a plateau. In July 1947, nothing seemed inevitable. The very possibility that the entire pattern of postwar errors from World War I might be repeated carried with it the possibility that public officials and the public would see the shadows of the coming events. Seeing them, they could act; and it was not too late to act.

In declining to end my period of service with General Clay on a note of recrimination, I had the hope, which was shared by nearly all the members of the Decartelization Branch, that a constructive demonstration through enforcement of the new law might put an end to captious criticism. When I returned to Berlin after the cabinet meeting of May 22, 1947, several newsmen asked what had happened in Washington. I described the background of the cabinet discussion, the probable future of the cartel program, and my own reasons for resigning. Lawrence Wilkinson, by that time director of the Economics Division, took violent exception to my statement that the cartel policy had been deliberately undercut. He demanded that I send all documents in the matter to General Clay, and even suggested that "disciplinary action" might be called for, not only because I had answered the correspondents' questions, but also because, while I was in the United States, I had participated in taking the question of cartel policy up with the cabinet.

In my memorandum to General Clay of July 14, 1947, I declined to pursue such an issue. I had resigned not as part of a feud, but to clear the decks. After months of turmoil, we had produced, and

General Clay had issued, a law. This law said, concretely, what the policy against excessive power concentrations was to mean in Germany under military government. Now, regardless of personal feelings on the winning or losing sides, the time for debate had ended. It was doubtful that any of the additional laws suggested in my memorandum of August 2, 1946, which General Clay had approved "in principle," would now be issued to supplement Law No. 56; but General Clay had appointed to head the branch a man whose previous official duties had not involved him in the sometimes heated debates inside the Economics Division, and there would be no pretext for opposition. We felt that since General Clay himself had carefully gone over the final drafts, and since Washington had approved it as a measure falling within the official policy, General Clay would feel himself compelled to allow the staff to get on with its work of enforcing this one law.

The staff of the Decartelization Branch was hard at work preparing findings of fact and recommendations in several specific cases. This was a course of action that we had agreed upon back in February 1947, just after General Clay approved the law. We had agreed that the main job for the immediate future was to enforce the law and let the results show whether or not the program was proportionate to the need. We had proposed to select several combines that were very large, with a monopoly or near-monopoly position in important industries. They must have an undisputed record of collaboration in the Nazi economic scheme, preferably with international ties that had made them weapons of economic warfare. These firms would be called upon to show cause why they should not be separated into several independent enterprises under new management, as required by the new law.

Four outstanding cases suggested themselves. Three of these, the Henschel locomotive and armaments firm, the VKF bearings combine, and the Robert Bosch automotive-equipment trust, had not only their head offices and principal places of business, but also the bulk of their plants and other assets, in the American zone. The fourth, the Haniel family's Good Hope steel and machinery combine, had the headquarters of its top holding company and the bulk of its machinery and diesel-engine factories in the American zone, and its coal, steel and shipping subsidiaries in the British zone.

While procedures for co-operation with the British were being developed, the staff of the Decartelization Branch turned its attention first to the three representative combines in the American zone. Each of the cases illustrated a different type of problem, and together they presented a cross-section of the situations likely to turn up in other cases.

The firm of Henschel und Sohn of Kassel owned not only the largest locomotive-building shops in Europe, producing locomotives for the German state railways and for export, but, in addition, owned other factories producing trolley-busses, narrow-gauge engines, heavy trucks, road-making machinery and other heavy equipment, and had interests in a great many other lines of business. The Henschel family ties with the Nazi regime were close and the firm had distinguished itself early in the armament program by the development and production of the "Tiger" tank and the 88-millimeter gun. The firm had also undertaken a large aircraft-engine program for the German air force. The several plant groupings owned by the parent Henschel firm had operated independently of one another with practically no intermediate processing of common components to be shipped back and forth among different plant groups. Not only was the case for reorganization clear-cut, but it would be a simple matter to separate the different plant groups from the common control of the Henschel crowd without "interfering with production" in any legitimate sense of the word.

The other two American-zone test cases, VKF and Bosch, were complicated by international ties and contractual arrangements; but they, too, were simple from the standpoint of their productive activities in Germany, where each of their separate plant groups was operated independently of the others. If any pressure should be brought on the military government to go easy, for reasons not mentioned in Law No. 56, the issue of "interference with production" could be kept within manageable bounds. If the staff had chosen examples like Degussa or the Metallgesellschaft, questions of technology might have complicated the arguments.

The case of Robert Bosch, G.m.b.H. of Stuttgart involved some old puzzles. The American Bosch Corporation of Springfield, Massachusetts, had been seized by the Alien Property Custodian of World War II. Its predecessor firm had likewise been seized in World War I and between wars had found its way back into German control.

For years the German Bosch combine has controlled a majority of German production in the fields of automotive and aircraft electrical equipment and aircraft fuel injection. The firm controlled patents in these fields, both in Germany and abroad. Largely because of patent agreements between Bosch and companies in France, Britain and the United States, the use of fuel injection instead of carburetors on aircraft motors had remained a peculiar advantage of the German aircraft industry and had no counterpart in the other three countries.

The Bosch firm's key position in Germany rested rather on its control of patents and technology than on size of its manufacturing plants. The company's books showed assets valued in 1945 at a hundred and forty million dollars, all controlled by the Bosch family. The eight members of the management and supervisory boards held a total of thirty-eight positions on the boards of other companies. Through control of the only large central research laboratory in its field, the firm had a voice in the operation of other firms whether or not it owned any interest in them. In the same way its activities abroad had reached beyond the control of assets or stock in other companies.

The cloaking of the Bosch outpost in the United States was more smoothly arranged in World War II than it had been during World War I. After World War I, a group of three men, headed by one Martin E. Kern, representing themselves as American citizens, had bought the Bosch properties in the United States from the Alien Property Custodian. Mr. Kern, who became president of the new American Bosch Magneto Corporation, actually was an alien who represented himself as an American citizen of Swiss extraction. Four years after he became president of the company, he was convicted of making a false statement in an application for a passport when he made the same claim to American citizenship.

Curiously enough, after paying a heavy fine in the latter case, Mr. Kern was allowed to continue as president and director of American Bosch. Though the Alien Property Custodian notified the Department of Justice of Kern's conviction, no action was taken to set aside the Bosch sale. A few years later, in October 1929, American Bosch and German Bosch made a "trade agreement" defining the respective territories of the two firms and the rights to the use of the Bosch name; and by 1930, German Bosch had again acquired a majority of the stock of the American Bosch interests.

After the near-disaster that almost lost Bosch the control of the American properties, the German company got busy to arrange a better cloak for the future. In 1934, the Robert Bosch firm "sold" the controlling stock of the American Bosch Corporation to the Mendelssohn Bank in Amsterdam, Holland, subject to the right of Bosch to reacquire the stock under certain conditions. The Mendelssohn Bank then established a Dutch holding company, known as NAKIB, to hold the shares of the Bosch properties in the United States, Britain, France and Italy. Two officials of Robert Bosch then joined the staff of the bank to direct the policies of NAKIB. In 1935, the bank engaged Mr. George Murnane, former vice president of the New York Trust Company, to become a director and chairman of the board of American Bosch Corporation. When the Mendelssohn Bank went bankrupt in 1939, the liquidators appointed by the Dutch government found that the American Bosch stock had been transferred to the New York Trust Company as security for a loan. The New York Trust Company proposed to sell the stock to satisfy the debt of the "owner," the Mendelssohn Bank.

At this point Dr. Erich Rassbach, director of Robert Bosch of Stuttgart, revealed that any transfer of control over the American company really required their consent, because all the operations of the American Bosch Corporation depended on patent licenses granted to them by the Stuttgart company. If these licenses should be withdrawn, American Bosch Corporation would be "an empty shell," and the stock worthless. Thus, without having legal ownership of the stock of American Bosch, German Bosch had the company under control just as effectively as if the stock were in the safe at Stuttgart.

On May 6, 1940, just before the German blitz swept into Holland, the American Bosch shares were "sold" with the permission of

Stuttgart to the Enskilda Bank of Stockholm. The bank put them under the control of a financial holding company named "A.B. Investor." The transfer agreement created an option to permit Robert Bosch of Germany to repurchase the stock two years after the end of the war. At that time Marcus Wallenberg, who, with his brother, Jacob, controls the Enskilda Bank, was also acting simultaneously as agent of the German Reichsbank in other matters.

In November 1940, a voting trust agreement was set up in the United States under which George Murnane was designated by the Wallenbergs' Enskilda Bank as the sole voting trustee with complete power to vote the American Bosch stock at stockholders' meetings in the United States. The voting trust arrangement provided that if George Murnane should die, his successor should be named by John Foster Dulles, senior partner of Sullivan & Cromwell, the law firm which represents the Wallenbergs and the Enskilda Bank in the United States.

While all this legal footwork was keeping the legal ownership of Bosch properties abroad in the technical custody of neutral citizens, Bosch of Stuttgart was not hampered in its control over the use of patented Bosch technology by non-German companies. Even as late as June 1941, American Bosch was the only source of supply of fuel injection equipment for naval diesel engines. The United States Navy wanted to develop a second source of supply, but found that American Bosch had no right to grant a license to any other company to make this patented equipment. The American Bosch company informed the navy that no such license could be granted without the consent of the Robert Bosch firm at Stuttgart.

Finally, on May 19, 1942, the controlling shares of American Bosch Corporation, nominally held by the Swedish firm, A.B. Investor, were taken over by the Alien Property Custodian. On December 29, 1942, an antitrust action against the American Bosch Corporation was concluded by a court order canceling all agreements between American Bosch Corporation and Robert Bosch of Stuttgart, arising out of their "unlawful combination and conspiracy to suppress, limit and control competition between themselves throughout the world." American Bosch Corporation was required to issue

licenses under all of the Bosch patents to American manufacturers *without royalties for the duration of the war.*

The third case, that of the VKF bearings combine, also involved cloaking operations and the Enskilda Bank. One of the mysteries of World War II has been the unexplained international relations of the Swedish industrial organization, A.B. Svenska Kullagerfabriken, known as SKF, Sweden's largest industrial concern and the world's largest manufacturer of ball and roller bearings. The principal Swedish interest in SKF is held by the Wallenbergs through their Enskilda Bank and its investment subsidiary, A.B. Investor. The actual extent of German or other foreign control, either directly or through the Wallenbergs, has not been disclosed.

For many years the active management of SKF was in the hands of Sven Wingquist, the founder of the firm. In 1941, he gave up the day-to-day management but remained as chairman of the board. From time to time, beginning in 1933 and 1934, Sven Wingquist came into the world spotlight as one of a colorful clique of international adventurers, who gained special notoriety by their buzzing around Edward VIII at the time of his abdication in 1936. They included Axel Wenner-Gren, the yachtsman; Charles Bedaux, inventor of a labor speed-up system; and Jacques Lemaigre-Dubreuil, French banker and vegetable-oil man of West Africa.

Axel Wenner-Gren will be remembered as a yachtsman with a remarkable record of coincidences. He cruised the seas throughout much of the war in his yacht, the *Southern Cross,* and turned up to rescue survivors of German submarine attacks, beginning with the German sinking of the British ship *Athenia* in 1939 and continuing through the Caribbean submarine campaign of 1942. At the time, some people speculated about how one yacht could happen along so often when a submarine spotted a vessel; but the coincidences were never explained.

Charles Bedaux, inventor of the "Bedaux System," a speed-up system for forcing higher labor output in factories, was an American citizen who spent most of his life abroad. The Duke and Duchess of Windsor were married in the Bedaux château on the Riviera. Bedaux was captured by American forces during the invasion of North Africa while busy building a pipeline to bring vegetable oil from Lemaigre-Dubreuil's West African domain to the Mediterranean to help relieve the critical German shortage of fats and oils. Bedaux committed suicide in the federal jail at Miami, while awaiting trial for treason.

Sven Wingquist and Axel Wenner-Gren had taken an active part after World War I in the German plans to mask the ownership of subsidiaries abroad. To get around the Versailles Treaty, firms like Carl Zeiss, manufacturers of military optical equipment, set up branches such as the "Nedinsco" firm at Venlo in the Netherlands and carried on as before. The Krupp firm did the same in Spain, Sweden, and other countries.

In 1934 the Swedish government discovered that Krupp controlled a block of shares in the Bofors steel and munitions works through a Swedish dummy holding company called "Boforsinteressenten." Sven Wingquist, who was chairman of the board of the Bofors steel and munitions works, was one of the two Swedish citizens who had been voting this stock for Krupp at stockholders' meetings. The Krupp concern controlled approximately one third of Swedish Bofors in this manner and had maintained enough additional voting strength through Axel Wenner-Gren to control the affairs of Bofors.

Sven Wingquist and the Wallenbergs have always claimed that SKF is Swedish-owned and Swedish-controlled. Up till 1928, no one had any reason to doubt this assertion. But in 1928 and 1929, SKF was involved in a series of moves whereby all but one of the important bearing firms in Germany, accounting for 60 per cent of Germany's bearing industry, were merged into a new concern, the Vereinigte Kugellagerfabriken A.G., known as VKF. When these moves were completed, SKF showed on the record as the owner of 99.7 per cent of the stock of German VKF. The mystery is how SKF could possibly have managed to pay the German owners of the merged firms without giving the Germans either money or some substantial stock interest in the Swedish firm, SKF. The management of Swedish SKF denied that any stock was given to German interests; but they never explained how the German interests were paid off.

In a similar deal in 1928 under which SKF had merged and acquired the principal French bearing companies, SKF issued 14,000,000 kroner, par value, of new SKF shares which they turned over to the French interests in exchange for the controlling shares in the new French concern. This increase of SKF's capital from 92,000,000 to 106,000,000 kroner, by the issue of 14,000,000 to the French, gave the French interests among them a 13 per cent participation in Swedish SKF. In 1929, SKF increased its outstanding shares by another 24,000,000 at the time it acquired ownership and control of the German bearing trust, VKF.

At the time of the completion of the German merger, on September 8, 1929, the *Frankfurter Zeitung* reported that the shares of VKF would not be listed on the German stock exchange and went on to say, "However, the shares of the Swedish parent company, of which a part is already German-owned, will shortly be listed on the Berlin exchange." In 1933, a pamphlet published by VKF explained the 1929 deal as part of a plan to assure the German firm an increased export market. The pamphlet reported: "Mainly for this reason, there developed a voluntary dependence on the international SKF concern. In spite of this dependence, it was largely German capital which was interested in the share capital of Vereinigte Kugellagerfabriken A.G., amounting to RM 30,000,000, because the former owners are holders of the SKF concern shares and still other shares are in German private ownership."

The case of VKF of Germany and its international ties through SKF of Sweden, posed a problem in the concentration of German economic power. It was like the case of German VGF and Dutch AKU in the synthetic textile field. While the question of German control as against "neutral" control has never been satisfactorily answered, the "neutral" firm is unquestionably the legal owner of important interests in the United States which were immune from seizure by the Alien Property Custodian during World War II. In the case of SKF, the subsidiaries in the United States are SKF Industries, Incorporated, of Philadelphia and SKF Steels Incorporated, of New York.

In 1940, Marcus Wallenberg came to the United States to buy up German securities in the American market, presumably for the Reichsbank, as part of the German Economic Ministry's "repatriation" program to buy out Germany's external debt at a few cents on the dollar. He arranged at that time to set up a voting trust which conveyed nominal control of SKF's subsidiaries in the United States to William L. Batt as voting trustee. Mr. Batt is president of SKF Industries, and, during the war, served as deputy chairman of the War Production Board. It was Mr. Batt who called at my office in Berlin in the autumn of 1946 soon after the press reported rumors that we were considering action to divorce German VKF from its international partners. He had come to Berlin to confer with General Draper on matters of German recovery; but he also wanted to be assured that nothing would be done to disturb the Swedish interest in the German company, or to reduce the value of the holdings by permitting removal of any of the plants from Germany as reparations.

It happened that two thirds of Germany's entire bearing industry was concentrated in a single group of four factories at Schweinfurt. Three of them, accounting for 36 per cent of Germany's productive capacity, were owned by VKF; and one, accounting for 30 per cent of German capacity, was owned by the only remaining large independent, Fischer A.G. When American air forces bombed Schweinfurt during the war, in an effort to knock out this strategic point in German industrial production, Schweinfurt was discovered to be one of the most heavily defended spots in Germany. German defenses inflicted a loss of fifty American heavy bombers in one raid alone. When these raids temporarily knocked out Schweinfurt, the effect was largely nullified by shipments of bearings from SKF in Sweden. A special United States mission was sent to Sweden to buy off SKF's production; but it was only partially successful in this attempt to cut SKF shipments. When the time came to give up German plants as reparations after World War II, a large part of the plant of the independent bearing firm, Fischer A.G. at Schweinfurt, was packed up and shipped off, leaving VKF with substantially a 100-per-cent monopoly of German bearing production.

The work of preparing specific recommendations for rearranging the affairs of these combines illustrated what Attorney General Biddle had told the Kilgore Committee in 1944. Reminding the

Senate committee that actual reorganization plans would have to be carefully drawn, he had said:

"Such plans would have to be developed to fit the particular companies to which they are to apply. Even with the kind of adequate information which can be obtained only during a period of occupation, it would take a long time to work them out and each one of them would raise a variety of policy problems. It is not simple. Yet this is the kind of program which it will be imperative to follow if we are to guard our own security."

While most of the professional members of the Decartelization Branch staff worked on different parts of the Henschel, Bosch, VKF and Good Hope cases, the new chief, Phillips Hawkins, worked out the procedures to be followed in seeing each case through. Members of the branch became a little concerned when a special board was set up to review the extensive findings of fact in the Henschel investigation. A group from the Industry Branch and other parts of the Economics Division was sent on a special trip to Kassel to go back over the entire ground already covered by the Decartelization Branch before the Henschel company could even be served with an order to "show cause" why it should not be reorganized. The rules already called for reviews and appeals, after a case had been argued and before the company could be ordered to dispose of any property. The idea of "reviewing" the simple proposal to start a case looked unnecessarily complicated.

Even so, by March 1, 1948, four "staff studies" had been completed in the test cases. The action recommended in each case was the issuance of a military government order requiring the company to answer the charge that, for reasons stated, it represented an excessive concentration of economic power.

At the same time, General Clay made the long overdue move to put the cartel-control work into a separate division. A general order effective March 1 created a Property Division directed by Phillips Hawkins. Richardson Bronson became chief of the Decartelization Branch in the new division. The Army newspaper, *Stars and Stripes,* indicated that the purpose of the order was to group together those organizations, such as property control, restitution, reparations and decartelization, which were slated for early liquidation. Most members of the branch assumed that this statement was a reporter's error, since the decartelization program had not yet started.

Mr. Bronson, as my deputy control officer for I.G. Farben, had shown little enthusiasm for the Farben reorganization, but in general had followed my specific instructions without protest. In his new role as chief of the branch, however, he commenced by announcing to the staff that he had been reluctant to accept the appointment. He had not previously been in sympathy with decartelization; but the way the work was shaping up had convinced him that it was after all a program to which he could subscribe. During the following week the staff waited for approval of the "staff studies," which would give the green light to begin proceedings.

Instead of a green light, they got fireworks. On March 11, 1948 Mr. Bronson called a meeting of all the members of the branch. He had on his desk a memorandum which he said General Clay had approved, but which he refused to show to anyone. The memorandum set forth a new policy that was startling. It proposed to exempt from reorganization all enterprises in the field of capital goods and heavy industries. Action in the future was to be confined to enterprises having a monopoly in consumer goods. No action was to be taken against VKF, the bearings trust. The case against Bosch was to be suspended if not dropped entirely.

Even the Henschel case was to be dropped, although the British in the meantime had concurred in finding the Henschel family holdings to be an "excessive concentration" within the meaning of the decartelization law. A report to the Secretary of the Army signed by Mr. Hawkins on September 23, 1947 had said: "The combine cannot be left intact for the reason that its position in the German industrial world was so powerful that it could dictate the terms under which it would do business, that it was beyond the reach of competitive influence; and that its size and influence rendered it impervious to the conditions of free enterprise."

The branch in the future, according to Mr. Bronson, was to look for monopolistic and unfair trade practices in the fields of consumer goods and merchandising. Such practices had been prohibited under Section 2 of Law No. 56, with no distinction made between

heavy and light industries. Mr. Bronson went on to say that no reorganization of large combines under Sections 3 and 4 of the law would be undertaken unless such combines were found in the consumer-goods field. In any future cases under Sections 3 and 4 a "rule of reason" would be the guide, in place of the "arbitrary standards" of Law No. 56. No reorganizations would be allowed to affect "vertical integrations" of industry from raw material to finished product, but only "horizontal integrations" of plants in the same field of production. Finally, those large enterprises against which no action was contemplated under this new policy must be given a "clean bill of health" so that they could stop worrying about the possibility of legal proceedings. Actually investigations up to that time had revealed only four firms in the consumer-goods fields with enough economic or political influence to deserve so much as passing mention: the Reemtsma cigarette monopoly, the German match monopoly, the South German sugar trust, and the Schultheiss brewing firm.

Mr. Bronson announced that approximately one fourth of the staff would be laid off. The reason given was that the organization and working assignments must be changed to meet the requirements of the new policy. Those remaining would stop work on the heavy-industry combines and direct their attention to spotting unfair trade practices. Four persons would work for a short time clearing up all pending matters in relation to heavy or capital goods industries.

Shocked by this series of statements in such open contradiction to General Clay's position during the previous two years, nineteen members of the Decartelization Branch, all but two of the professional staff then in Berlin, signed a memorandum to General Clay informing him of the statements Mr. Bronson had made. The memorandum was submitted for whatever clarification General Clay might consider necessary. A few days later, on March 17, the same nineteen prepared another memorandum describing a series of revisions and counterrevisions of Mr. Bronson's oral orders which followed his conversations with Messrs. Hawkins and Wilkinson, and the publication in the *New York Times* of a series of dispatches by Delbert Clark describing the new policy.

Both of the memoranda to General Clay pointed out that Mr. Bronson's orders amounted to a drastic amendment or nullification of Law No. 56, which the staff was supposed to enforce. Mr. Bronson's orders were without written confirmation of any sort. "The effect of such an 'amendment,' we believe, would be to leave the fundamental concentrations of economic power intact while engaging in little more than harassing attacks on the smaller companies. This, of course, aside from being in contravention of the Law would tend to make its enforcement unpopular and completely ineffectual. We also think there are very serious objections to giving immunity to 'vertical integrations' since the Law makes no such exceptions; we believe that to give a 'clean bill of health' to subjects of investigation is contrary to all established principles of law and law enforcement; and we think that being guided by a 'rule of reason' rather than standards in the Law offers many obvious dangers."

Some members of the Decartelization Branch hoped that once General Clay saw how the cartel policy was being misinterpreted, he might do what he had done so many times in the past: bring the matter up in his Saturday morning staff conference, make the official position clear, and dress down the men who had twisted the running orders. These hopes were dampened slightly by the knowledge that changes of viewpoint in Washington would sooner or later have their effect and that General Clay might find it convenient to scuttle the program. There was always the possibility, which none of General Clay's statements in support of decartelization had ever quite dismissed, that he had been interested only in maintaining appearances. So long as there had been danger of criticism in Congress or in the press if the cartels were allowed to revive, he had been building a record of public statements in favor of the anticartel policy, but he had done nothing to override the steady sabotage.

The professional staff did not know until several days after Mr. Bronson's bombshell that on Sunday, March 7, Messrs. Hawkins and Bronson had talked with General Clay in his office about changing the decartelization program. Mr. Hawkins had summarized the results of that conference in a memorandum which

was then discussed by General Clay with Wilkinson, Hawkins and Bronson on March 9. It was this Hawkins memorandum of March 9 that Mr. Bronson had on his desk, but refused to show, when he talked to the staff on March 11.

At the conference of March 9, General Clay had read the memorandum, said that he generally approved of everything it contained, and agreed that it should serve, without being published as such, as the guide to the activities of the Decartelization Branch.

Mr. Bronson reported the matter in a private memorandum for his own files. General Clay had "realized that the dissemination of this memorandum prepared by Mr. Hawkins, to which he informally agreed, would be disturbing to those in the Decartelization organization who had had strong antitrust background and we could expect considerable remonstrance and bitter feeling, but that he expected me to keep such individuals in conformity with his policies and the policies of OMGUS, and that if they did not conform in spirit, to have them replaced by individuals who were in agreement with such a program; that if I found that I had released too many people and I needed capable personnel, that I could always go back to the United States and bring back such personnel as were capable of doing the job. . . . General Clay stated that he realized that when this Program was made public, there would be a scream to the high heavens from the strong antitrust group, but that there had been similar screams before as exemplified by the soundings-off of Martin back in the States, but that the screams had come and gone and that probably there would be not much more major interest. . . ."

The professional staff of the branch had no knowledge of these conferences. They dispatched their joint memoranda to General Clay and sat back waiting for the lightning to strike. Late in the afternoon of March 22 all nineteen were summoned to a meeting with General Clay in the big conference room around the hollow square table.

As the members were assembling in the conference room, Alexander Sacks, the only one left of the three of us who started on the venture in 1945, turned to Virginia Marino, another former member of the Economic Warfare Section, and remarked that Bronson must be serving his own interests because General Clay could not possibly have approved the new policy. She replied that Bronson would not dare to fabricate the story that his orders came from General Clay, and besides, he had shown no evidence of having a personal iron in the fire. Johnston Avery, who as the assistant chief in charge of enforcement had been bearing the brunt of the argument over enforcement changes, came in and sat down at a corner of the table on the side opposite General Clay's chair. His calm manner showed his belief that Clay would set matters right. Captain Laurent, who as a TVA lawyer had had a ringside seat for that organization's fight with the fertilizer trust, and whose staff had prepared the Henschel, Bosch, VKF and Good Hope cases, was confident that the four test cases were so thoroughly prepared that General Clay could not reject them all at once without announcing an obvious reversal of policy. The general feeling that Bronson had been offside seemed to have further support in the fact that Bronson had hurriedly departed for the United States a few days before, at the height of the controversy.

General Clay entered the room flanked by Lawrence Wilkinson and Phillips Hawkins. He opened the meeting with the statement that Bronson had no responsibility in the matter of recent policy statements. The decisions were those of General Clay himself. He had rejected the Henschel case because of the company's importance to the rehabilitation of Europe, and because the combine had only one customer, the German State Railway. This statement made it clear that General Clay had not read or had not understood the findings of fact in the Henschel case. The State Railway purchased locomotives from the standard-gauge railway locomotive shop, which was only one part of the vast holdings. General Clay went on to say that he had rejected the VKF case because VKF had already, at the insistence of the Decartelization Branch, transferred some idle equipment to the independent producer, Fischer A.G. This transfer of idle machinery, according to Clay, had "destroyed the monopoly." Further than that he would not go. It would not be possible to approve the severance of VKF from the ownership of "neutral" Swedish SKF.

General Clay said he had accepted part of the plan in the Bosch

case, to cut off the few small subsidiary enterprises unrelated to the company's main fields of activity; but he could not agree to disturb the Bosch control of the central research laboratories and the plants in its main fields, electrical equipment and fuel injection. In the steel industry, he said, the Good Hope case was premature until a decision should be made on the number and kind of competing companies to be created of the properties of the six big steel combines. In general, every case in the future would be examined by a "rule of reason." Since no two people would necessarily agree on the conclusions to be drawn from the facts in each individual case, the final decision would be made by General Clay himself.

As the Military Governor went on with his statement, the listeners exchanged looks of incredulity. Johnston Avery's face looked drawn. His jaw dropped. Throughout the first part of the meeting he did not speak, but sat taking notes. Some of those around the table, including Captain Laurent, began to ask questions. Others were Charles A. Dilley, former professor and student of antitrust legislation; Richard R. Rathbun, who later returned to the United States as a lawyer for the Antitrust Division; Irene Opton Ball, wife of the director of the Finance Division and a former financial analyst for the Board of Economic Warfare; John J. Barron, former FBI agent; and Samuel L. Kobre, attorney. Kathryn R. Beaty, former secretary to Wendell Berge in the Antitrust Division, and Charles Baldwin, editor of the four-volume report on cartels and combines, and others watched and listened. At first no one attempted to answer back or argue, beyond asking pointed questions. Finally Johnston Avery gathered up his notes and edged forward in his chair, preparing to speak.

General Clay had just replied to one question by saying that the steel industries in Germany must be big enough to "live" in competition with the steel industries of other countries. He went on to say that the German steel firms must operate at a profit, so as to bring the owners a "reasonable rate of return on investment."

At this juncture, Alex Sacks raised a point. The history of the Ruhr steel industry, which would long since have been bankrupt but for a large government subsidy, emphasized the absurdity of guaranteeing a "reasonable rate of return on investment" to the industry in a competitive market. What right did the owners of these combines have to this kind of consideration? Suddenly General Clay cut in. His face clouded up. His fist banged on the table. "I did not come here to be lectured on decartelization." He looked around the table. In a controlled voice he finished off: "I hope that no one feels he *has* to leave." He paused. "I hope that everyone will feel that he can remain and work under the policy as I have stated it. Good night, gentlemen!" He rose and left the room.

The results came rapidly. Johnston Avery and Frank Laurent tendered their resignations. These were accepted. The professional staff was cut. In all, ten positions were abolished in the first reduction of force under the "new policy." Other cuts came later. In the end this left a handful of Americans responsible for the trade practices of twenty million Germans in the United States zone.

Major General George P. Hays, the Deputy Military Governor, had views of his own on what should happen to people who oppose cartels. On the floor of the House of Representatives on March 25, 1948, Representative George G. Sadowski of Michigan referred in the course of a debate to the "nineteen courageous men and women" of the Decartelization Branch who had asked General Clay to clarify the cartel policy in Germany. Representative Sadowski had introduced into the record a copy of the memorandum of March 13, 1948. There was no indication that any one of the nineteen, let alone all of them, had provided the congressman with a copy of the memorandum. When General Hays received a copy of the *Congressional Record* he pinned a note on it and sent it to Phillips Hawkins. The note read: "Please have read by each of 19 'courageous' nonconformists. Mr. Sadowski may consider them courageous, but I consider them disloyal employees who should be treated accordingly."

The personnel office thereupon put a note in the personnel file of each of the signers, stating that no promotion, transfer, or other change of status was to be made without clearance from higher authority. Later, General Clay tried to apologize for his deputy's remark and General Hays offered to write a letter to any of the nineteen who requested it, saying he did not mean they were subversive. But the "disloyal" label continued to dog the tracks of all

nineteen, not only because denials never catch up with charges but also because government files never give up their papers.

What had been announced as a law to bring about decentralization of the Germany economy, and to end the power of the heavy industry trusts and combines, was almost overnight transformed by verbal order into a law for limited policing of business practices, with no fundamental change in the business structure to be policed. Not only was the main job left undone, but public servants were damned for having tried to do it.

CHAPTER 20

The Hand in the German Glove

AFTER two and a half years, I came back from Germany quite well aware that I had been wrestling with a buzz saw. We had not been stopped in Germany by German business. We had been stopped in Germany by American business.

The forces that stopped us had operated from the United States but had not operated in the open. We were not stopped by a law of Congress, by an executive order of the President, or even by a change of policy approved by the President or any member of his cabinet. In short, whatever it was that had stopped us was not "the government." But it clearly had command of channels through which the government normally operates.

The relative powerlessness of governments in the face of growing economic power is of course not new. Between the two world wars the outstanding development in world economics was the division of territories and markets, by private agreement, among the largest corporations of Britain, Germany and the United States, with minor participations by their counterparts in France, Italy and Japan. National governments stood on the sidelines while bigger operators arranged the world's affairs.

In the United States in 1933 President Roosevelt tried to establish a government powerful enough to talk back to the private operators. For a time the Roosevelt government asserted its right to control business activities wherever they might affect the public interest. But with the outbreak of war, men who had been on the outside during this New Deal era, cursing "that man" from their chairs in the Union League Club, had to be called to Washington.

The government of the United States found that it was in no position to fight a war unless it made a deal with the powers in control of the country's productive capacity.

With World War II "business" moved into "government." Men from high positions in investment banking and in the management of the top industrial holding companies came to Washington to guide the war production program. Later they moved up to high policy-making positions. Especially noteworthy was a group drawn from the Morgan companies and their pilot-fish, the bankers of the Harriman firm and the business-management specialists of Dillon, Read & Company. James V. Forrestal, former president of Dillon, Read, moved from Undersecretary of the Navy, a position largely concerned with co-ordination of industry programs to speed matériel procurement, to Secretary of Defense. Robert A. Lovett, former partner in Brown Brothers, Harriman & Company, moved from Assistant Secretary of War to Undersecretary of State. W. Averell Harriman himself started as a "liberal businessman" sent on a mission to Moscow in connection with Lend-Lease. He later became Ambassador to Russia, Ambassador to England, Secretary of Commerce, and finally roving ambassador for the Marshall Plan, all the while retaining a limited partnership in the Brown Brothers, Harriman firm.

Is it possibly a coincidence that Philip D. Reed, Lewis H. Brown, Frederick L. Devereux, and some of the others already mentioned in connection with the lapse of our German policy, have had in common their past experience with the financial and industrial concerns of the same investment banking groups?

In 1942 the Truman Committee investigated the performance of a number of dollar-a-year men, including Mr. Reed, and had this to say about their failure at that time to carry out certain government policies which affected the larger firms: "The committee believes that most dollar-a-year and 'without compensation' men are honest and conscientious, and that they would not intentionally favor big business. However, it is not their intentional acts that the committee fears, but their subconscious tendency, without which they would hardly be human, to judge all matters before them in the light of their past experiences and convictions."

These men, with all their "past experiences and convictions" found a ready-made kit of tools left over from the cartel era of the twenties and thirties. The failure of military government to do anything about removing the tools meant that the "subconscious tendency" of these like-minded men could find a ready expression in all the machinery of collaboration which was waiting to be revived between German and foreign business groups.

Some of the machinery of collaboration had been designed with considerable skill. In the twenties, for example, the elder Hugo Stinnes, founder of the Rhenish-Westphalian Coal Syndicate and head of the Stinnes coal, steel and shipping interests, set up two new corporations in the United States. These two corporations became the legal "owners" of all the Stinnes properties in Germany. Both Hugo Stinnes Industries, Incorporated, and the Hugo Stinnes Corporation, were incorporated under the laws of Maryland, with their head offices in New York. The elder Stinnes borrowed heavily in the United States in the 1920's by selling bonds to the public, and later defaulted on the loans. But since the assets of the two "American" Stinnes companies consisted almost entirely of the shares of stock they held in the German Stinnes corporation, there was little the creditors could do to realize on the bonds.

Before World War II, the shares of the German Stinnes held by the Stinnes companies in the United States represented a majority of the outstanding stock of the German companies. When the war came, the German companies, now headed by Hugo Stinnes, Jr., developed a hedge to take care of either a German defeat or a German victory. To prevent seizure of the properties by the German Custodian of Alien Property because of their "American" control, Stinnes called a meeting of the German stockholders, representing a minority of the outstanding shares, to approve an increase in the outstanding stock of the German company. The stockholders then sold all of these new shares to themselves. As a result, the blocks of shares owned by the American companies no longer represented a majority of the outstanding stock. This made the Stinnes companies German-controlled and not subject to seizure. In the event of a German victory, all was well. But if Germany lost the war, the holders of the American stock could go to court and have the action

of the German stockholders rescinded because a majority of the stock had not been represented at the meeting. The issuance of the new stock, which had reduced the proportionate holdings of the American companies, would be declared illegal. That is actually what happened. In 1948, a German court held that the Stinnes interests in Germany were "American property." Since that time the Stinnes companies have had the preferred status that goes with "foreign" ownership in postwar Germany.

The preferred status of "foreign" companies has provided an important part of the new design that is shaping the international economic balance. What was hit-or-miss in the "Christmas-tree" economy of the years after 1945 in Germany, from the standpoint of the German national economy, is not necessarily haphazard from the standpoint of power concentrations in international economic affairs. German firms with international ties have become small cogs in a larger machine. At the same time, new policies have been developed to promote the "integration and co-ordination" of the German internal economy into a more closely controlled mechanism.

On May 15, 1948, two months after disagreements over the cartel policy had come to a head, Leland E. Spencer, head of General Clay's Commerce and Industry Group, a part of the Anglo-American control organization for Bizonia, presented to General Clay a memorandum proposing a "revised German economic policy." Mr. Spencer proposed to establish a series of privately controlled German industry associations, each with its headquarters in the "natural center" of the industry. Membership by German companies in such associations would be "voluntary"; but the association would be given power to act as a central control and co-ordinating point for all companies in the industry, whether they were members of the association or not. The association would require all companies to submit production data and other information, and would allocate scarce materials among the different companies on the basis of their "relative position in the industry." Discrimination by an association against nonmembers, or between members, would be prevented by establishing an appeals board in the German Bizonal Economic Administration. The Economic Administration would also serve as a top control and co-ordinating point for the whole hierarchy of associations.

This grant of regulatory powers to the industry associations, according to Mr. Spencer, would "remove governmental interference in business," a change which he described as "a must!" General Clay approved this policy on May 21, 1948, thereby bringing to an end the earlier policy adopted in 1945 which had forbidden turning over regulatory powers, which were basically governmental powers, to privately organized industry groups. In 1945 the bad example of the Reichsgruppe Industrie and its system of industrial "self-government" had been enough to show the need of keeping governmental powers in the hands of a government. But the era that followed was one of quiet forgetfulness. General principles, based on previous experience of the way governments have broken down, gave way before the demands of "efficiency"; and German administrators or even private organizations were given the power to make their own rules as they went along.

The breakdown or abandonment of time-tested principles was an inside job. While General Clay himself assumed full responsibility in March 1948 for overruling reorganization plans in the case of the heavy-industry combines, his decision followed after several conferences within the Economics Division on policy questions. Early in 1948, as the test cases for reorganization under Section 3 of the decartelization law were being made ready, Harald Hamberg and two other gentlemen from Swedish SKF at Stockholm arrived in Berlin to discuss the future of the German VKF. Harald Hamberg was the former head of German VKF who, in 1941, succeeded Sven Wingquist as head of Swedish SKF. Hamberg and his two companions lived at the Wannsee Officers Club during their stay at Berlin and traveled freely to Schweinfurt to confer with their German managers.

When Robert A. Nitschke, chief of the Cartels Section of the Antitrust Division in Washington, arrived in Germany to confirm some documentary details of the government's antitrust case against the SKF combine, he was prevented for several days from making a trip to Schweinfurt to examine the records of VKF. By the time Mr. Nitschke reached Schweinfurt the gentlemen from Stockholm had already had three or four days to review the records themselves. The reason for the delay in Mr. Nitschke's case was an argument by several members of the Economics Division that it would be unfair to permit a federal agency to have any freer access to the records of a German company than they would have to the records of a company in the United States. They pointed out that in the United States, if a company does not volunteer to make its records available, the issuance of a subpoena requires the action of a grand jury, based on a "reasonable suspicion" that a criminal law is being violated.

General Clay did overrule his Economics Division on this point of protocol; but the Economics Division's excessive caution may have accounted for the fact that the needed records were reported "lost in the bombing." In a previous case in 1946, involving documents from the Krupp files to be used in the government's successful prosecution of the case against General Electric and the tungsten carbide monopoly, we had readily secured photostatic copies of important documents. The British control officer in charge of the Krupp works had raised no objection to the invasion of the "privacy" of the Krupps.

The decision to drop the VKF case, which was confirmed by General Clay in March 1948, had been first proposed some six weeks earlier by Mr. Wilkinson following conferences in his office with the SKF men from Stockholm. No one from the Decartelization Branch was called into those conferences. The staff of the Decartelization Branch learned of the agreement reached by Wilkinson with the representatives of Swedish SKF when Richardson Bronson circulated copies of a memorandum he had written to Lawrence Wilkinson, outlining his understanding of Wilkinson's instructions for disposal of the VKF case. The substance of the memorandum was that VKF would be expected to sell two thousand surplus machines to the Fischer bearing works, but that since this action would allow Fischer to resume limited production and therefore would break the 100-per-cent monopoly position of VKF, no further proceedings would be undertaken against VKF. Also Swedish SKF would be informed that the military government had no intention of disturbing SKF's ownership and control of German VKF.

The Bosch case ran a slightly different course. While the Decartelization Branch was making its study of all the facts and preparing its recommendations, a retired American general, Arthur C. Wilson, arrived at Berlin in a private capacity as representative of a Swiss firm which had an exclusive agency agreement with Bosch. General Wilson had previously served in North Africa and Italy, and had commanded the Continental Advance Sector of the Sixth Army Group in the invasion of southern France. Despite his lack of any official status, and his position as representative of a firm interested in the Bosch case, General Wilson was given an office in the Economics building at Berlin, and the use of an official staff car. Members of the Decartelization Branch received instructions to consult General Wilson on all phases of the proposed reorganization orders in the Bosch case, and to clear all such items with General Wilson before attempting to take them any further up the line toward General Clay's desk.

It is not a crime under United States law for an army officer drawing retirement pay to represent a client before any agency or department of the government, unless he receives a fee for so doing. Section 113 of the Criminal Code does provide punishment for any officer in the employ of the United States — which has been held to include an officer on the retired list of the army drawing retirement pay — who "shall directly or indirectly receive or agree to receive any compensation whatever for any services rendered or to be rendered to any person, either by himself or another, in relation to any proceeding, contract, claim, controversy, charge, accusation, arrest, or other matter or thing in which the United States is a party or directly or indirectly interested, before any department, court martial, bureau, officer, or any civil, military or naval commission whatever."

Likewise, General Clay's deputy, General Hays, who conducted meetings on the Bosch matter at which General Wilson represented the position of Bosch, was not acting illegally unless General Wilson was receiving compensation from a client or from some other person. Section 332 of the Criminal Code applies only to one who "aids, abets, counsels, commands, induces or procures" the commission of an offense defined in a law of the United States.

However, General Clay did seem to entertain some doubts about the propriety of anyone's transacting private business while enjoying the privileges of a distinguished unofficial visitor. A few weeks after General Wilson's participation in the Bosch case was disclosed, General Clay, without naming names, published an order forbidding former military and civilian members of the occupation forces to enter Germany for private business purposes until two years after the termination of their service. He had been "shocked" to learn that one visitor had transacted private business while enjoying the status of a house guest of the Military Governor.

Despite any questions General Clay may have had about General Hays's handling of the Bosch matter, and General Wilson's participation on behalf of Bosch, the treatment of the case itself was not materially changed. After General Clay had disapproved all the test cases, including Bosch, in March 1948, there was some unfavorable comment in the United States, particularly in Congress. Later, General Clay directed that the Bosch case should be reexamined. But in the end the Bosch firm suffered reorganization only to the extent of having one plant group, out of the many it controlled, slated for transfer to new ownership. Bosch retained control of the technology and know-how, as well as the patents accumulated on the strength of its monopoly position, and the control of the research and development laboratories. In addition, with the help of General Wilson, the Bosch firm got military government permission in July 1948 to enter into an "exclusive agency agreement" with a Swiss trading firm, the Industrial Products Trading Corporation, of Zurich.

The Industrial Products Trading Corporation, formed for the purpose of buying industrial products from German companies and selling them in world markets, was owned jointly by General Wilson and two Greeks, the Ghertsos brothers. The latter had owned the Bosch agency in Greece for twenty years before the war. They made a loan of 33,000 Swiss francs to General Wilson to enable him to buy his one-third share in the new Swiss company. The so-called "Bosch-Swiss" agreement made the Swiss firm "sole and exclusive sales and service agents" in the following countries: Argentina, Brazil, Bulgaria, Czechoslovakia, Denmark, Greece, Hungary, Iceland, Iraq, Mexico, Panama, Portugal, Roumania, Sweden, Switzerland, Turkey and Yugoslavia. This agreement covered any and all Bosch products, including fuel-injection equipment, automotive and industrial electrical equipment, refrigerators, electric tools, and other products of the Bosch line.

Richardson Bronson and Phillips Hawkins approved this Bosch-Swiss agreement without obtaining the concurrence of Brigadier Oxborrow, the British decartelization chief, as required by the rules Mr. Hawkins himself had drafted. No one had fully investigated charges that the Industrial Products Trading Corporation of Zurich was, in fact, a Bosch dummy with the controlling interest held by the Ghertsos brothers for the beneficial interest of German Bosch.

Another curious feature of the Bosch-Swiss agreement was that Bosch agreed to sell its products to the Industrial Products Trading Corporation at a price payable in German marks far below the price schedules previously maintained by Bosch. This would enable the Swiss company to sell the products abroad at considerably higher prices and to accumulate the excess foreign exchange in dollars or other hard currencies outside the reach of the occupying powers.

The "new interpretation" of the anticartel policy was not confined to cases of companies involved with foreign ownership, like Bosch. On November 10, 1948, the military governments of the American and British zones published Law No. 75 covering "Reorganization of German Coal and Iron and Steel Industries." The new law recited its purposes as follows:

> It is the policy of Military Government to decentralize the German economy for the purpose of eliminating excessive concentration of economic power and preventing the development of a war potential. . . .
>
> Military Government has decided that it will not allow the restoration of a pattern of ownership in these industries which would constitute excessive concentration of economic power and will not permit the return to positions of ownership and control of those persons who have been found or may be found to have furthered the aggressive designs of the National Socialist Party. . . .

> *It is therefore ordered:* The enterprises enumerated in Schedule A of this Law are hereby declared to be excessive concentrations of economic power or otherwise deemed objectionable and therefore subject to reorganization within the purview of Military Government Law No. 56 Prohibition of Excessive Concentration of German Economic Power. The controlling companies in each of these enterprises shall be put into liquidation forthwith and a liquidator appointed, or current liquidation proceedings confirmed, as the case may be. . . .

The schedule of twenty-six top holding companies to be liquidated included twelve steel combines, the Rhenish-Westphalian Coal Syndicate, and thirteen other operating coal combines. The twelve steel combines were United Steel, Krupp, Mannesmann, Klöckner, Hoesch, Otto Wolff, Good Hope, Ilseder, the Göring complex, the Flick complex, the Thyssen group, and the Stinnes complex. Another schedule listed four public utilities or government-owned industrial combines whose assets were to be seized, including the Rhenish-Westphalian Electric Company, and the government-owned United Industrial Enterprises, Incorporated.

To carry out the changes in the ownership and management of the steel firms, Law No. 75 provided that: "A Steel Trustee Association consisting of German nationals shall be established for the purpose of assisting in decentralizing and reorganizing the iron and steel industry. The members of the Association shall be appointed by or under the authority of Military Government, after consultation with the appropriate German bodies."

General Clay turned over to the Germans themselves the job of picking twelve German trustees to make up the Steel Trustee Association. The assignment fell in the first instance to the German president of the executive council of the Bizonal Economic Administration, Dr. Hermann Puender. In January 1949 Dr. Puender asked trade-union leaders to help him pick the slate of German trustees. The trade-unionists soon left the conference, after refusing to accept the Puender slate, which included eight representatives from among the very combines that were to be "reorganized."

The eight combine men were: Dr. Werner Albert, former Nazi Party representative on the board of Mannesmann, and a *Wehrwirt-*

schaftsführer or "leader of the war economy"; Hermann J. Abs, director of the Deutsche Bank; Heinrich Dinkelbach, managing director of United Steel and successor to Ernst Poensgen in the International Steel Cartel; Günther Henle, grandson of Peter Klöckner, who succeeded Klöckner as chairman of the family steel combine in 1940; Günther Sohl, Nazi Party representative on the boards of United Steel, Krupp, and other big steel works; Karl Barich of the Rhenish-Westphalian Electric Company; Friedrich Wilhelm Engel, director of Hoesch; and Herbert Mondon, formerly of the Göring combine and deputy chairman of the Iron and Steel Association. Only four of Dr. Puender's twelve came from outside the top ranks of the big steel combines: Dr. Victor Agartz, former chief of the Bizonal Economic Administration; Dr. Heinrich Deist, German civil servant; Heinrich Meyer, former trade-union secretary; and Gerhard Schroeder, former Nazi government attorney.

This demonstration of how Dr. Puender's mind tended to run was not enough to get him fired as economic chief to Bizonia. General Clay merely announced that he thought not more than three of the twelve trustees should come from among the former owners of the combines, and said that he and General Sir Brian Robertson, the British Military Governor, would have the last word in approving the steel trustees.

Dr. Puender himself had had previous experience with shaping the thoughts of his German colleagues. During the war he served as a lieutenant-colonel in the *Truppen Abwehr* of the Army High Command, the counterpropaganda service. He was in Division III–H, the division concerned with preserving morale and correct Nazi ideology in the military forces. When this record of Dr. Puender's service was reported in the American press in Drew Pearson's "Washington Merry-Go-Round" column, former Chancellor Brüning immediately rose to the defense with the claim that Puender actually was a vigorous anti-Nazi who was one of several who "infiltrated" the *Abwehr* organization as part of the German "underground." Dr. Brüning pointed out that Puender was arrested in connection with the 1944 bomb plot against Hitler; though he did not go on to explain that over four thousand people were executed for their direct or indirect connections with that plot. Perhaps Dr. Puender was so clever at infiltration that his complicity was never discovered. But an even more important question which Dr. Brüning did not answer was why an anti-Nazi and a former member of the German "resistance" picked such a slate of steel trustees.

As if to underline the probable future of the "international" control of the Ruhr, dispatches from Germany dated February 25, 1949, in addition to naming Dr. Puender's twelve proposed trustees, also named four representatives of the United States Steel Corporation and one of Inland Steel who were to be the American members of the international Ruhr trusteeship commission. Among them was Ian F. L. Elliott, the representative of United States Steel in Europe who in the years immediately before World War II had participated in the management of the International Steel Cartel.

The constantly accumulating evidence of defeat of the American reform policies for Germany reached a climax in the spring of 1949. Almost immediately after the November election of 1948, President Truman had directed Secretary of the Army Kenneth C. Royall to dispatch to Germany an investigating commission that had been appointed several months before, but had been waiting for orders to proceed. The commission was headed by Garland S. Ferguson, a member of the Federal Trade Commission. The other two members were Samuel S. Isseks, New York lawyer nominated by Attorney General Tom Clark, and Andrew T. Kearney, business management expert nominated by Paul G. Hoffman, head of the Economic Co-operation Administration. As legal counsel to the commission, Secretary Royall appointed Charles Fahy, former Solicitor General, who had also served for over a year as director of the Legal Division in Germany. To assist the commissioners, the Department of the Army appointed John C. Stedman, a section chief in the Antitrust Division; William H. England, former chief economist of the Federal Trade Commission; and Norman Mitchell, assistant to Mr. Kearney.

The Ferguson commission held hearings in Germany in December 1948 and in Washington in January and February, 1949. Their specific purpose was to investigate the effect of General Clay's order of March 9, 1948, rejecting the test cases under Law No. 56, reinterpreting the meaning of the anticartel policy, and requiring a substantial reduction in the size of the Decartelization Branch.

In a report of one hundred and thirty-six pages, dated April 15, 1949, the Ferguson commission found that the basic policy of eliminating the cartels and big combines was sound, and that "this policy should have been, and should now be, energetically enforced." The report commended the decartelization law, Law No. 56, as a reasonable and necessary regulation, and also found that the program as we had originally designed it was reasonable. The commissioners found no evidence to substantiate the charge that we had proposed to "break up" German industry into unworkable fragments. The four-volume resume of the cartel and combine problem was an "adequate starting point" for the activities of the branch once the law was passed.

Turning to the reasons for failure of the program after the enactment of Law No. 56, the commissioners criticized the unnecessarily complicated procedures worked out by Messrs. Wilkinson, Hawkins, and Bronson in the latter half of 1947. They also reported that these men "with direct responsibility for carrying out the work of the Decartelization Branch have not had the record of accomplishment in connection with decartelization, and particularly with deconcentration, that one would like to see in persons in such positions." The report cited evidence, too, that "some, including those who are responsible for the review of actions, have not always been in complete sympathy with the program."

The commissioners examined very carefully the claim that the elimination of "excessive concentration of economic power" would interfere with German recovery, and found no evidence to substantiate that claim.

The Department of the Army took no steps to carry out the recommendations of the Ferguson report. The actors gradually drifted out of the spotlight. General Draper, who had become Undersecretary of the Army in 1947, resigned and went back to his job as vice president of Dillon, Read & Company just before the report was filed. General Clay's retirement, originally set for July 1, 1949, was suddenly announced, to be effective May 15, in a release issued from the White House a few days after the Ferguson report was published. Lawrence Wilkinson and Phillips Hawkins stayed in Germany for a few months after John J. McCloy assumed office as civilian High Commissioner, then quietly resigned. Richardson Bronson stayed on a little longer, then returned home.

Only two men were hurt directly by the Ferguson investigation: both of them men who were summoned before the commissioners to give evidence. One, Charles H. Collison, who had run with the hounds during the disagreement between Bronson and the nineteen members of the professional staff at Berlin, later gave damaging testimony to the investigators on Bronson's mishandling of the program. Bronson retaliated by firing Collison; and although a review board found that his discharge had been unjustified, High Commissioner McCloy announced that Collison would have to go anyway because the Decartelization Branch was again being "reduced."

The other casualty was Alexander Sacks who, upon being asked to account for the failure of the program, had replied in part: "The men charged with the highest responsibility by the Commander-in-Chief have failed to carry out the explicit orders of the July 15, 1947 Directive to the Commanding General and Military Governor in Germany. The policies of the Roosevelt and Truman Administrations have been flagrantly disregarded by the very individuals who were charged with the highest responsibility for carrying them out. . . . It is no secret that the operations of the decartelization program have been hampered by Major General Draper and his associates in Military Government . . . They have done whatever they could, by innuendo and misstatement, to discredit a program which they either did not understand, or did not like."

For speaking these convictions, which the Ferguson report later substantiated, Sacks was fired at the insistence of Lawrence Wilkinson on the charge of "making statements attacking the integrity and good faith of the Undersecretary of the Army and of key United States Military Government officials charged with the implementation of the decartelization program in the United States zone of Germany." When Wendell Berge, former head of the Antitrust Division, took up the case, Sacks was reinstated pending the completion of the report of the Ferguson commission. Then, even though the findings of the commission verified Sacks's charges, General Clay in one of his last official acts, on May 14, 1949, the day before he left Germany, ordered the resumption of proceedings against Sacks. Eventually Alexander Sacks was "cleared" by a three-man hearing board at Berlin. He was reinstated in his position with another branch of the military government organization.

In December 1949, the office of the United States High Commissioner, John J. McCloy, hired a group of lawyers to form a new Decartelization Branch. The new recruits included several with previous experience in antitrust law enforcement. They were not noticeably better or worse qualified than the staff which bore the brunt of the fight from 1945 to 1948.

By December 1949, however, there was already talk of including Germans in western European military forces. A western German government was in the saddle, committed to a program of old-line "free enterprise." Hermann J. Abs visited the United States to arrange a settlement of the defaulted dollar bonds of the 1920's, to pave the way for new private loans to west German heavy industries. Baron Georg von Schnitzler, Emil Puhl and others were paroled from prison, just in time to join the parade.

A flourish of trust busting at that late date might have saved the surface. But could it have saved all?

CHAPTER 21

Microcosm and Macrocosm

OUR government could not muster the determination and constancy of purpose to match the dogged persistence of the fraternity brothers. The military government in Germany could not contend with a small clique of Germans because the interests of these aging representatives of Germany's New Order were integrated with the interests of powerful corporations in the United States. Yet these powerful corporations which were able to frustrate the intentions of our government derive their powers by consent of the government.

As governments are now set up, they unleash powers which they cannot control. The State of Delaware, by virtue of its power as a sovereign state, may charter E. I. du Pont de Nemours and Company, and so give it a legal existence. Or New Jersey may create a Standard Oil Company. Such organizations can, and often do, follow private goals that clash with the public interest, while the governments which harbor them look on ineffectually. We might as well ask a match to control the forest fire it has started as to ask Delaware to control Du Pont, or New Jersey to curb Standard Oil, or, for that matter, Luxembourg to abolish the International Steel Cartel.

In the spring of 1947 Johnston Avery and I did make a trip to Luxembourg to ask the government of the Grand Duchy to order the dissolution of the International Steel Cartel. We had previously refused to allow representatives of the Arbed steel combine to enter Germany and inspect their properties in our zone. Our reason was that Aloyse Meyer, the former collaborationist, was still managing Arbed, and was keeping the cartel offices and organization intact for future use. The Luxembourg government had protested to the State Department about our exclusion order. We went and discussed the deadlock with Prime Minister Pierre Dupong, Foreign Minister Joseph Bech, and the Economic Minister, Guill Konsbruck, who was also a director of Arbed and chamberlain to the Grand Duchess Charlotte. The answer of the Luxembourgers was, in effect, that they would not dissolve the cartel because they could not.

A little government like that of Luxembourg might not be expected to stand up to an international power complex. But what about a larger government? The government of the United States took no action throughout the war to halt American participation in the Bank for International Settlements at Basle, Switzerland, a private international bank founded by Dr. Hjalmar Schacht when he was president of the Reichsbank. This bank was set up after World War I in connection with the Dawes and Young plans, supposedly to help foreign-exchange transactions among the countries that were to receive reparations from Germany. After reparations payments were abandoned, the bank went on acting as a regulator of foreign exchange and funneled foreign investments into German enterprises. During World War II, its president was an American, Thomas H. McKittrick, though the Germans held the controlling interest as before. Around a common table, American, French, German, Italian, Swedish, Swiss and Dutch bankers transacted their business as in peacetime. In addition to Dr. Schacht, Emil Puhl, and others from the Reichsbank, Baron Kurt von Schröder, the Cologne banker, and Paul Reusch of the Good Hope combine were members of the German contingent.

The International Monetary Conference at Bretton Woods in July 1944 anticipated postwar problems of foreign exchange in Europe. The conference determined that financial matters of such key importance to the economy of all European nations must not be left under the control of a privately run international bank. The conference adopted a resolution specifically barring from the International Monetary Fund and the International Bank for Reconstruction and Development any nation which had not broken completely with the Bank for International Settlements. The United States was a party to the Bretton Woods agreement.

The American president of the bank, Mr. McKittrick, apparently shared none of the views of the International Monetary Conference about the Bank for International Settlements, nor the official determination of the United States to change the pattern of German economic domination in Europe. In May 1944, just before D Day, Mr. McKittrick was quoted as saying: "We keep the machine ticking because when the armistice comes, the formerly hostile powers will need an efficient instrument such as the B.I.S."

Mr. McKittrick remained as president for two more years after the Bretton Woods resolution, and his "efficient instrument" never stopped ticking. In the autumn of 1948 the "efficient instrument" quietly moved in to become an agency for clearing foreign-exchange transactions among the countries participating in the European Recovery Program. Mr. McKittrick himself, by then a vice president of the Chase National Bank, became for a time financial adviser to W. Averell Harriman, roving ambassador in Europe of the Economic Co-operation Administration.

Many questions about the operation of the Bank for International Settlements during the war have never been answered. Mr. McKittrick has not disclosed the arrangements which enabled the Nazis to ship to the Bank for International Settlements large quantities of gold looted from various countries in occupied Europe, worth hundreds of millions of dollars. No accounting has yet been made of it. Dr. Emil Puhl, the vice president of the Reichsbank, when picked up for questioning after we entered Germany, revealed that the last time he went to Switzerland in April 1945, a few days before the final collapse of Germany, he had succeeded in getting his friends to defer the publication of the bank's financial statement because he wanted to conceal the extent of the Nazi gold transactions.

What we do know definitely is that over four hundred million dollars in German assets, spirited out of Germany before the end of the war, never have been traced. These funds are now being used somewhere in the world by ex-Nazi Germans and their friends. They can finance propaganda and German nationalist "recovery" programs at will. We know that in Spain, Portugal, and Argentina there are large colonies of ex-Nazis showing no signs of money worries. The same is true in Sweden and Switzerland. No one knows whether any of the "spontaneous" sympathy in the United States for a resurgent Germany is the product of a well-paid public relations program. Emil Puhl, the man who converted the gold teeth and jewelry from SS concentration camps into a great part of this four-hundred-million-dollar fund, was paroled from prison in December 1949 by order of the High Commissioner's office.

If most people agree that some powers now being wielded by private bodies ought to be regulated in the public interest, we are still far from agreement on how to devise government agencies that can do the regulating. In September 1946 the United States proposed a charter for an International Trade Organization, which would work through the Economic and Social Council of the United Nations. The purpose of this International Trade Organization, or ITO, was to end the existing anarchy and provide an umpire for the world's trade. Specific functions would be to expand opportunities for trade and economic development; aid the industrialization of underdeveloped countries; and promote the expansion of production, the exchange and consumption of goods, the reduction of tariffs, and the elimination of monopoly practices and trade discriminations.

Negotiations on behalf of the United States during the various international conferences on the ITO were handled by William L. Clayton, Undersecretary of State for Economic Affairs, advised by a staff of businessmen including Philip D. Reed, chairman of the board of General Electric and president of the International Chamber of Commerce. It was Mr. Reed who, at Berlin, in December 1946, insisted that nothing needed to be done in Germany to curb cartels and monopolies, because the new ITO provision against restrictive practices in international trade would be enough. Actually, I found that the ITO provision was nothing more than an agreement to investigate alleged restrictive practices and to make "recommendations" to the governments concerned.

The ITO was also to bring about reductions of tariffs and other barriers to international trade. When schedules of tariff reductions were agreed upon after a long conference in 1947, I became interested in this first concrete action intended to free the channels of international trade.

One item that stood out in the new tariff schedules was a reduction of the duty on imports of aluminum into the United States. I paid particular attention to this cut, because I knew nothing had yet been done to dissolve the international aluminum alliance. It would seem that the alliance, with its fixed quotas, could prevent a competitive flood of aluminum from overseas. What, then, would the tariff reduction accomplish?

The meaning of this tariff reduction becomes clearer in the light of the aluminum industry's development in the United States. Until Reynolds Metals and Henry J. Kaiser's Permanente Metals entered the field during the war, the Aluminum Company of America, or Alcoa, formed in 1888, and the Aluminum Company of Canada, or Alcan, formed by Alcoa in 1901, had been the only aluminum producers in the whole western hemisphere. Alcoa kept its position as the only producer of primary aluminum in the United States for over fifty years by avoiding foreign and domestic competition. Foreign competition was knocked out by the international alliance. The matter of eliminating domestic competition followed the usual pattern: use of patent litigation to squeeze out some competitors, absorbing other companies, buying up sources of raw materials and power, and other moves that are familiar in the growth of a large trust.

With the outbreak of World War II, Alcoa faced competition for the first time. Between 1941 and 1945, Reynolds and Kaiser broke into the field on the heels of a drastic aluminum shortage. The effect was spectacular. While other nonferrous metals such as electrolytic copper increased 71 per cent in price on the American market in the six years from 1940 to 1946, and while lead increased 142 per cent and zinc 62 per cent, the price of aluminum dropped 30 per cent.

A battle of the giants began. From the start, in 1941, Alcoa had the inside track with better sources and lower costs for electric power. Since power is the biggest cost in aluminum production, it was no small advantage that Alcoa's Canadian producer, Alcan, had a large hydroelectric site on the Saguenay River. By a series of government grants, both Canadian and American, Alcan at the end of the war had nearly paid for all its new power plants and could produce electricity at one half mill per kilowatt hour. This compared with rates of from three to three and one half mills charged by the TVA, two mills by Bonneville, and six mills in the metropolitan New York area.

In order to get a power supply at all, Reynolds had to set up most of its pot-lines in the Tennessee Valley where the rate was 3.14 mills. Even in the case of TVA power, Alcoa had the advantage. Alcoa in 1937 had made a long-term contract with TVA for power at 2.74 mills. In 1940, when TVA charged Reynolds the higher rate, the reason given was that the 1937 contract with Alcoa set an improvidently low rate; but, since two wrongs do not make a right, the TVA could not make the same mistake again.

When it came to government financing of plant expansion, the principle of business "soundness" entered. Reynolds got loans totalling $46,000,000 from the Reconstruction Finance Corporation at an interest rate of 4 per cent. The loans had to be secured by liens on all properties of Reynolds and its subsidiary corporations. Alcan, on the other hand, as a "sound," going concern in the aluminum business, got an advance of $50,000,000 from the RFC-controlled Metals Reserve Corporation without interest or security. *After the Truman Committee criticized this loan,* Metals Reserve did impose an interest rate of 3 per cent, but increased the principal to $68,500,000.

Again because it was an "established business," Alcan received a contract from Metals Reserve, under which Metals Reserve was obligated to buy a large quantity of aluminum at the full market prices, with additional guaranteed payments to offset increased costs due to war conditions. When the Truman Committee looked into this contract in March 1944, Metals Reserve had already paid Alcan $36,000,000 in these additional payments alone, and was committed to underwrite such extra payments up to a total of about $58,000,000, besides paying the full price for the aluminum delivered. Reynolds, a newcomer, got no firm orders from the government. It had to take its own chances on continuing needs for aluminum; and it had to absorb additional costs, on its own, without guarantees or escalators. The story of the Kaiser aluminum firm was similar.

In spite of the advantages enjoyed by Alcoa, its two competitors, Reynolds and Kaiser, made out well enough while the war was on. That brings us to the tariff reduction in 1947. Reynolds and Kaiser were by that time living dangerously on the fringe of the league. The relative standings in the industry are enough to indicate the strength of the contestants. In the United States, Alcoa had a capacity of 878,000,000 pounds; Reynolds, 474,000,000; Kaiser, 270,000,000. In Canada, Alcan sat across the line with a capacity of over one billion pounds, power costs of one half cent per pound, and a new tariff of only two cents per pound, as against average power costs in the United States for all other producers of three and one-half cents. As a result of the "removal of restrictions on trade" by the International Trade Organization, Alcan had a clear margin to cut prices below the costs of Alcoa's competitors, if necessary. To preserve Alcoa's position as leader, Alcan could wade in and "police" the industry by threatening a price war. The tariff reduction itself had no immediate effect on the price of aluminum in the United States. Alcan immediately increased its prices by exactly the same amount to offset the tariff reduction.

What happened in aluminum fits into a pattern that is already familiar. In our examination of the International Steel Cartel, we had noticed how the three biggest American steel corporations, United States Steel, Bethlehem, and Republic, improved their position in the international cartel as they became better able to assume responsibility for the "correct" behavior of their competitors. With this point in mind, I turned from aluminum to see what had happened in the steel industry since the war ended. The record showed some notable peculiarities in the behavior of certain government agencies which were supposed to aid production and prevent restrictive practices.

Before the war, the Big Three accounted for some 47,000,000 of the 80,000,000 tons of steel capacity in the United States, or about 58 per cent of the total. During the war, the government spent nearly $800,000,000 on new steel plants and about $300,000,000 more on additions to existing steel plants. Private companies invested a billion dollars in expansion of their own facilities. After all this expansion the Big Three of the steel industry, by 1948, still accounted for 58 per cent of the total ingot capacity in the United States, which was then about 95,500,000 tons.

This was before the Surplus Property Administration and the War Assets Administration disposed of the large new plants. The biggest of these was the Geneva Steel Company at Geneva, Utah, with a capacity of nearly 1,300,000 tons per year, built by the government at a cost of more than $200,000,000, and operated by United States Steel. Control of Geneva tripled United States Steel's capacity in the Far West. Early in 1947, the War Assets Administration allowed United States Steel to acquire the Geneva plant for $45,500,000, or 23 per cent of the original cost to the government.

By way of contrast, the wartime and postwar experiences of Henry J. Kaiser in establishing steel-making facilities in the Far West show a type of problem that may be faced by any outsider who happens to collide with business in government.

Early in 1941 steel shortages put a crimp in shipbuilding operations on the West Coast. Partly to get the necessary steel, and partly because the western cost of steel is much higher than the cost of similar products in the East, Kaiser wanted to build a plant and make his own heavy plates, structural shapes and merchant bars. Since he had no standing as an established producer in the steel industry, Kaiser could not get the government to erect the plant for him. Instead, the financial assistance had to come through loans from the Reconstruction Finance Corporation. In the end, a steel plant was erected at Fontana, California, at a cost of $111,800,000.

In building the plant, certain technical difficulties arose because of wartime conditions. In 1942, the War Department's Plant Site Board decided that the plant could not be located on tidewater, close to large industrial water supplies and cheap ocean shipping facilities. Instead, for security against "possible enemy attack," the Plant Site Board decided that it had to be located in an area back of the San Bernardino Mountains which was accessible only by rail. The region was arid. In order to operate there at all, engineers had to design elaborate facilities for reusing water. The War Production Board, on its part, refused authorization to erect a slabbing and blooming mill because of the wartime shortage of machinery and equipment. The engineers had to use the much more costly "bottom-

pour" method of producing small, slab-sized ingots. This meant that, from the standpoint of postwar production and marketing, the plant would always have a costly bottleneck in the ingot stage.

Because the Fontana plant was built for a special emergency purpose, it was a lopsided affair. It had far greater capacity for plates and heavy sections than was likely to be needed in peacetime when shipbuilding and heavy construction subsided. The plant lacked facilities for rolling lighter sections, strip, sheets and tin plate, and without them was likely to be a postwar white elephant.

After the war, Kaiser proposed to stay in the steel business and sell to West Coast customers at prices less than the prevailing West Coast "differential" of the Big Three. Under the "differential," or basing point, system of fixing delivered prices for steel, western prices had averaged about $12 per ton higher than in the east. The $12 corresponded to the cost of water transportation from Sparrows Point, Maryland, to the Pacific Coast. To cut costs, Kaiser tried to renegotiate the Reconstruction Finance Corporation loan to scale down at least part of the difference between the actual wartime construction cost of nearly $112,000,000 and the RFC's own estimate of the peacetime value in 1945, which was $58,000,000.

The RFC announced that it had no power to consider anything but straight banking practice. Under straight banking practice, Kaiser had hired the money. Any considerations such as keeping the plant in operation, or maintaining western industrial development and employment, were not within the province of the RFC.

In contrast with United States Steel's purchase of the Geneva facilities at 23 per cent of the original cost, the RFC held the Kaiser companies bound to repay $103,000,000, the full wartime cost minus estimated depreciation of $9,000,000. The RFC did make one concession in offering to lend an additional $11,500,000 to help with reconversion expenses. This added amount, however, must not be used to add the strip and tin-plate facilities needed for peacetime production.

This application of "banking practice" to the problem produced an interesting result. Under the RFC plan, the fixed charges for retirement of the Fontana debt would be at the rate of $10.16 per ton of ingots produced, even when operating at full capacity. If the plant operated at less than capacity, the fixed charges per ton would gradually rise. If the plant operated at only 60 per cent of capacity, the fixed charges per ton would be $16.93. These fixed charges per ton demanded by the RFC just happened to average out to equal the West Coast differential of $12 maintained under the basing-point system of the established steel enterprises. In comparison, the average fixed charges of the rest of the steel industry in the United States ranged from $.78 per ton when operating at capacity, up to $1.30 when operating at 60 per cent of capacity. The net effect of the RFC ruling, therefore, was to make it impossible for Fontana to sell steel competitively on the West Coast at a price less than the western differential already set by the Big Three.

With the growth of economic giants operating in a world-wide economy, government has become involved in activities that used to be regarded as "business." Whatever the forces may be that have pushed government into its new role, it seems that government has become transformed in the process so that it now behaves like a big corporation. The problem that must now be solved is that of protecting the whole interest of society. We cannot allow the lack of social responsibility characteristic of the international behavior of private corporations during the last quarter-century to become a pattern for government.

CHAPTER 22

Angels and Men

SINCE our government shows signs of behaving like a big corporation some people have suggested that the responsibility of the government to the citizens of the nation should be the same as that of a corporation's officers to the stockholders. At first glance the idea is persuasive, translating an abstract problem in government into everyday commercial terms. Some annual reports of the Tennessee Valley Authority, for example, have been phrased like a business corporation's annual report, addressing the citizens as if they were stockholders. To a great extent, however, this sort of make-believe merely obscures the problem, which is to get economic power under some kind of responsible control.

It may be true that we expect from the government a responsibility for the public interest at least as keen as that which the stockholders of a private corporation have a right to expect from the management. But experience has shown that corporate managements are under very little control from their stockholders and do pretty much as they see fit. The growing supremacy of "management" was noted in the United States during the early thirties by several official investigations into the behavior of corporations. It was found that the legal owners had lost effective control of most large corporations. Managements had become self-perpetuating and stockholders' meetings were largely rubber-stamp affairs. In the light of such findings, it would be a naïve stockholder who today expected to exercise control over the management. Governments have begun to behave in the same way.

Making a government powerful enough to keep things under control has always raised the specter of big government. The writers of the *Federalist Papers* in 1788 described the dilemma of a constitution-maker in the following way: "If men were angels, no government would be necessary. If angels were to govern men, neither external nor internal controls on government would be necessary. In framing a government which is to be administered by men over men, the great difficulty lies in this: you must first enable the government to control the governed; and in the next place oblige it to control itself."

We are in the same difficulty today. We have to enable the government to control economic power instead of becoming its tool. Since power is a public trust, the first job of a government is to see that power is used in the public interest and not against it. This is where a government must be different from a corporation, and where the comparison of citizens to stockholders breaks down. The German government was far more responsive to the management of the big corporations than to the citizens as such.

By chartering a private corporation, a government delegates to the corporate body some part of its own power to regulate commerce. Strictly speaking, this is an abdication by the government, giving up part of its authority to regulate matters affecting the public interest. Under corporation law the first job of a corporate management is not to promote the general welfare, but to promote the interest of the corporation. On a small scale, as in the past, this relinquishment of power has done no visible harm and the practice has been generally accepted. If the corporation does interstate business, however, this encroachment by the corporation on the government's power to regulate can be considerable. And if the corporation becomes a United States Steel, it can be overwhelming.

National governments in all parts of the world have granted power over segments of their national economies to various corporations. Over the years, these pieces have been combined in new forms on an international scale as the larger corporations, by agreement among themselves, have built a private "world government." This new order, stretching far beyond the boundaries of any one nation, has operated under no law except the private law of the agreements themselves.

It is time to view the results of this abdication by constitutional

governments in favor of private governments. The occupation of Germany has already provided a good laboratory in which we could study the activities of self-centered corporations and the activities of a German national government in which these corporate combines had a dominant influence. Our observations in postwar Germany did not support the theory that the Nazi regime was a runaway affair. Propaganda has been turned out in an effort to convince people that the industrialists who backed the Hitler coup did not realize they were opening a Pandora's box. We are to believe that the troubles they set loose plagued them no less than the rest of mankind. On the contrary, from all that we could gather in talking with German industrialists, the big-industry group in Germany regrets the Hitler period only because the Nazis lost the war. We found no evidence that the leading industrial groups had acquired a fundamental distaste for German nationalism as such. They are still working toward the organization of Europe in such a way as to support a dominant German industrial economy, and the organization of Germany's own economic life around a concentration of heavy industries.

Except for its military outcome, the Nazi experiment appears to have been a success in the eyes of its original sponsors. The unity of German business and finance in backing the Nazis was matched only by the precision with which the Nazi government moved in to support the aims and interests of the dominant financiers and industrialists. They, in turn, have been waging a hard postwar fight to keep the economic lines of the Nazi system intact.

The Nazi effort came as near to military success as it did because German military planners took advantage of the lessons of geopolitics. The relation of strategically placed land masses and national resources to the control over larger areas of the earth's surface had been studied with great care not only by Professor Haushofer and his "geopolitical institute" but by a great number of other German scientists, economists, and political analysts. In the same way, the German planners shaped the economic war, not only as a supplement to military operations, but as a substitute to hedge against military defeat. The German high command made use of what we might call ecopolitical organizations, combining both economic and political forces under common control. Though they had no ecopolitical institute labeled as such, the Germans arranged the strategic control of large areas of economic activity both at home and abroad by maintaining control of bottleneck points. It was this feature of the "cartel system" that General Clay and his economic advisers tended to ignore, placing their chief emphasis on so-called "war potential."

The German ecopolitical organizations — I.G. Farben, United Steel, the Deutsche Bank and Dresdner Bank and all the rest — did not die with the dismemberment of the German military machine. When our military government took over, the Germans had the stage set for really fatal blunders on our side. The occupiers failed to realize that the German ecopolitical forces still existed and that their complete overhaul was a first order of business. Instead, by delaying reorganizations and by taking the leaders of the combines into the management of the new economic revival, General Clay's military government entangled itself with the very forces it came in to crush.

Some of the reform steps originally proposed in 1945 could have had the immediate effect of removing obstacles that stand in the way of democratic developments in Germany. Suppose that we had been allowed to exclude the managers of the big combines from positions of power. Suppose we had been allowed to issue the laws we drafted to prohibit bearer shares, the device through which the big banks got control without having capital to invest. Suppose we had been allowed to issue our law limiting interlocking directorates and interlocking officeships. Suppose we had been allowed to repeal the laws requiring a license to engage in business.

A strict enforcement of these regulations during the early years of the occupation would have removed at least temporarily the power of Hitler's backers and others like them. They could not have dominated the scene during the formative years, as they have done. They would not have been able, as they have done, to suppress the efforts of other Germans to reconstitute their economic life on another basis. Furthermore, during the years of occupation, new vested interests, decentralized in character, could have been developed in all parts of Germany under the protection of the new laws.

It might be argued that once the occupation forces were withdrawn, a German legislature could repeal such laws and restore the *status quo*. That view overlooks an important argument in favor of the experiment. Even when occupation forces were withdrawn, it would have been possible to hope that the new interests established during the occupation might assert themselves and block any sweeping move by the old guard to repeal the laws and return to the old basis. Meanwhile, those of the old guard who had been ousted would have lost some of their power. They would have become "has-beens," a group of old men who could not effectually train a new generation to follow the old line because they would not have had the prospects to offer new recruits.

Back in September 1944, President Roosevelt had stated very clearly that the occupation forces were not going into Germany to feed the German people and promote their economic recovery. They were not going in just to see that war materials were not manufactured. They were going in to bring about a basic change in the economic and political system that had made the Nazi war possible. He made these remarks in expressing his total disapproval of a proposed "guide" which the War Department had drafted for the use of military government officials. We have already quoted some excerpts from President Roosevelt's letter to the Secretary of War on that occasion. Two years after the Roosevelt pronouncement, however, Secretary of State James F. Byrnes, in a speech delivered at Stuttgart on September 6, 1946, set out a policy for Germany in terms that could hardly be distinguished from those of the guide that President Roosevelt had so vigorously opposed.

General Clay, in his own memoirs, acknowledges this fundamental shift in policy which, without ever being announced as a basic change from the Roosevelt policies, colored the entire picture of the military administration in Germany. He describes the disgruntlement of the Economics Division over the presidential veto of their proposals for rebuilding Germany along the old lines. Here is how it looked to General Clay:

> When I arrived in Paris I had heard only vaguely of the U. S. Group Control Council which was now under my command, and knew little of its functions. I did know that, while the actual supervision of military government was a staff function of Supreme Headquarters, there was an American group planning our participation in military government after the defeat of Germany and the dissolution of combined command. I had heard that this group had prepared a manual for military government that aroused indignation in Washington because allegedly it proposed a liberal treatment of Germany, which was displeasing to those who were preparing a much more drastic policy directive. Our government ordered the suppression of this manual with consequent devastating effect on the morale of the U. S. Group Control Council, although *reading it now will show that it deviated little from the American policy which was to develop for Germany and to be proclaimed first by Secretary of State Byrnes in his Stuttgart speech.* [Italics added.]

Military government could have carried out the directives approved by two presidents and set out in black and white in official documents. Instead, it chose the limited objectives of quick economic recovery and winning the support of German industrialists, at the expense of not carrying out the reforms which were the only immediate justification for the occupation in the first place. How can we require government officials to stick to public policy instead of giving way before a solidly organized effort from commercial interests to prevent such policies from being carried out? Will American public policy recognize its public aims? Or will it go back to serving the interests of a limited group under the aegis of temporary expedients like saving the taxpayers' money or protecting American private interests abroad?

Though there is still time to try again in the German laboratory, it does not mean that a change of men would necessarily be enough to produce a change in result. We have seen how the international fraternity works. Long before German industry becomes a military menace as such, it will become an instrument in the hands of British or American financial groups engaged in the dubious enterprise of rebuilding their former balance of power in Europe. We have seen the almost limitless ways in which it is possible for them to maintain

control over the course of events in spite of paper declarations. It is not enough to have policy statements on paper. There has to be an effectively organized and popularly supported political pressure to insist that public policy shall be carried out. This popular political organization has to be forceful enough to withstand propaganda campaigns and political maneuvers backed by unlimited cash.

The ecopolitical masters of Germany boosted Hitler and his program into the driver's seat at a time when the tide in the political fight between the Nazis and the supporters of the Weimar Republic was swinging against the Nazis. All of the men who mattered in banking and industrial circles could quickly agree on one program and throw their financial weight behind it. Their support won the election for the Nazis.

We must assume that the same thing is not yet true in the United States. We do have economic power so concentrated that it would lie in the power of a group of not more than a hundred men — if they could agree among themselves — to throw the same kind of combined economic weight behind a single program. They have not agreed yet. There are still enough divisions within the Republican Party and enough minor differences between Republicans and Democrats to indicate that on some fundamental economic questions there are different points of view, each one championed by a different faction inside the financial and industrial community itself.

If the United States should run into serious economic difficulties, however, most of the conditions for a re-enactment of the German drama would already exist on the American stage. The slight differences within the camp of the fraternity then may be the only real barrier to the kind of integration of the financial and industrial community behind a single repressive program, like that which the financiers and industrialists of Germany executed through Hitler.

Are we safe in assuming that it would take a grave economic crisis to precipitate the dangers inherent in economic concentration? The basic integration of the financial and industrial groups in the United States is evident when we look at the increase of concentration in the past few years. Before the outbreak of World War II, the 250 largest American industrial corporations controlled two thirds of the industrial assets in the United States, and the bulk of this collection was in the hands of the 100 largest. The leading firms were arranged into eight major groups by common financial ties and interlocking directorates. During the war, the government spent $175,000,000,000 on prime war contracts. Of this amount, ten corporations got the top 30 per cent, and one hundred corporations, including those ten, got the top 75 per cent. The government spent $26,000,000,000 on new manufacturing plants. Half of the total in new plants went to twenty-five corporations and three fourths went to one hundred corporations.

The next step was inevitable. In the postwar demobilization and the sale of "war assets," three fourths of all the war plants were distributed among the 250 largest firms, and the remaining one fourth went to some of the 262,000 small firms which, before the war, had accounted for about one third of the total industrial facilities. In the five years of the war, the 60 largest corporations more than doubled their total assets. When the shooting was over the 100 largest corporations, held by the same eight financial groups, instead of controlling two thirds controlled three fourths of the American industrial economy.

Just as the six largest financial corporations in Germany interlocked with the dominant industrial firms, so there are eight large financial units in the American economy which in recent years have assumed a comparable degree of power over here. These are: (1) the Morgan group controlling, among many others, such headliners as United States Steel, General Electric, Kennecott Copper, American Telephone and Telegraph, International Telephone and Telegraph; (2) the Rockefeller interests, including the Standard Oil companies and the Chase National Bank; (3) the Kuhn, Loeb public utilities network; (4) the Mellon holdings, including the Aluminum Company, Gulf Oil, Koppers, Westinghouse Electric; (5) the Chicago group, including International Harvester and the Armour and Wilson packing houses; (6) the Du Pont interests, including General Motors, E.I. du Pont de Nemours, and United States Rubber; (7) the Cleveland group, with Republic Steel, Goodyear and others; and (8) the Boston group, including United Fruit, Stone and Webster utilities and First National Bank of Boston.

Firms in the portfolios of these eight groups make up the Big

Threes and the Big Fours of practically every basic industry in the United States. Through their co-operative control of the largest insurance companies and the agreements under which they manage all large security issues, these combinations of companies are in a position to determine the flow of a large part of the "investment" in the United States.

We have been slow to recognize the inherent dangers in corporate empires because we have had a theory that business does not need to be governed. The cartel era of the twenties popularized the slogan of "keeping the government out of business." The war and postwar era of the forties went the other way, introducing the notion that the government's job is to "create a favorable climate for private investment." In World War II, for example, the United States government spent over a billion dollars in conciliating the rulers of Saudi Arabia and Iran, thereby creating a "climate" in which the Arabian-American Oil Company and a few others after the war have made millions in oil concessions on a very modest cash investment. The new era has been one of "co-operation," amounting almost to identification, between business and government.

The economic system of the United States is supposed to have been developed according to the principles of private investment. In place of a government planning board determining the number of shoes, automobiles and radios to be made each year, it is supposed that private investors, making their separate guesses at the types of production likely to be most profitable, have determined the size and character of the different parts of the system. It is a favorite theme with editorial writers that the United States has secured the most productive industrial scheme in the world under these principles of independent private investment.

Even if the principles of investment can be relied upon, as the theory goes, to direct the flow of new capital into areas and activities where development will be most profitable, it does not necessarily follow that these same principles will direct new investments into fields where development is most necessary from the standpoint of public interest. In the case of war, for example, where the objective is not to make the most money, the habitual practices of investment experts get in the way. War production, with its demand for high output, imposes a strain on business organizations designed to operate at lower output and high prices.

The great productive effort of World War II followed a long period of negotiations between government and the management of industries to break production bottlenecks and allow materials to start rolling. These blocks included resistance to conversion of plants for war production from their usual peacetime production of such items as automobiles, refrigerators and radios. There was resistance to expansion of basic industries, symbolized by the stacks of aluminum pots in every courthouse square, by the steel shortage, and by the delays in the synthetic rubber program. There was resistance to the licensing of patented processes to "outsiders" and there were other patent restrictions, as in Plexiglas for bomber noses, quinine substitutes for malaria prevention, and many others. There was resistance to subcontracting of prime war-production contracts so that the large, medium-sized, and small independent firms could unleash their unused productive energies.

Though the economic system of the United States is supposed to have developed according to the principles of private investment, it is not true that the over-all "plan" or pattern of the nation's economic growth has been purely the product of unco-ordinated, individual decisions. The necessities of war and other major actions of government have given direction and impetus from time to time, but the greatest economic forces have been under steady control for a long time through the system of concentrated "free enterprise," with its interlocking directorates, holding companies, combines, intercompany agreements and manufacturers' associations, and through the private planning of international bodies like the International Steel Cartel.

There is, probably, no magic formula to determine exactly how far our government would have to go in devising new laws to enable it to assume control over the nation's economic course. However, the example of Germany does indicate some of the guidelines which ought to be watched carefully. At the base of the German problem was the unbalanced economic system tightly controlled by a clique of financial and industrial operators. What we have seen of the pattern followed in Germany indicates three principal ways in

which the behavior of the banks and the industrial combines threw the national economy out of balance. First, the economic system was overburdened with heavy or producer-goods industries and deprived of light or consumer-goods industries; second, industrial production was overemphasized and agriculture was neglected; third, the product of the German factories was overpriced in relation to the national income, so that the population as a whole could not buy all the goods that the nation's factories produced.

These balances between heavy and light industries, between industry and agriculture, and between production and consumption, were destroyed partly by the failure of the Weimar government to act, and partly by the positive acts of the financial and industrial clique. In building an economy dominated by heavy industry with high rates of income for the combines, with shortages of food and consumer goods for everyone else, they upset the balance not only of the German economy, but of the whole European economy as well. Germany ran a downward and inexorable course toward economic dislocation, violent political measures to fend off the consequences, and finally war.

Our job now is to prepare for a future crisis before it happens. This means we must have a double objective in Germany. The occupation of Germany must be put back on the track. But more than that, we have to reassert public goals in the United States which will prevent the already apparent concentration of economic power in our own country from reaching the end it did in Germany. We cannot hope to end the concentration of economic power in Germany until we are able to deal with the concentration of economic power in the United States.

This brings the German problem home with an urgency that has been missing in the postwar discussions about Germany. The need to treat Germany as an American problem was not felt in this country after World War I. Despite warnings from men whose experience with the German occupation had convinced them that we were entering a period of armed truce, and not peace, business arrangements went ahead unchecked to rebuild a Germany that could not be expected to be anything but a steam-roller. Now, with all that experience and warning behind us, and in spite of strong popular support for the reform of Germany, we have had to watch the same errors being repeated as if nothing else were possible.

The moral of this is not that Germany is an inevitable menace, but that there are forces in our own country which can make Germany a menace. And, more importantly, they could create a menace of their own here at home, not through a deliberate plot to bring about a political catastrophe but as a calm judgment of "business necessity." The men who would do this are not Nazis, but businessmen; not criminals, but honorable men.

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