17 April - 1946 - Case to Richards via Lambert
noticed article in World and
wanted the dope. Richards
a) we have long position b) we
are disgusting of same c)
we are going to report to Congress.

" - A.P. request on War Dept
for story comparable to
British. - if not from
W.D. will get from
Congress investigating
committees.

17 " - cable from Thacher -
reference AP London
dispatch - what is reply
to be given press. wanted
clarification.

18. " - Engel called Richards -
same position
- press release to AP.
- reply to Thacher - dispatched

18 - April - Sec'y of War - several calls from top Congressional leaders.

Richards cleared press release with Handy + Patterson.

21 April - Radio 8 AM broadcast announced that "the Black market operations of American G.I. will cost the U.S. Treasury "500,000,000".

" - Newspaper evening + afternoon editions carried story.

22 April - 1947 - Mr. Hoffheimer arrived in Washington Made meetings in detail with myself + Jim Brooks - accepted changes in his recommendations to Sec'y of War for disposal principally on following grounds

a) agrees now that W & should not take loss vouchers of $175 million

b) agrees now that loss on Jap devaluation should not be taken - $55 million

c) devaluation of Fr. Franc ~~the~~ can not be considered a profit against present holdings.

d) currencies cannot be transferred to Treasury without Treasury giving us the dollar countervalue.

23 April - Meeting (attended by Morgenthau & War Dept, Acting Sec of Treas also Jim Brooks of Treas, Ormis Schmidt of Treas + others. Ferguson not invited. From Morg/ Brooks -

a) War Dept position that we cannot take loss vouchers, that we must

work the currencies off. Such, said he would check with Secy Treasury to see what his attitude would be.

April 23 - Meeting at 4 PM in Mr. Spiegel's (State) office Jimy Jacobsen, Bill Stibravy, Harold Spiegel, Mr. Mc Dairmid, Mr. Silant, Mr. Pforzheimer + Lt Col, Fergerison - talked about Austria + Korea.

a) State concerned that Austria + Korea need dollars.

b) State also concerned w/ War Dept, using its currencies for POW encashments, P-X procurement, etc.

press & policy.

April 24 - Meeting with Secy of War - Mr Patterson, Mr. Stoughtenburg & Lt Col Keiserman. Standard policy of War Dept reviewed by Mr. Stoughtenburg - policy now same as previous policy announced by Secy. Every-body firm - State must get no out of Austria & Korea & go along with disposal program in Japan & Germany, political time element notwithstanding.

April 25 - Overby met with Secy Snyder - indicated to him that Secy wanted to hight it our way.

c) meeting ended that
State would review the
advisability of the
U.S. paying its way
in Austria — decision
to be given War Dept
by letter.

April 24 — PRD opinion of War Dept
called — A reporter Mr.
Menefee of New York
Herald Tribune had
asked me holding +
had four questions —
(see memo in files Bud Div)
these were answered.

Later same morning Menefee,
not satisfied, checked o
talked the thing over same.
I detailed to some extent
for him + verified dates

April 27th - Article in N.Y. Herald Tribune

April 28th - Meeting scheduled at White House - Secy Patterson, Mr. Atcheson, Mr Snyder, Gen Richards & Mr. Pfizheimer - others? Reason unknown except to talk about foreign currency holdings.

Letter from Oxnam to Secy by telephone - Secy Snyder still not settled on the problem & the meeting at White House was called to talk the problem over, especially the disposal methods and the time element involved.

April 24th AM - From Pforzheimer to Fay - Overby told Pforzheimer by telephone that Snyder was concerned re the political implications of problem & accordingly wanted to discuss the matter further, Snyder concededly political !!

AM. Sec. Richards signed Memo to Secy of War dated 22 April 1947 Subject "Disposal of Certain Foreign Currency Currently held in the Official Accounts of the U.S. Army" which recommended strongly that we dispose of currencies thru normal methods.

A.M. Mr. Patterson called for Col. Pforzheimer re meeting

evidently he doesn't
know of meeting & who will
attend.

P.M. Briefing of Press at
2 P.M. - Meeting at
3 P.M.

29 April 1947

## OUTLINE ON HOLDINGS OF FOREIGN CURRENCIES

1. Holdings -

| | |
|---|---|
| Marks- - - - - - - - - - - - - | $253,000,000 |
| Yen - - - - - - - - - - - - - - | $ 62,886,000 |
| Schillings - - - - - - - - - - | $ 31,428,000 |
| Korean Yen - - - - - - - - - - | $ 11,490,000 |
| | $358,804,000 |

2. Netherlands - France - Czechoslovakia currencies -

   Dollars already or in process of being recouped from the foreign governments.

3. Methods of Disposal -

   a. Expenditure of War Department appropriations.
   b. Exchange for U. S. dollars - quasi-official, individuals.
   c. Exchange for funds or commodities readily convertible into dollars to extent that other countries can use them.
   d. Transfer to Treasury Department - get dollars.
   e. Incorporate in Peace Treaties requirement for reimbursement in dollars.
   f. Take "loss voucher".
   g. Request relief from Congress.

4. Methods for Disposal now more firm -

   Germany - Out by October 1948.
   Japan - Out by June 1949 - Augmentation; by end 1948.
   Austria & Korea - Policy decision by State Department in view wording of Peace Treaty.

5. Navy Department concurs fully on disposal plan through all means available without taking loss. (Total loss of not over 2 - 5 million dollars.)

6. Treasury Department (Mr. O'Connell) concurred fully in Secretary of War policy already announced. (In fact helped write it.)

7. General Clay concurs in disposal program and is personally interested.

8. War Department has in past been forced to go along with State Department in getting dollars to foreign governments - using War Department dollars. (Italy prime example - $300,000,000.) State must now assist War Department in this one problem.

9. If a loss voucher is taken for Germany and Japan, gross injustice to France, Netherlands and Czechoslovakia will have been done.

10. Recommend Secretary of War -

a. Reaffirm policy of 3 January 1947.
b. Report to G.A.O.
c. Report to Congress.

Paul A. Raymunison
Lt. Col., J.A.G.C.

COPY

DEPARTMENT OF THE ARMY
WASHINGTON 25, D. C.

# ARMED FORCES TALK

## 261

**THIS TALK IS DISTRIBUTED FOR THE USE OF COMMANDERS IN CONDUCTING ORGANIZED DISCUSSION AMONG THEIR PERSONNEL.**

***Note to Discussion Leader:***

*This TALK is a summary of* The First Report of the Secretary of Defense. *It is a progress report on Unification of the Armed Forces—from the time the National Security Act of 1947 became law until the present date. The report suggests certain changes in the act, summarizes the important accomplishments made during the past 15 months, and analyzes the vital tasks which face the National Military Establishment.*

*It is important that every serviceman understands what unification means and how it works for, as Secretary Forrestal states in his report, ". . . true unification cannot spring from legislation alone. The spark generated by the Unification Act must be fanned into flame by the thoughts and actions of generals and admirals, ensigns and lieutenants, soldiers, sailors, and airmen, and civilians."*

*This TALK is a reprint of almost the entire first chapter of Secretary Forrestal's report. Because of space limitations a few passages have not been included, but the omissions do not affect the context of the chapter.*

# A REPORT ON UNIFICATION

(Extracted from *The First Report of the Secretary of Defense*)

## The National Security Act of 1947

THE 12-month period that ended on September 17, 1948, marked the first year, since 1798, that all our armed forces have been part of a single military establishment.

In 1798, we divided the War Department into its Army and Navy components. One hundred and fifty years later, by means of the National Security Act of 1947, we created a National Military Establishment which consists of the Army, the Navy, the Air Force, and related boards and agencies.

This report, which covers the period from September 17, 1947, to the present, deals with the first 15 months' experience under the 1947 act. In many ways, that period was a period of experiment and of laying foundations on which the subsequent development of the National Military Establishment can be based.

It was, moreover, a period in the latter half of which the actual strength of the National Military Establishment was materially augmented—stemming from the address which President Truman made in the light of the existing international situation before a joint session of the Congress on March 17, 1948, and from the Selective Service Act which the Congress enacted in response to the President's request.

Specifically, in the 6-month period between the President's address of March 17 and the September 17 ending of the first year of unification, the manpower strength of the Army—which had fallen to a level of approximately 541,000 officers and men—rose to 620,000, an increase of almost 15 percent. In the same 6-month period, the Navy, including the Marine Corps, increased from 473,000 to 501,000, or 6 percent, while the Air Force had a 10-percent gain from 366,000 to 404,000.

AGO 1-1170-A—800550—49

In addition, in this same 6-month period, a substantial increase took place in procurement of matériel, including, in particular, aircraft for the Air Force and the Navy. As a result of President Truman's address of March 17, funds for aircraft procurement were provided by the Congress on an accelerated schedule. These funds were made available in May 1948, instead of July, as normally would have been the case. With the approval of the President, the Secretary of Defense in April had conferred with and subsequently had addressed letters to the Chairmen of the House and Senate Appropriations Committees, requesting that funds for aircraft procurement be made available at once, without waiting for the new fiscal year. The prompt response of the Congress to this request saved several months in the placing of contracts.

## A Summary of Desirable Changes

Before dealing with the events of the past 15 months, I should like to record my views with respect to certain possible changes in the National Security Act. There is, however, nothing final about these suggested changes.

At the outset, I desire to point out that the act has provided what I consider to be a sound basis for substantial progress in the unification of the armed forces. The concept on which the legislation is framed, as stated in the Declaration of Policy, is "to provide three military departments for . . . operation and administration . . . to provide for their authoritative coordination and unified direction under civilian control . . . for their operation under unified control and for their integration into an efficient team of land, naval, and air forces."

As already indicated, the act has been in effect only a little more than a year, and this first period of operation under a statute as far-reaching as the National Security Act cannot be regarded as typical of the years that are to follow. Nevertheless, based on the heavy workload of problems which have required attention and which will be described in greater detail later in this report, and based also on our general experience to date, it is my feeling that the statutory changes suggested herewith deserve serious consideration:

1. Provision should be made for an Under Secretary of Defense . . .

2. The statutory authority of the Secretary of Defense should be materially strengthened, not only by providing him with an Under Secretary, but also by making it clear that the Secretary of Defense has the responsibility for exercising "direction, authority, and control" over the departments and agencies of the National Military Establishment . . .

3. The provisions of the act which deal with the Joint Chiefs of Staff should be changed in the following respects:

*a.* The provision of the act which names the Chief of Staff to the Commander in Chief as a member of the Joint Chiefs of Staff should be deleted.

*b.* Provision should be made for the designation of a responsible head for the Joint Chiefs of Staff . . .

4. The limitation on the size of the Joint Staff should be either removed or raised. The present ceiling of 100 is restrictive.

5. Provision should be made for clarifying the Secretary's authority with respect to personnel, including authority for the establishment and organization of appropriate staff facilities, over a broad range of personnel matters . . .

6. . . . I recommend that the [National Security] act be amended to provide that the Secretary of Defense shall be the only representative of the National Military Establishment on the [National Security] Council . . .

## A Summary of Accomplishments

Turning now from the act itself and from the necessity for changes in respects which I have outlined, I should like to enumerate some of the steps which have been taken under the act as it now stands. A partial enumeration of the items in this category includes the following:

1. The formulation of long-range and short-range strategic plans in the interest of national security. . . . An example . . . is to be found in the . . . Berlin airlift.

2. The formulation and submission to the Bureau of the Budget on an integrated basis of the 1950 budget for the entire National Military Establishment . . .

3. The definition of the roles and missions of the Army, Navy, and Air Force . . .

4. The coordination of the procurement efforts of the Army, Navy, and Air Force—a project . . . on which progress has been made to the extent that, had all the purchase assignments now in effect been in effect and implemented by the departments during the entire fiscal year 1949, more than 75 percent of current military procurement would be coordinated.

5. The work of the Research and Development Board—including the allocation of appropriate amounts of money to vigorous current research and development programs of the three departments;

maintaining a fair margin of superiority in practically every technical area of weapon development; recognition of the important interaction of research and strategy and of the constant importance of improved coordination of departmental work in these fields.

6. The formulation of a comprehensive plan for the Reserve components of the Army, Navy, and Air Force . . . [The Gray Board Report.]

7. The preparation of a complete and up-to-date study of military pay levels and retirement benefits . . . the report is expected to provide a basis for modern and uniform pay scales for all three of the armed services. [The Hook Committee Report.]

8. A thorough-going study of the problem of civil defense in this country—a study involving an immensely complex problem which I regard as a matter of highest priority in our national security program. . . . [The Hopley Board Report.]

9. An intensive examination of medical and hospital problems facing the services—to effect consolidation, eliminate duplication, and bring about uniformity in the medical practices of the three departments—was carried out. . . . As an example of accomplishment in this field, hospitals in the Panama Canal Zone are being reduced from six to four.

10. The placing in effect, by the Joint Chiefs of Staff, of additional unified commands in overseas theaters. Under this concept the theater commander has under him the forces of all three services. Such unified commands have now been established in all oversea theaters in which we have major troop elements. . . .

11. The consolidation of the Naval Air Transport Service and the Air Transport Command into the Military Air Transport Service. . . .

12. The reorganization of the Military Liaison Committee to the Atomic Energy Commission—the result being a material improvement in the working arrangements between the Commission and the National Military Establishment. . . .

13. The conduct of numerous joint operations by the three services. . . .

14. The task of working out a modern and uniform Code of Military Justice to be applicable on a uniform basis to the personnel of all three services. . . . The code is designed to protect the rights of those subject to it and to increase public confidence in military justice, without impairing the performance of military functions.

15. The development of techniques under which an annual legislative program for the National Military Establishment as a whole has been completed and submitted to the Bureau of the Budget. . . .

All of these are solid accomplishments in the process of unification under the National Security Act. Many similar matters are currently under consideration, and some of them will undoubtedly be announced as completed projects before this report is published—such as proposals to establish a weapons' evaluation study group, proposals to consolidate the ocean transportation of the services, and proposals to further the process of cross-education of service personnel.

Throughout the last year I have had constantly in mind that in making changes to secure increased economy and efficiency, we must do nothing to impair the vital function of the armed services: the ability to fight and to fight successfully.

It would be the height of folly for us to assume that a war could be won by any single weapon. If we should ever have to fight another war, I cannot visualize a situation in which any one of the services would operate independently. We must have a strong Army, a strong Navy, and a strong Air Force, and we must have them all working together in the closest cooperation under all circumstances.

## The Task of Unification

*This defines the real problem of unification on which I should like to enlarge on the basis of experience gained to date. The mere passage of the National Security Act did not mean the accomplishment of its objectives overnight. The most difficult part of the task of unification is to bring conflicting ideas into harmony. It is not strange that professional military men should think in the terms of the service to which they have devoted their entire adult lives; it is to be expected. But unification calls for the cultivation of a broader vision. Differences of opinion can be reconciled by free and frank discussion, conducted without rancor and with an open mind. That is the democratic process on which the Government of this country is founded. With all its limitations, it is a sound and sane process.*

In the task of unifying and integrating the Army, Navy, and Air Force, I have been working with men in the three services, both military and civilian, whose patriotism is beyond question and who are animated fundamentally by the same motive: the creation of a system of national defense which will provide us, at the least expense, with a strong and effective war-making machine, both actual and potential, if we should have to fight another war. We have had many arguments and disagreements, be-

cause, while all agree on the end result, there have been profound differences as to the methods of attaining that result.

These differences are being resolved. How fast we complete the process of resolution will depend on the speed with which we achieve the harmony of thought which is inherent in true unification. I am confident that we shall reach that accord. I believe that the decisions on the questions of our national security will come far better from a group reflecting varying experience than from any single arbitrary source.

I have stated to the Congress my position on the expression of personal views by the Secretaries and Chiefs of the Departments in the National Military Establishment. I have told those officials that I want them to feel perfectly free to express their personal views when called upon to do so by the Congress. The public and the Congress are entitled to know the personal views of the Secretaries and the Chiefs, but the public and the Congress are also entitled to know whenever there is a material distinction between such personal views and the official conclusions which the Military Establishment has arrived at after mature consideration.

In order to promote closer integration of the armed forces, by preventing inevitable differences over internal policies from becoming topics of public debate, I have directed civilian and military chiefs of the three departments to submit public statements containing references to controversial subjects to my office for review before publication. The public relations activities of the three departments are in the process of being coordinated through the Office of Public Information of the National Military Establishment and a unified press room has been established for all three services, with facilities for representatives of the press and radio.

While it is our duty and our desire to release as much news as possible about our military activities, it is the responsibility of the press, radio, and other agencies which gather and disseminate news, not to publish information which would violate the national security. In peacetime we have few military secrets. We are mainly concerned with the security of technical information on new weapons and military techniques, knowledge of which would be of value to potential enemies.

The press of this country is to be commended for the voluntary censorship which it exercised over its own news columns during the war, and I have sought the advice and cooperation of its members in dealing with the present security-of-information problem. They have advised me, and I agree, that in peacetime no type of censorship is workable or desirable.

Based on our experience to date, my belief is clear that policy control, and to some degree in each case, actual administrative direction, should be exercised by the Office of the Secretary of Defense in the fields of the military budget, legislation, and public relations of the departments and agencies within the National Military Establishment. Such control is now in effect in the first two areas. In the third it is in process of being established, but requires further and firmer administrative steps.

## Strategic Planning

The nerve center of unification lies in the Joint Chiefs of Staff, under whose guidance substantial strides have been taken in reconciling divergent professional opinions and in reaching unified solutions to our most pressing military problems.*

Agreements on the roles and missions of the services, which can serve as a firm basis for future planning, and the reconciliation of many of their differences, were reached at conferences of the Joint Chiefs of Staff at Key West, Fla., from March 12 to 14, and at Newport, R. I., from August 20 to 22, 1948.

*The problems created by the tremendously expanded importance of air power in military planning are not concerned with any questions as to the place of air power. The problem can be stated very simply: What is to be the use, and who is to be the user of air power? There has been substantial progress in defining and delimiting responsibilities in this field in the last 6 months—that is, responsibility for strategic air warfare belongs to the Air Force and responsibility for antisubmarine warfare belongs to the Navy—but it is a question which will require constant attention and study because of the swiftly changing character, both of aircraft capabilities and of defensive measures against air power, measures which include antiaircraft weapons and air power itself. In any event, the Air Force, in the exercise of its responsibility, and the Navy, in the exercise of its responsibility, are required to seek the maximum possible amount of assistance from the other services.*

Great progress has been made in the construction of a firm foundation for the future administration of the National Military Establishment. The outlines have been created and the pattern established.

*In this connection, mention should be made of the fact that all of the current service members of the Joint Chiefs of Staff—General Bradley, Admiral Denfeld, and General Vandenberg—have taken office since December 1947.

I would be less than candid, however, if I did not underline the fact that there are still great areas in which the viewpoints of the services have not come together. To a large extent this stems from the fact that the Navy has always been a tightly organized, self-contained service. Its great strategic mission has been control of the seas. In this, it has made use of air power and of limited ground forces (i. e., the U. S. Marine Corps) on land missions peculiar to the conduct of war at sea.

The Army, on the other hand, has had to scatter its energies and organization in many dispersed and diffused fields. The Army Engineers, for example, have had much to do with the development of public works. The Army's administrative duties, after all wars, have been numerous and heavy. The Army has had to conduct the administration of affairs of the German economy. (Contrary to some public opinion, it has always been anxious to free itself of this responsibility and to turn it over to the State Department.) By contrast, the Navy's mission—the control of the seas with its correlated responsibility of conduct of antisubmarine warfare—has been compact and much more sharply focused.

Out of these contrasting responsibilities in organization arises much of the difficulty in carrying forward the work of unification.

By reason of the character of its operations, the Navy has always depended upon itself for its logistics, its training, and its operational tactics, up to the actual phasing of its efforts in time of war in a common task force plan. Particularly, this is true in the field of air power. The Navy developed its air power as an integral part of the naval organization. The carrier and not the battleship has become the spearhead, the cutting edge, of modern naval power, particularly as it was developed by the United States Navy.

Similarly, the first Air Force development was along the line of tactical cooperation with ground troops, but, in the last war, it turned to the development and use of air power as a major strategic weapon.

Unfortunately, neither—that is, neither the Navy nor the Air Force—had much opportunity to become thoroughly familiar with the operations of its sister service during the recent war. Most of the great naval task forces, with their closely integrated air power, operated in the Pacific. Conversely, with the exception of the operations of the Twentieth Air Force against Japan, the bulk of strategic bombing was done in Europe.

Very few officers of either the Navy or the Air Force saw service with the other, and they all have a great deal to learn about the capabilities and limitations of each other. This problem would not be so acute if there were unlimited funds available. But the limitations imposed by the necessity in peacetime of having a balanced budget, of not making greater demands upon our economy than it can stand, compel difficult decisions in the allocations of funds.

It is out of the competition inherent in the division of the total funds allocated to the National Military Establishment that the controversies arise.

Many officers in the Air Force honestly believe that the carrier will have a limited use in any war that we may fight in the future, and, therefore, challenge the maintenance of the important carrier task forces. These misgivings are honestly held, as undoubtedly are the Navy's regarding the capabilities of the long-range bomber.

My own view is that the concept of the strategic air force has established itself as an essential part of modern warfare, although I also believe that the Air Force must see to it that its tactical air remains capable of close cooperation with ground troops. I likewise hold the view that carriers and naval air will have a part to play in any war of the foreseeable future. The time may come when both the carrier and the long-range bomber are obsolete weapons, but that time has not yet arrived.

Balancing the demands of these two aspects of air power, and seeing to it that adequate, but not unnecessary, funds are allocated to each, is one of the most difficult tasks of the Secretary of Defense.

I believe some progress has been made in the last 6 months, particularly in the detailed, exhaustive studies as to the forces to be provided under the 1949–50 budget, by a group of officers who served as deputies to the Joint Chiefs of Staff. This group, headed by Gen. Joseph T. McNarney, made a contribution, not merely in the formation of the budget itself, but in the stimulation of exchange of knowledge and information among the three armed services. Each learned more about the other two in the process of these hearings than could have been accomplished over months of study by other methods.

I have been quite frank in outlining the foundations of the controversy between the Air Force and the Naval Air arm, because I think the country should have a background against which to measure the arguments on both sides. The solution, in my opinion, does not lie at this juncture in any drastic step of consolidation, but there are many fields in

which continued study and examination can yield results. One of these, for example, is in the field of basic training. Money economies would be less important than the psychological advantages resulting from the early association of Navy and Air Force flying men. Another is in the more extended participation by officers of the Navy and the Air Force in each other's tactical operations and war games, particularly where such participation engages the use of the younger officers.

The power of modern engines enables the airplane to fly whole oceans in nonstop flight, and air power, as a result, has taken its place alongside sea power as a major factor in strategic planning. Within the last 6 months our experience with the air supply of Berlin has indicated that we may be entering a new epoch in the possibilities of large-scale transport by air, although we are still a long way from the time when air transport will be able to span the oceans as a cargo carrier in great quantity and at low cost. But even in this field, one would be a daring prophet who undertook to be specific about the limitations of air transport.

One aspect of our defense system which has been brought into sharp outline by recent events is anti-submarine warfare. The development of the schnorkel—a device which enables the submarine to take in air without surfacing—and the doubling of the subsurface speed of the modern submarine, have combined to present an entirely new problem to naval minds in coping with this undersea attack on both merchant and war vessels.

The new submarines, by operating submerged at full speed for 1 hour, can be anywhere within an area of 1,000 square miles. More important, perhaps, is the fact that their speed removes the limitation of World War I and World War II, under which the submarine had to be on its station, at right angles to the course of the target, in order to make an effective attack.

I consider the solution of this problem to be one of first importance to the Nation's security, and have urged upon the Department of the Navy all possible acceleration in the research and tactical experiments necessary to solve the problem.

*Summing up: I believe the Air Force, in its long-range strategic bombers, has a weapon which will play a very great part in any future conflict but that it has its limitations and should not be relied upon as the sole striking force to the exclusion of the Army and Navy. I believe also that the naval air arm should be preserved as an integral part of the Navy, but that its development should be in terms of its own mission, which is distinctly not a competitive one with the strategic Air Force. Working together in close understanding and harmony with the Air Force, the air arm of the Navy can be a powerful adjunct of our total air striking power.*

In the Joint Chiefs of Staff and the Joint Staff, we have the benefit of coordinated thinking on the possible form of future warfare and of the planning to prepare for it. Strategic plans have been formulated to meet immediate emergency, and long-range plans are in preparation.

Unified commands have been established in all oversea theaters of operations in which we have major troop elements, and more authority and logistic responsibilities have been delegated to unified commanders to permit them to obtain a cohesive unification of both manpower and matériel within their spheres of action and to enable them to act promptly in an emergency.

Intimately connected with strategic planning is the preparation of a unified military budget, which has been done for the first time in our history, representing the initial step in achieving a coordinated plan for national security, rather than the uncorrelated individual requirements of the separate services.

The preparation of the budget will continue to be one of the most important tasks of the Secretary of Defense. The responsibility placed upon him to obtain a proper balance in the distribution of funds is very great—and by distribution I do not mean a percentage distribution, but the allocation of money, regardless of service, to provide the forces and matériel support which best meet our military requirements. We have made a beginning in this direction.

## National Security and Foreign Policy

It is our duty to see that our military potential conforms to the requirements of our national policy; in other words, that our policy does not outstrip our power. That is why Congress, as a part of the National Security Act of 1947, created the National Security Council "to advise the President with respect to the integration of domestic, foreign, and military policies relating to the national security so as to enable the military services and the other departments and agencies of the Government to cooperate more effectively in matters involving the national security . . . to assess and appraise the objectives, commitments and risks of the United States in relation to our actual and potential military power, in the interest of national security . . ."

The National Security Council, by its composite membership, assures that the military problem involved in a proposed political policy will be thoroughly explored before the proposal is adopted. It thus buckles the military problem and political policy. The establishment of the National Security Council was a long step forward; for the first time in our history we now have the governmental mechanism, for which there is great need in a democracy such as ours, to juxtapose international political hopes and military practicability, and to render advice to the President based upon that juxtaposition.

National security cannot be measured today in terms of the United States alone. It must be measured in terms of the whole world. The prerequisite of world peace is world stability. An unstable world endangers our security because we are no longer isolated—if we ever were—in an age of aircraft of supersonic speed and of the indicated developments in the field of guided missiles and of submarines of transoceanic range. The advances of science have wiped out the old barriers of time and space, oceans, and icecaps.

It is not enough for us merely to devise what we hope will be an impregnable defense against new weapons and methods of warfare. *As a primary precaution against war, we must strive to prevent its inception anywhere. We must do everything we can to bring order out of chaos wherever it exists and to eradicate the evils and injustices which cause war.*

## Military Aid to Western Europe

Related, therefore, to the degree of our own military preparedness is the question of the military self-reliance of Western Europe. This is a matter which will have to be dealt with in decisive fashion by the United States in the coming months.

As in the case of the Marshall plan, the will and energy of the Western European nations themselves are basic to any decision made here. It is obvious that arms alone are not sufficient to give strength and security to a nation. More fundamental even than that is the will of the people to maintain their national integrity and their individual liberties. It is for this reason that we have watched with the closest interest and increasing gratification the efforts of the nations comprising the Western Union to consult as to ways and means of military cooperation.

*The cost of this aid to the free European nations, added to the substantial sums which we are now spending and shall spend for our own Military Establishment, may necessitate hard decisions by our people. But those are decisions which they will make through their elected representatives after full consideration of the choices before them. In my own mind, the choice is clear: We must do all in our power to re-create the confidence and hope of Europe. It does not follow that we have to embark immediately upon a vast program of military aid, but rather that we show, by the beginning of such a program in modest proportions, that we intend to follow through the actions involved in the European Recovery Act. This is not, in my opinion, squandering our substance. It is adding another stone in the structure of European recovery, a project in keeping with the high objectives of the Charter of the United Nations and the security of the United States.*

## The Task at Home

National security depends not only on our armed services and on our natural allies abroad but on every element that makes up our own society. It extends into every fiber of our national life. We must weave these fibers into a bond so strong that it will not break under the sudden strain of national emergency but will hold us firmly together through any stress.

*The first duty of the citizen is to defend his country. At no time in our history has there been a greater need or a greater opportunity. It is our duty to make the citizen realize that besides the responsibility of the Army, the Navy, and the Air Force to the community, the community has an equal responsibility to these services, because they are nothing more than a reflection of the desire of the community for security. Service is a two-way, not a one-way, street.*

## Scientific Research and Development

The development of new weapons and other implements of warfare is a factor of extreme consequence and depends on the work of many minds—civilian as well as military. In this field the United States has gained acknowledged supremacy through its inventive genius, expert workmanship, and immense production facilities. It produced the atomic bomb and proximity fuse. It developed the devices that enabled our aircraft to carry out their missions in spite of adverse weather, aided the operations of our naval vessels, warned of the approach of the enemy, protected our troops against disease and death, and gave them other advantages and benefits.

So far as can be ascertained by the Research and Development Board, the United States is maintaining a fair margin of superiority in virtually every technical area of weapon development. This Board, a vital link in our national security chain and a part of the National Military Establishment, is our means of keeping abreast of scientific discoveries and of finding military applications for them.

The chief responsibility of the Board is the preparation of an integrated program of research and development, in the light of which the individual projects of the Army, Navy, and Air Force can be evaluated. The Board decides who develops what weapons. It makes sure that there is no unnecessary duplication in the activities of the three services, although it may permit competition which promises to produce a better result. The Board has reviewed approximately 18,000 projects, of which some 5,000 have been completed, superseded, or canceled, leaving about 13,000 active and inactive projects to be coordinated. . . .

I want to record my personal satisfaction with the existing statute governing matters in the field of atomic energy, and to express my pleasure, also, at the way in which relationships between the National Military Establishment and the Atomic Energy Commission are being conducted.

## Industrial Mobilization

The strength of the armed services must always depend upon the sinews of American industry. For that reason, we have the National Security Resources Board, a civilian organization advisory to the President, to formulate plans and programs and to maintain machinery for prompt translation of military needs into industrial and civilian mobilization in their broadest aspects.

The importance of thorough preparation for industrial mobilization is accentuated by the magnitude of the national security program, which constitutes the biggest business in the world today. The portion of the program which is being carried out by the National Military Establishment represents a current annual expenditure of almost 12 billion dollars. There are few billion-dollar private enterprises. The business of the Army, Navy, or Air Force is each larger than that of any private industry.

Despite the expansion which took place during the war years, the Nation's industry—particularly that part which manufactures military matériel—today is running close to the peak of its present productive capacity. We have started to rebuild our defenses without the slack in our economy which existed in 1940, when there were 8 million unemployed and many plants were still idle. Our mills and factories today are trying to catch up with the backlog of civilian demands for products which were unavailable during the war, and there is virtually full employment. There are shortages of basic raw materials which might lead to rationing. It is obvious, therefore, that if our free economy is to continue, our military and civilian requirements must be kept in proper relation, although it may be necessary to accept some denials in our accustomed standards if we are to achieve a state of readiness which to me seems indicated by the uncertain state of the world.

The Munitions Board, one of the agencies within the National Military Establishment, is making headway in solving problems of procurement and industrial mobilization. Assuming that all the purchase assignments now in effect had been in effect and actually implemented by the three departments throughout the current fiscal year, more than three-fourths of the 6 billion dollars' worth of purchases which the Army, Navy, and Air Force are making in that period would be coordinated. The Board is continuing to study the uncoordinated categories of material with a view to a greater degree of coordination. A large part of this procurement is of the kind known as single service procurement, which means that one of the three services does all the buying of a specified product (or all the buying from a specified producer) no matter which of the three uses it. For example, the Army buys all food; the Navy all hand tools; the Air Force, all photographic equipment. . . .

## Economy

*During my testimony before the committees of the House and Senate which drafted the National Security Act of 1947, I consistently maintained that there were no great economies which would flow automatically from the Unification Act. Such economies, I held, would be achieved only after a substantial period of careful examination and vigorous prosecution of the methods of economy and efficiency. I am more than ever clear on this point, but I am equally sure that there are substantial economies to be effected, and particularly do I believe that methods of procurement, cataloging, inventory keeping, and maintenance can be instituted during peacetime which will result in vast savings if war should ever come again.*

The creation of these methods of achieving economy and efficiency are more important than minor achievements in the immediate future, important as these may be in terms of public relations, as evidences of the fact that the military are conscious of the evils of waste and the need for the preservation of a sound fiscal system.

I have in mind, for example, the matter of inventory and cataloging: In both respects we were deficient in all services at the end of the recent war, and we are still far from the desired state of excellence. At the outset of the war there were something on the order of 8 million separate listings of items which were procured by the armed services. There was no central system of nomenclature for these vastly diffused and different articles. For example, the same parts for Diesel engines were made by different manufacturers and had to be ordered by the manufacturer's name. It is obvious that a system which will enable such items to be ordered by number rather than by maker's name is necessary for the functioning of an adequate system of cataloging and inventory. This process is now going forward under the direction of the Munitions Board, but it will be a long and tedious task extending over a period of 3 or 4 years.

There is another field in which I have been impressed by the necessity for the application of the closest scrutiny, and that is retention of weapons. At the end of the war, we had 89 Army and 6 Marine divisions in the field fully equipped with weapons which, except for a few instances, were superior to any system of arms in the world. Because of too rapid demobilization, and to some extent, lack of adequate planning, vast quantities of these munitions were left on the field of battle, at debarkation points, or were destroyed. This must not happen again. If, unhappily, we should ever get into another war, we must see to it that at the outset we initiate planning to determine what we want to retain at the end of the conflict, and how we propose to retain it.

Blame for failure to retain more than we did at the end of the recent war cannot be attributed to any one person or department. It was the composite product of the Nation's relief at the end of fighting, of the almost frenetic drive to demobilize immediately, and to an irrational belief that the translation of the abstraction of the United Nations into a printed charter was an adequate guarantee against all future aggression. Thus, we scrapped our war machine, mightiest in the history of the world, in a manifestation of confidence that we should not need it any longer. Our quick and complete demobilization was a testimonial to our good will rather than to our common sense. International frictions which constitute a threat to our national security and to the peace of the world have since compelled us to strengthen our armed forces for self-protection.

## Conclusion

*In conclusion I should like to reemphasize two thoughts implicit in this report. The first is that this Nation has endeavored constantly to maintain peace. The United States came out of the war with the atomic bomb, the most deadly and devastating weapon that man ever devised. As proof of our good faith and peaceful intentions, we have offered voluntarily to deny ourselves the use of this lethal instrument. We have proposed that it be placed under international control and have offered to surrender our proprietary rights, including the right of visitation and inspection of atomic energy plants, to an international commission. This proposal, still pending before the United Nations, has been continuously blocked by the exercise of the veto power in that organization.*

*Our ownership of the atomic bomb undoubtedly engendered to a wide extent the mistaken sense of security and complacency which pervaded the public mind immediately after the war and which was in some measure responsible for demobilization. The atomic bomb does not give us automatic immunity from attack, as some people would like to believe, nor does its mere possession guarantee victory if war should come. With or without the atomic bomb, there can be no absolute security for the United States or for any other nation in the world until all nations agree to the regulation of armed forces and the substitution therefor of peaceful methods in the settlement of international disputes.*

*The second thought I should like to reemphasize is that true unification of the armed might of the United States cannot spring from legislation alone. The spark generated by the Unification Act must be fanned into flame by the thoughts and actions of generals and admirals, ensigns and lieutenants, soldiers, sailors, and airmen, and civilians. We must all learn that we are working together for a common cause—the security of our country—and that the good of all transcends that of the few.*

# DISCUSSION LEADER'S OUTLINE

NOTE.—Because this week's TALK is longer than usual, space limitations require that the Discussion Leader's Outline be reduced to one page in length. Add your own supplementary notes so that the outline will be as complete as you would like to have it.

## The National Security Act of 1947

1. The 12-month period ending in September marked the first year since 1798 that all of our Armed Forces have been under a single military establishment. This report deals with the first 15 months' experience with this act.

2. The latter half of the period was one in which the strength of the Military Establishment was augmented, as a result of the enactment of the Selective Service Act.

3. From 17 March to 17 September the manpower strength of the Armed Forces increased. (Use figure 1 at this point.)

## Summary of Desirable Changes

1. Provision should be made for an Under Secretary of Defense.

2. The authority of the Secretary of Defense should be strengthened.

3. The provision of the act which names the Chief of Staff to the Commander in Chief as a member of the Joint Chiefs of Staff should be deleted; provision should be made for designating a responsible head for the Joint Chiefs of Staff.

4. The limitation on the size of the Joint Staff should be removed or raised.

5. The Secretary's authority over personnel should be clarified.

6. The act should be amended to provide that the Secretary of Defense shall be the only representative of the National Military Establishment on the National Security Council.

## Summary of Accomplishments

1. Formation of long-range and short-range plans.

2. Submission to the Bureau of the Budget on an integrated basis the 1950 budget for the entire military establishment.

3. Definition of the roles and missions of the Army, Navy, and Air Force.

4. Coordination of procurement efforts to cover more than 75 percent of current military procurement.

5. Allocation of funds for Research and Development to the programs of the three departments.

6. Formulation of a comprehensive plan for the Reserve Components of the Army, Navy, and Air Force.

7. Preparation of a complete and up-to-date study of military pay levels and retirement benefits.

8. A thorough study of civil defense.

9. An intensive examination of medical and hospital problems to effect consolidations, eliminate duplication, and achieve uniformity.

10. Placing in effect unified commands in all oversea theaters.

11. Consolidation of the Naval Air Transport Service and the Air Transport Command into the Military Air Transport Service.

12. Reorganization of the Military Liaison Committee to the Atomic Energy Commission to bring about an improved working agreement.

13. The conduct of numerous joint operations by the three services.

14. Establishment of a modern uniform Code of Military Justice.

15. Development of techniques under which the annual legislative program of the Military Establishment as a whole has been completed and submitted to the Bureau of the Budget.

16. It would be folly for us to assume that a war could be won by any single weapon. We must have a strong Army, a strong Navy, and a strong Air Force, working together.

## The Task of Unification

1. The mere passage of the National Security Act did not mean the accomplishment of its objectives. The most difficult part of unification is to bring conflicting ideas into harmony.

2. The public and Congress are entitled to know the personal views of the Secretaries and Chiefs.

3. Representatives of the Nation's press have advised, and I agree, that in peacetime no type of censorship is workable or desirable.

4. Based on experience to date, my belief is that policy control should be exercised by the Office of the Defense Secretary in the fields of military budget, legislation, and public relations.

## Strategic Planning

1. The nerve center of unification lies in the Joint Chiefs of Staff.

2. The problem created by the expanded importance of air power can be simply stated: What is to be the use and who is to be the user of air power?

3. Responsibility for strategic air warfare has been given the Air Force, and antisubmarine warfare to the Navy.

4. There are still areas where the viewpoints of the services have not come together.

5. Unfortunately, neither the Navy nor the Air Force has had much opportunity to become thoroughly familiar with operations of its sister service.

6. Balancing air power demands of the Air Force and the Navy is one of the most difficult tasks of the Secretary of Defense.

7. One aspect of our defense system of first importance is that of antisubmarine warfare. Development of the schnorkel has made the submarine a more effective weapon.

8. Summing up: The Air Force with its long-range bombers will play a very great part in any future conflict, but it should not be relied upon as a sole striking force. The naval air arm should be preserved and developed in terms of its own mission, and not compete with the strategic Air Force.

## National Security and Foreign Policy

1. It is our duty to see that our military potential conforms to the requirements of our national policy.

2. National security must be measured in terms of the whole world.

## Military Aid to Western Europe

1. Related to our own military preparedness is the question of military self-reliance of Western Europe.

2. We must re-create confidence and hope in Europe. It does not follow that we must embark immediately on a vast program of military aid.

## The Task at Home

The first duty of a citizen is to defend his country. At no time has there been greater need or greater opportunity to serve.

## Scientific Research and Development

1. The development of new weapons is of extreme importance and depends on the work of many minds—civilian and military.

2. The Research and Development Board decides who develops weapons and makes sure there is no unnecessary duplication.

## Industrial Mobilization

The strength of the armed services must depend on American industry

## Economy

1. While no great economies flow automatically from the Unification Act, substantial economies may be effected in procurement and maintenance.

2. Because of too rapid demobilization and lack of adequate planning, vast quantities of munitions were left on the fields of battle or destroyed.

## Conclusion

1. As proof of our good faith and peaceful intentions, we have offered to surrender our priority rights over the atomic bomb. This proposal is still pending before the United Nations.

2. The atomic bomb does not give us automatic immunity from attack, nor does it guarantee victory if war should come.

3. True unification of our armed might cannot spring from legislation alone. We must learn to work together for the security of our country.

# PRESENTATION POINTERS

## I. Briefing

Presentation Pointers are prepared to assist the discussion leader, but they should not be considered as a substitute for briefing. TI–E officers should use Presentation Pointers when preparing their briefing notes. (See page 7, ARMED FORCES TALK 257.)

## II. This Week's Subject

This TALK should not be read to the discussion group word for word but should be presented in the usual discussion manner. Because the details of Secretary Forrestal's report will be new to many of the troops, the subject should be presented with great care and thoroughness. You should plan to devote more than the usual amount of time to the presentation. There are certain passages which should be read to the group. They have been italicized. Mark your outline so that you will know at what points in the presentation the "quotes" should be read. Be sure that the quotes are conveniently at hand so that you will not have to fumble for them.

Prepare yourself well. Study the TALK. If possible obtain a copy of the *FIRST REPORT OF THE SECRETARY OF DEFENSE*. Study it. You will find that chapters II through VI and the Appendices expand upon the material contained in this TALK. If you cannot obtain a copy of the Report check the newspapers and news magazines for the period 29 December 1948 through 10 January 1949. They contain news releases about the Report. Here are some other references which you should review:

ARMED FORCES TALK:

- 190, "The Marshall Plan."
- 194, "Unification—What It Means and How It Works."
- 207, "Our Motives in Aiding Europe."
- 208, "How Is Our Foreign Policy Developed?"
- 215, "Why Research and Development?"
- 219, "Why Industrial Mobilization?"
- 222, "Facing the Threat to Liberty."
- 252, "Western Union—A United States of Europe?"

Bring the reference materials to the discussion. You may wish to refer to them.

At the end of the discussion period summarize what has been presented and the points brought out during the discussion. Try to tie the views that have been expressed to those who have expressed them. So far as possible, try to make individual members of the group feel that they have made worthwhile contributions to the discussion. In addition, read the Conclusion which appears on page 9. Emphasize the point that Secretary Forrestal makes in the last paragraph.

## III. Visual Aids

Figure 1, below, may be used with a balopticon or may be enlarged on a blackboard or in chart form. The Discussion Leader's Outline indicates when the chart should be employed. Do not display it until you are ready to use it.

Here is a topical outline that may assist you in presenting the subject material. Plan to use it as a "strip tease." Write it on the blackboard prior to the time that the discussion group meets. If you have no blackboard, use drawing paper or wrapping paper. Uncover each topical heading separately at the proper time. Indicate in your outline the point at which each heading should be uncovered.

- The National Security Act of 1947
- Desirable Changes in the Act
- Accomplishments under Unification
- The Task of Unification
- Strategic Planning under Unification
- National Security and Foreign Policy
- Military Aid to Western Europe
- The Task at Home
- Scientific Research and Development
- Industrial Mobilization
- Economies Effected by Unification
- Summary and Conclusion

The poster which appears on page 12 has been adapted from WD Poster 21–9. Use it to publicize the discussion. Here is a list of other posters related to the subject which might be used as promotional posters or as visual aids:

- D/A Poster 21–19, Essentials of National Security—Full Production.
- D/A Poster 21–24, Essentials of National Security—Development.
- D/A Poster 21–25, Essentials of National Security—Stockpiling of Critical Materials.
- D/A Poster 21–26, Essentials of National Security—Industrial Mobilization.

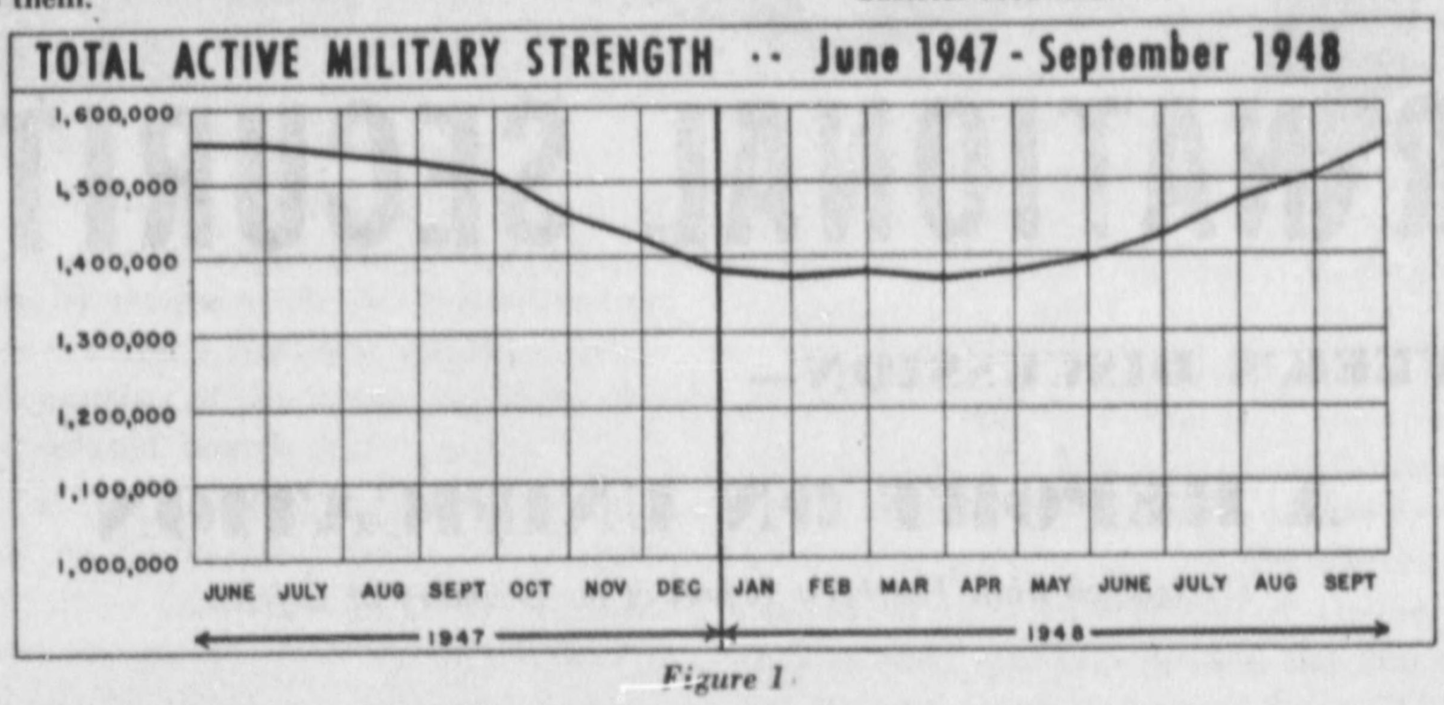



*Figure 1*

Published by the Troop Information Branch, Army-Air Force Troop Information and Education Division.

For sale by the Superintendent of Documents, U. S. Government Printing Office, Washington 25, D. C. Prices: 5¢ single; $2.50 a year.



☆ U. S. GOVERNMENT PRINTING OFFICE

# HOW ARE WE LINKED

# FOR NATIONAL SECURITY?

**THIS WEEK'S DISCUSSION—**

## A REPORT ON UNIFICATION

(Extracted from *The First Report of the Secretary of Defense*)

**(Time)** **(Place)**

(CUT ON DOTTED LINE AND MOUNT IN INFORMATION CENTER)

DEPARTMENT OF THE ARMY
WASHINGTON 25, D. C.

COPY

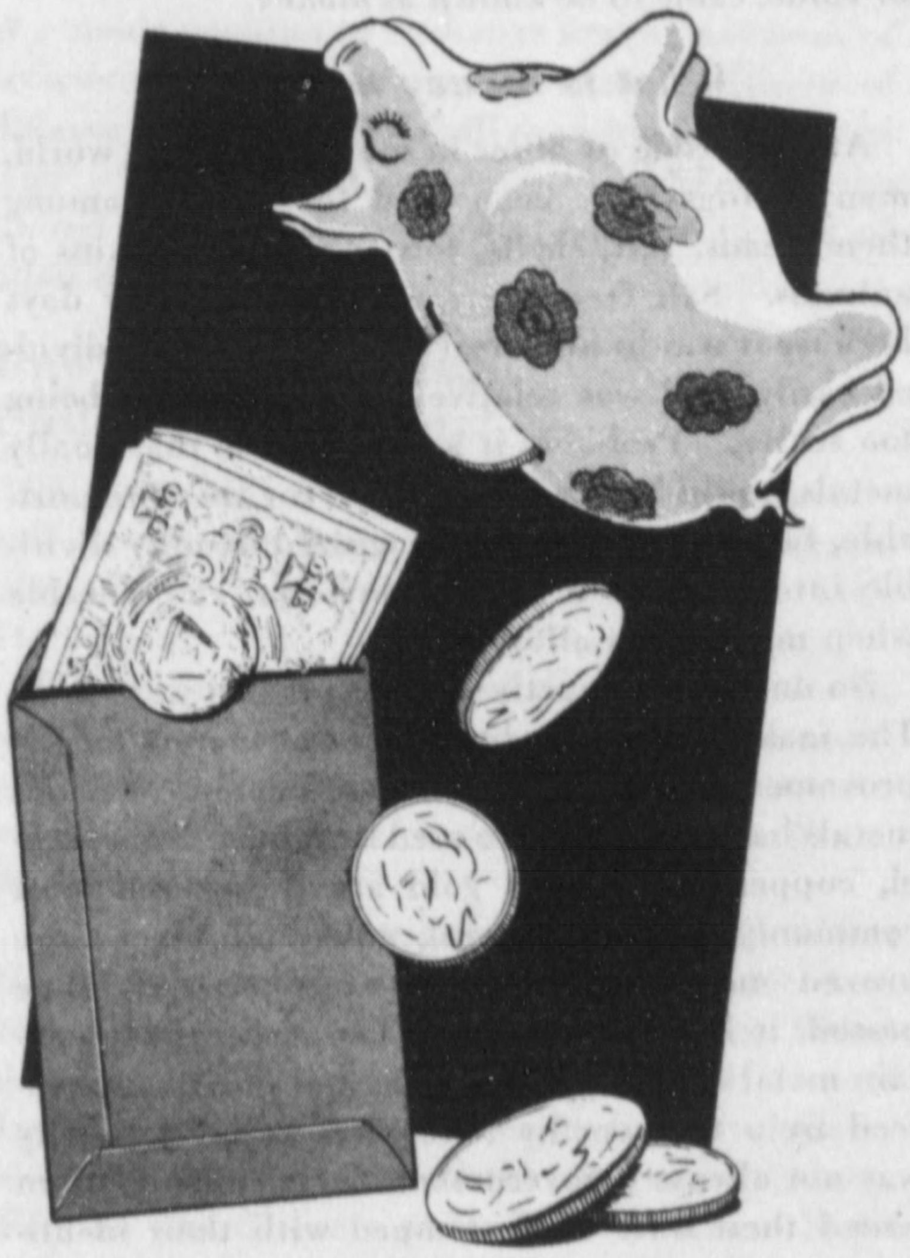
# ARMED FORCES TALK 255

**THIS TALK IS DISTRIBUTED FOR THE USE OF COMMANDERS IN CONDUCTING ORGANIZED DISCUSSION AMONG THEIR PERSONNEL.**

***Note to Discussion Leader:***

***This TALK discusses the role of money, through the centuries, in the development of world trade and prosperity, and it emphasizes the necessity for international cooperation in stabilizing the currencies of all countries. A discussion of this subject should provide a background for a better understanding of why the United States is spending billions of dollars to aid in the economic recovery of European and other war-torn nations.***

***Much of the material of this TALK has been adapted from the EUCOM discussion entitled "Money and Inflation," TROOP I&E BULLETIN, EUCOM, Vol. 3, No. 34, 22 August 1948.***



# MONEY AND HOW IT WORKS

## Introduction

THE United States today is a powerful influence for good. It is helping to feed and clothe hungry and destitute peoples, restore their shattered countries, and make them self-sustaining again. It is financing a large part of the world. It is forwarding the prospect of permanent peace. Its currency is a stabilizing factor in an unsettled and unstable world.

How, and why, is this true? From what does the United States dollar derive its value and comparative stability? What factors support or undermine the trustworthiness of a nation's currency? These are important questions. To answer them we must first understand what money is, how it works, and how it has become the basis of the world's economy.

## What Is Money? How Have We Come To Have It?

Primitive man did not have money. He exchanged one possession *directly* for another—perhaps a stone axe for a bearskin. This practice, called *barter*, has not died out entirely. Even now there is much direct exchange of goods in backwoods communities and, at times, in countries where the value of money has declined to the point where it is practically worthless, as in China and some parts of Europe.

But barter as a community practice was generally inconvenient. Every successful trade meant that each of two persons would have to have something that the other wanted, want the thing the other had, and be willing to "swap." Frequently barter also was cumbersome because of the difficulty of dividing some commodities into parts. Thus, the need arose for something which could be used as a sort of bridge—a go-between—in the exchange of commodities, so that instead of trading goods or services *directly* for other goods or services, a man might exchange them for a certain amount of a *third* thing of commonly recognized value, and in turn exchange *it* for other goods or services. This third

thing, used as a medium of exchange and a standard of value, came to be known as *money*.

### *What is money made of?*

At some time or other in some part of the world, many things have been used for money—among them beads, salt, shells, tobacco, and the skins of animals. Salt frequently was used in early days because it was in universal demand, could be divided easily, and was relatively scarce without being too scarce. Probably it was inevitable that finally metals would be used for money, for they are portable, fairly scarce, easily recognized, readily divisible into portions of almost any size, and durable when mixed with alloys.

No one knows exactly when *coins* first were used. The making of coins, however, was merely an improvement in the use of metals as money. Various metals have been and are used in coins. Iron, nickel, copper, silver, and gold are those used most commonly and, in general, gold and silver have proved more satisfactory than others. As time passed, it became customary for each coin to contain metal of a specified weight and purity, guaranteed by a trustworthy authority. That authority was not always a government, for merchants often issued their own coins stamped with their identifying marks. But gradually the issuance of coins became exclusively the function of governments.

Because gold and silver in themselves are very valuable, and used for other purposes than making coins, it is customary for a gold or silver coin to contain metal of a little less value than the trade value of the coin itself. Otherwise, people might melt down the coins and use the metal in other ways. This is exactly what happened to a lot of German coins after World War I, when their value as metal began to exceed their value as money.

For convenience, and to save wear and tear on coins, governments issue *paper money*, the value of which is backed up usually, but not always, by gold or silver called *reserves*.

## What Constitutes the Money Supply?

The money supply consists of coin and paper money in circulation and of deposits held by banks for their depositors. When a person has $10 in his pocket and $100 in the bank he is in a position to spend $110 at any time. The two kinds of money represent his cash resources; they serve the same general purpose, and they can be converted into each other at any time; that is, currency can be converted into a bank deposit by taking it to a bank, and a bank deposit can be converted into currency by taking it out of a bank. In the United States in June 1937, 28 million dollars was in circulation and 136 million deposited in banks. Both constituted our domestic money supply.

Changes in the supply of money affect the lives of people. Whether the supply of money is adequate depends upon whether the manufacturer, farmer, merchant, or other producer can get enough money at a reasonable cost to buy his raw materials and finance his operations, and whether consumers have enough money to buy what they require. If money is too hard to get, factories and stores may curtail operations, lower wages, or lay off employees, causing hardship or even depression. If it is too easy to get, so that consumers are prepared to buy more goods than the manufacturer can produce, a bid-up of prices and such a seriously rising cost of living may result that the rising spiral "breaks." Because consumers cannot buy at the high prices, another downward spiral begins. Satisfactory economic conditions require a reasonably stable money supply.

### *What does money do for us?*

We have already pointed out that money is a medium of exchange. It should be pointed out, in addition, that before the introduction of money, every man was dependent primarily upon his own resources for all the basic needs of life—food, clothing, and shelter. To a very great extent he had to be a jack-of-all-trades. But after he had money as a medium of exchange he could concentrate on one occupation—farming, for example—turn the product of his effort into money, and exchange the money for clothing and other things needed. He was enabled to do not only the kind of work he preferred, but to become more proficient at it. Thus, it may be said that the invention of money, together with its use as a medium of exchange, was a forerunner of specialization in labor and the basis of much human progress.

Money, in addition to being a medium of exchange, is a storage reservoir to supply man's future needs. The individual whose work produces a larger income than he requires immediately may retain part of it for future use. This part is called *savings* (or investments).

Money may be used also to earn more money. Man soon learned that with money he could secure goods and create new products which, in turn, he could exchange for more money and earn a profit. He was willing, therefore, to pay a part of the ex-

pected profit for the use of somebody else's money. Money paid for the use of money is called *interest*.

Money, then, has three principal uses—as a medium of exchange, as savings (held or invested), and as a loan medium. Both individuals and governments use it so.

### *Where does the value of money come from?*

In itself money is not very valuable. As already indicated, the actual worth of the metal in a coin usually is less than its value as a coin. The paper on which money is printed is worth very little. From where, then, does the value of money come?

It comes from the confidence people have in the ability of the issuing government to maintain its money's *purchasing power*—that is, its worth as a medium of exchange. This can be measured only when the money is compared with commodities or services. To say that a dollar is worth a dollar means nothing; but to say that a dollar will buy a bushel of corn does mean something, and to say that a dollar will buy an hour of a man's time working at a textile machine means something. *The value of a dollar becomes the value of the goods or services that the dollar will buy.* This is true of all money.

In the market, values are expressed in *prices*. The price of a given commodity usually rises or falls with the supply of and demand for the commodity. The price rises when there is not enough of the commodity to satisfy all demands, and falls when there is more of the commodity than the people will buy readily. Even the price of money itself (interest) is sometimes subject to the law of supply and demand; it will rise when little money is offered for lending and fall when much money is offered, as compared with the demand for credit.

The rise and fall of prices, which are the amounts of money required to buy commodities or services, has been the cause of much suffering in the world. When prices rise sharply, the man who has money sees its exchange worth decline sharply, perhaps to the point where he no longer can buy the things he needs. When prices fall rapidly, the man who has goods in his store sees the exchange worth of his goods decline rapidly, perhaps to a point lower than their cost to him. Most governments try to prevent, as far as possible, wide fluctuations in prices and values, but this is not an easy task, as shown by recent experiences when war has caused severe shortages in goods.

In international relations the relative value of the money of different countries is of importance. International trade depends largely on the existence of a stable medium of exchange for the payment of accounts between countries or between citizens of different countries. We shall examine this problem later. Right now let's see how the currency of the United States has developed in relation to that of other countries.

## How Did We Get the United States Dollar?

The monetary units of other countries have various names—the franc, pound, dollar, peso, mark, and others. Our basic unit is the dollar. Let's examine it.

When the colonists gained their independence, the dollar was set as the monetary standard about which values would revolve. Prior to that time the money of other countries was used widely in North America.

The word "dollar" originated in Bohemia, where *thalers* were coined from silver mined in Joachimsthal. Our first dollars, coined at the mint in Philadelphia in 1792, were of silver, but gold coins of larger denominations, called eagles (twenty dollars) and half-eagles (ten dollars) also were coined. For the first 80 years of its life the United States was said to be on a bimetallic standard, because we used two metals for money. There was a fixed ratio of value between the two metals. The coinage law of 1834 fixed the weight of gold in a gold dollar at 23.22 grains, and the weight of silver in a silver dollar at about 16 times that weight—the famous "16 to 1" ratio. The United States also had what is known as "free coinage"—that is, any citizen was free to take gold or silver to the mint and have it coined into money.

The bimetallic plan encountered difficulty because of the changing supply of gold and silver. When new gold sources were discovered the supply of that metal would increase; likewise, the supply of silver would increase when new silver deposits were found. Since both metals were used commercially, prices paid for them in the market would change with the supply. Silver mining kept increasing the supply of that metal gradually so that, in 1873, the United States stopped the unlimited free coinage of silver and adopted the "gold standard." This step aroused considerable controversy which was not settled until the national elections of 1896 when William Jennings Bryan, who had made free silver coinage the principal issue of his presidential campaign, was defeated. In 1900 the Gold Standard Act was passed.

## What Is the Gold Standard?

A country on the gold standard uses only gold as the base of its currency. The gold content of its money is defined by law. Free convertibility of gold into the nongold currency of the country, and of the nongold currency into gold, is essential in a gold-standard country in order to keep the price of gold in domestic currency from changing.

During the 19th and early 20th centuries, most of the world, following the lead of Great Britain, was on the gold standard, and gold was used in settling balances in world trade. For most of the time the system worked smoothly. Under the gold standard, rates of exchange between countries (the relative value of the currency of one country to that of another) remained generally stable automatically.

Let's look at an illustrative example of how the system worked in world trade.

Let's say that the amount of gold in a French franc was about one-fourth that in one United States dollar and that the exchange rate between the two had been set at four francs to a dollar. If, for a certain period, France had bought more goods from the United States than she had sold to the United States, France then would owe the United States money or gold. In payment, gold would be shipped to the United States. (If the situation were reversed, we would ship gold to France.) If France continued for a long time to ship gold to the United States, the quantity of currency in circulation in France would decline, thus causing a decline in French prices. Soon, 3¾ francs might buy as much as 4 francs bought before. This would make it profitable for American citizens to buy more in France, and also make it unprofitable for French citizens to buy in the United States.

When France's exports began to exceed imports, a flow of United States gold into France would start, the number of French francs in circulation would increase, and French prices would rise again. Exports would decrease, imports would increase, and the whole cycle would begin again.

The system, then, was designed to work rather like a see-saw with neither end of the board getting far off balance. Each country's inflow and outflow of gold depended on its trade balances with all other countries on the gold standard. For a short while one country would be up, the other down. Then, with a little adjustment, the opposite would occur. As a result, exchange values were fairly stable. Both governments and businessmen liked the system. To governments it meant an automatically stabilized currency and that prices in gold-standard countries would be closely tied together. To businessmen it meant free markets, free enterprise, and a basis for expanding trade. As long as there was no great crisis, and as long as trade imbalances were only temporary, the system worked well. However, a major depression in any important country would throw the system out of gear; so would long-continued, unproductive, and heavy drains on a country's resources, such as those caused by war.

## Why Did Nations Modify the Gold Standard?

The gold standard became a casualty of World War I. When countries at war stepped up their imports and reduced their exports, their gold drained out and the exchange rates of their currency declined. When the war was over, the mutual confidence in currencies necessary to the functioning of the gold standard could not be restored immediately. To bolster their domestic economies, most countries attempted government controls of several kinds. Some of these controls took the form of arbitrarily increasing or decreasing the amount of currency in circulation and of placing restrictions on trade. Periods of varying degrees of serious inflation and deflation resulted. That is to say, when the amount of currency circulating in a country was increased beyond the requirements of trade, money fell in buying power and prices were inflated. In Germany, for example, extreme inflation made that country's currency almost valueless. When the amount of currency circulating in a country was reduced sharply, the money unit rose in buying power and prices were deflated. Throughout Europe the alternation of severe deflation and inflation, as well as trade restrictions, hampered trade between countries and made stabilization of exchange values impossible.

During all of this period the United States was a creditor nation because of war loans to Europe and because of huge exports which had brought large shipments of gold to this country. We increased the amount of currency in circulation. Because of increased circulation of money, investment in business increased. Employment, production, and speculation rose sharply. This process went on at such a dizzy pace that the speculation bubble finally burst. When this happened, the business boom collapsed, production slowed down, unemployment set in, many bank failures occurred, and down went prices. We were in a depression.

To combat the depression, in 1933 the United States Government took three monetary steps. The



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first was to give the Government a monopoly on the holding of gold. The second was the devaluation of the dollar; that is, the amount of gold in a gold dollar was reduced by law to 13.21 grains, or about half the amount required previously. The third step was to increase the quantity of silver and other currency, including bank deposits held by the public. This meant that we had changed somewhat the character of our gold standard and monetary system, although it still remained a gold standard. The three measures were designed to produce a rise in prices, greater demand for goods, increased production, and more jobs.

## What Was the Monetary Effect of World War II?

World War II played further havoc with money values in most countries of the world. Exchange rates of currencies have fluctuated so rapidly and erratically that trade has been hampered severely and the financial recovery of most countries has been retarded. Why? To answer this question we have to look at what happened during the war.

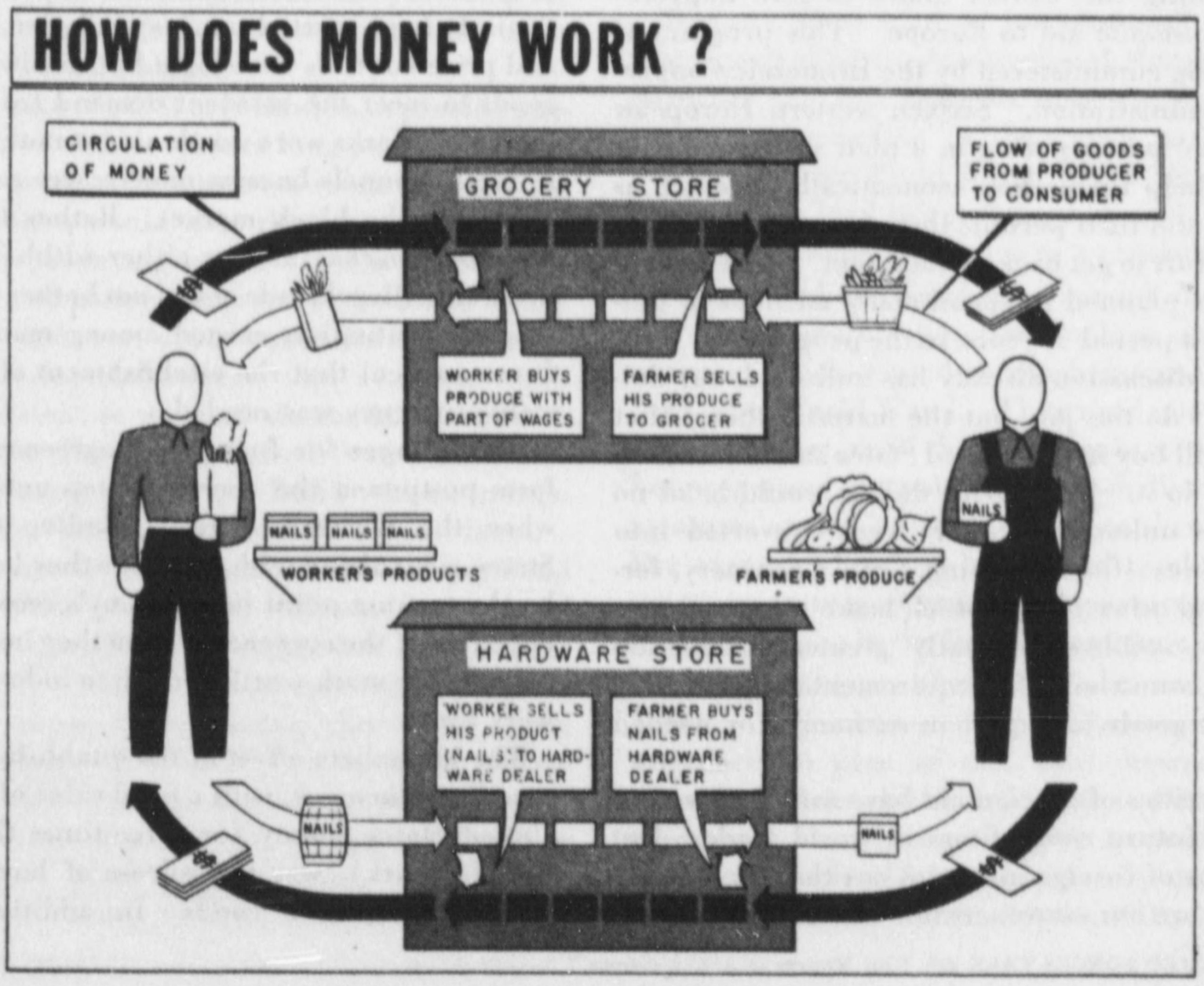
Most of the democracies poured out money and resources to meet the expenses of war. Consumer goods (the things people buy normally) became increasingly scarce because many industries that usually made consumer goods were diverted to war production. To keep the people from bidding against each other for the limited quantities of goods on the market and causing runaway price inflation, most governments imposed one or more of three kinds of government restrictions—

1. Raw materials were allocated according to a system of priorities in importance.
2. Price controls were applied.
3. Goods were "rationed" to consumers.

These measures did not prevent inflation entirely but in most countries they did prevent runaway price inflation.

When the war was over, the danger of a sharp and continued upward price spiral was at hand because all of the elements to cause it were present. People in general had plenty of money saved from wartime wages; they had not been able to spend it for goods during the war. The demand for all manner of goods was extremely great and the supply of goods was limited. There were popular demands, in most places, for relaxation of wartime controls. In some countries controls were lifted gradually; in others they were retained.

Artificial controls still in force in many countries have delayed the return of exchange stability in the



postwar world, but most experts believe that they cannot be removed until the dangers of runaway inflation have disappeared. How these dangers can be wiped out is a problem that the world is now facing. It is tied up with such things as the European Recovery Program and other measures of international cooperation with which the United States is associated.

## Why Is the United States Dollar Sought After Throughout the World?

In the postwar world the United States dollar is an important factor, for two reasons mainly. First, peoples of other countries have confidence in it because they know the greatest store of gold in the world stands behind it. Secondly, by good fortune the productive capacity of the United States was not crippled seriously by the war; in fact, its productive capacity has increased. We can produce goods not only for our own needs but for export, and with United States dollars other countries or their citizens can buy goods in the United States.

## In What Outstanding Way Is the United States Dollar Helping Other Countries?

Last winter Congress enacted a law authorizing and enabling the United States to give unprecedented economic aid to Europe. This program of aid is being administered by the Economic Cooperation Administration. Sixteen western European nations are participating in a plan which requires them to help themselves economically as much as possible, and then permits them to use our aid in a serious effort to get back on their feet.[1] The United States has planned to spend many millions of dollars, over a period of years, in the program.

As this discussion already has indicated, our dollars won't do the job, but the material things that dollars will buy in the United States and other countries can do it. To provide dollars would be of no assistance unless the dollars were converted into commodities—food, clothing, farm machinery, fertilizer, and other things which make increased production possible—eventually greater production than the countries' own requirements, so that they will have goods to export in exchange for needed imports.

Some critics of foreign aid have said that we are building future competitors in world trade. But supporters of foreign aid point out that these countries also are our customers in world trade, and that unless their productive capacity is restored they cannot buy the goods we hope to sell them in the future.

Supporters of foreign aid also point out another reason for our aid. Confidence in the postwar governments of European countries is important to world peace. We have learned that unsettled world conditions affect us and our national security and that we cannot have stability in an unstable world. Again, they urge, if we help the peoples of Europe to economic recovery, it is hoped that they will be able to maintain democratic governments and defeat the efforts of Communist minorities to break down their economies as an entering wedge for Communism. Thus, United States dollars spent through the Economic Cooperation Administration are a bulwark against this threat.

## German Currency Reform as a Problem in Stabilization

Before the recent currency reform in Germany, the United States spent billions of dollars to keep Germany alive. But efforts to revive German economy and to put it back on a self-supporting basis were hampered by extreme inflation. In 1945, the official mark was devalued to only one-fourth of its value. Under the circumstances, this action probably was not too extreme, but scarcity of goods, particularly food, started runaway inflation. Rationing and price controls were rigid but, as always, lack of goods to meet the insistent demand led to a black market. Marks were worth almost nothing. Food in legal channels became more scarce as more of it went into the black market. Rather than accept worthless marks, farmers either withheld food for profitable illegal trade or did not bother to produce. A similar situation existed among manufacturers. It was evident that the establishment of a new and stable currency was needed.

Futile hopes for four-power agreement on a reform postponed the necessary step until last June when the Western Allies, including the United States, went ahead with the move they hoped would be the turning point in Germany's recovery. The objective of the currency reform they instituted was to make the mark worth enough to induce people to work for it.

The immediate effect of the establishment of the new *Deutschemark*, with a fixed value of 30 cents in United States money (or three times the value of the old mark), was the release of large stores of hoarded consumer goods. In addition, German

[1] See ARMED FORCES TALK 207, "Our Motives in Aiding Europe."

people found it to their advantage, for the first time in many, many months, to put in a full day's work. Employers began to find that increased production was profitable because there was more purchasing power in the hands of the people. If the German currency reform is successful, in spite of obstacles being thrown in its way, the country's productive capacity will grow, it is hoped, until it will meet both domestic and export demands.

## What Are Some Other International Efforts at Monetary Cooperation and What Part Is the United States Playing in Them?

Even before the end of hostilities, the democracies began to plan for international cooperation in the restoration of financial stability. In 1944 at Bretton Woods, representatives of 46 nations met to decide how to solve problems of postwar reconstruction and, especially, the old problem of currency exchange rates. They knew that something would have to be done if the mistakes of the interwar period were not to be repeated after World War II. They decided to recommend to their governments the establishment of two new international organizations: a World Bank for Reconstruction and Development, and an International Monetary Fund.[1] Both of these organizations, providing for long-range international cooperation, are now agencies of the United Nations.

The purpose of the World Bank is to provide war-torn countries with a source of long-term reconstruction loans at reasonable interest rates. Such loans, it was thought, would help them restore facilities needed for producing goods. It was agreed that, as a matter of policy, loans would be made available first to the most needy countries and projects. It soon developed, however, that available funds were insufficient to meet all demands. Independently of the Bank, the United States has made numerous loans, such as the British Loan, interim aid, and the European Recovery Program loans.

The purpose of the International Monetary Fund (called the IMF) is entirely different from that of the Bank. This Fund is designed as a permanent institution for stabilizing the currencies of all its member nations by advancing short-term credit when necessary. It is in effect a device to replace the gold-standard system and to cope with emergencies in the face of which that system was found to be ineffective. Each member nation—46 of them—makes contributions to the Fund as members do also to the World Bank. The amounts contributed are determined by the member's wealth. The United States, for example, is by far the largest contributor and, in return, has the largest credit allowance and the largest number of votes in the Fund. Twenty percent of each member's contribution is paid in gold and the remainder in its currency. Each member's credit is restricted to a certain percentage of its contribution and for a certain period of time. Thus, a nation which has put in four million dollars could borrow, let us say, one million dollars during a year *in any currency it wants.* In this way, the Fund becomes a credit pool from which members can secure currencies of other nations at stable rates.

To insure this stability of exchange rates, each member agrees not to raise or lower its exchange rates by more than ten percent without the approval of the Fund. This pledge is designed to prevent a country from "manipulating" its currency at the expense of other countries. If a country's economic situation undergoes serious change, the Fund can set new exchange rates for that country's currency. When a member country has a deficit in trade balances, instead of shipping gold, as under the gold-standard system, it now can get a short-term loan from the Fund to tide things over until its exports catch up with imports.

Without some kind of international control as that intended by the International Monetary Fund, countries can, and often do, inflate or deflate their currencies according to their own national self-interest, as after World War I. Such actions by one nation often lead to retaliatory measures by other nations and sometimes even to a general upheaval.

Members of the Fund have agreed also to abandon discriminatory practices such as excess trade controls, which caused so much international discord after World War I. They need not take these steps, however, until their economic reconstruction has progressed to a point where such discriminatory measures are no longer necessary to their recovery. For example, England has agreed to eliminate restrictions on import and export payments designed to favor nations in the British Commonwealth.

The effectiveness of the International Monetary Fund is still undetermined. The success of any international plan of this kind depends on the reasonably free ebb and flow of trade. Furthermore, each country must be able to produce goods for export with which to pay for needed imports. A recent article in *Fortune* states, "The Fund as an

[1] See ARMY TALK 79, "Bretton Woods—Investment in Peace."

international agency is better situated than the United States to advise member nations on how to stabilize their internal economies, and its advice is less likely to ruffle national feelings. . . . With effective support from the United States the experiment in monetary cooperation may well succeed, for the Fund deals with international relations at a practical level."

## Summary

Money, whether coins, paper notes, or bank deposits, grew out of the necessity for a practical and effective medium of exchange. As it developed, gold and silver were adopted as the backing for currencies of most nations. Through the 19th and early 20th centuries most countries were on the "gold standard," a system which automatically stabilized trade and foreign-exchange rates under normal conditions.

For 30 years following World War I, the currencies and economies of many countries were unstable, with recurrent inflation, depression, and unemployment. World War II played further havoc with world economy but before its end the democracies realized the importance of international cooperation in solving postwar trade and currency problems. To provide a means of credit for war-devastated nations, 46 countries, including the United States, established the World Bank for Relief and Reconstruction, together with the International Monetary Fund, to keep international exchange rates stable.

Despite these measures, the monetary stability of the world has been slow to recover. Inflation in Germany and some other countries has been difficult to control. The United States, in addition to participating in the operations of the World Bank and the International Monetary Fund, has made other loans and has embarked upon other enterprises, notably the European Recovery Program, to help countries through this critical period. It is hoped that all these measures and others, such as the recent currency reform in Germany, will provide the assistance necessary to get Europe and the world back on their monetary feet, and that thereafter the operation of the International Monetary Fund will keep currencies stable enough so that freer world trade, prosperity, and peace will result.

The recovery of war-torn countries and the reestablishment of stable monetary systems depend mainly on the ability of the countries to reestablish their productivity. The position of the United States as pacemaker in most of the reconstruction efforts is not easy. The confidence reposed in us and upon the stability of our currency by other peoples has laid upon us the responsibility of helping them to achieve a stable economy and of helping the world achieve lasting peace. The penalty of failure would be as great for us as for the countries we are trying to help.

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# DISCUSSION LEADER'S OUTLINE

(ONE)

## Introduction

1. Money from the United States is financing a large part of the world today.

2. It is a stabilizing influence in an unsettled world.

3. This discussion of money will point out especially how the United States dollar derives its value and comparative stability, and some details of the part it is playing.

## What Is Money?

1. Primitive man used direct exchange or barter, without money.

2. The inconvenience and cumbersomeness of barter as a community practice led to the need of a recognized "go-between."

3. This go-between, used as a medium of exchange and a standard of value, came to be known as money.

(TWO)

## What Is Money Made Of?

1. Many things were used as money before the use of metal—and finally metal coins issued by governments—became universal practice.

2. Gold and silver coins proved the most satisfactory.

3. Governments also issue paper money, usually backed up by gold or silver reserves—

*a.* Representative money.

*b.* Credit money.

*c.* Fiat money (when in desperate straits).

## What Constitutes the Money Supply?

1. The money supply consists of coins and paper money in circulation plus bank deposits.

2. Money supply is adequate when producers and consumers, at reasonable cost or labor, can get enough for their needs and operations.

3. Serious fluctuations in money supply may cause depressions, inflations, and suffering.

(THREE)

## What Does Money Do For Us?

1. As a medium of exchange it enables men to specialize in individual occupations.

2. As savings or investments it supplies a storage reservoir for future needs.

3. As a loan medium it enables one man to use another's money to the benefit of both.

## Where Does the Value of Money Come From?

1. Money is of little value in itself.

2. Its value is derived from two principal sources—

*a.* The governmental reserves behind it.

*b.* Confidence in the issuing government's ability to maintain its money's usefulness as a medium of exchange, measured in terms of what it will buy.

(FOUR)

3. Basically, the value of money is the value of the goods or services it will buy.

4. In trade these values are expressed in prices.

5. The sharp or continuing rise and fall of prices (which means a corresponding fall and rise in the value of money) sometimes causes individual, national, and international suffering.

6. Internationally, stable currencies are required if trade is to be carried on successfully.

## How Did We Get the United States Dollar?

1. The word is originally Bohemian, from Joachims-*thaler*.

2. Beginning in 1792, we coined both gold and silver dollars, with the weight of each metal per dollar specified; thus, we were on a bimetallic standard.

(FIVE)

3. We also had "free coinage" of gold and silver.

4. In 1873, we stopped free coinage of silver and "went on the gold standard."

## What Is the Gold Standard and How Did It Work?

1. A country on the gold standard uses only gold as the base of its currency and defines the gold content of its money by law.

2. During the 19th and early 20th centuries most of the world was on the gold standard.

3. The system worked like an international see-saw which, under normal conditions, automatically adjusted itself when one end began to get too far off balance.

4. Adjustments were made by the domestic withdrawal of a certain amount of a country's currency from circula-

(SIX)

tion when the country began to have an "unfavorable" trade balance—that is, when its imports, and therefore its debts, began seriously to exceed its exports or income.

5. This deliberate deflation would increase the buying power of the country's money, lower prices, and start an export flow that eventually would give the country a "favorable" trade balance (and another country an "unfavorable" balance) . . . and so on.

6. The system worked as long as there were no great financial crises and as long as trade imbalances were only temporary; serious depressions or wars would throw it out of gear.

7. Thus, World War I, its upset currencies, and the depressions following it, finally caused Great Britain (1931), the United States (1933), and other countries, to change the character of the gold standard in order to produce higher prices and greater production.

(CUT HERE)

(SEVEN)

## What Was the Monetary Effect of World War II?

1. In general, it played havoc with international money values.

*a.* Making of war materials decreased consumer goods.

*b.* Therefore most countries imposed allocation of materials, price controls, and rationing to prevent runaway prices.

*c.* Artificial controls interfere with free trade, but they cannot be removed until danger of runaway inflation is removed.

2. Problem today is how to remove this danger and again stabilize currency and trade.

3. World has more confidence in the stability of United States currency than of other currencies because of its reserve strength and our productive capacity.

(EIGHT)

## In What Ways Is the United States Dollar Helping Other Countries?

1. Through the European Recovery Program (the Marshall Plan), which is in operation, though criticized in some quarters.

2. Through currency reform in Germany where, with the concurrence of the other Western Allies, the new mark is pegged at 30 cents in American money.

3. By contributing more than any other country to the World Bank for Reconstruction and Development, and the International Monetary Fund, now agencies of the United Nations.

## What Are the Purposes of the World Bank and the IMF?

1. Both (46 members) provide for long-range international financial cooperation.

(NINE)

2. The World Bank provides war-torn countries with a source of long-term reconstruction loans.

*a.* They were available first to most needy countries.

*b.* Funds were inadequate; the United States has made loans outside the Fund.

3. The International Monetary Fund is designed to help stabilize currencies of its member nations by advancing short-term credit.

*a.* Each member contributes 20 percent in gold and 80 percent in its own currency.

*b.* Each member can "borrow" in the form of currencies of other nations when it has a trade balance deficit; thus, the Fund takes the place of the gold-standard system.

*c.* Members agree not to raise or lower exchange rates by more than 10 percent without the approval of the Fund—also agree to remove trade restrictions as soon as possible.

(TEN)

4. The effectiveness of IMF still is undetermined, but in theory it should work.

## Summary

1. The use of money grew out of the need for a practical medium of exchange.

2. As it developed, gold and silver money became standard—leading to the gold standard during the 19th and early 20th centuries.

3. World War I was followed by financial depressions and instability.

4. World War II played further havoc with international money stability.

5. The World Bank and the International Monetary Fund were established to help restore stability.

(ELEVEN)

6. But recovery has been slow; inflation has been hard to control, especially in Germany and some other countries of Europe and Asia.

7. The United States participated in the World Bank, the IMF, and Germany currency reform, and underwrites other loans and aids, notably the European Recovery Program.

8. The pacemaking position of the United States is not an easy one, but the confidence reposed in this country by other freedom-loving peoples lays the responsibility of leadership upon us.

9. United States money is working to achieve a stable international economy and world peace.

(TWELVE)

## Questions To Stimulate Discussion

1. Do you think a country, or its individual citizens, benefits more from moderate inflation (gradually rising prices) or moderate deflation (gradually falling prices)? Give reasons.

2. Of all the so-called Great Powers, only the Soviet Union is not a member of the World Bank and the International Monetary Fund. What does that mean to international finance? Do you think the United Nations should persuade her to join those organizations?

3. In the light of today's discussion, why is it desirable for a country to have a "balanced trade"—that is, exports and imports of about equal value?

4. Why are United States Savings Bonds considered to be "liquid capital"—that is, the same as money? Can you name other "paper" that is liquid capital? Why is it so considered?

5. The United States often has been accused of "dollar diplomacy"—that is, following a foreign policy that seeks primarily the interests of business. Do you think that the accusation is justified? If so, why? If not, why not?

## *SOME USEFUL DEFINITIONS*

***Currency***—Coin or paper money used as a medium of exchange.

***Monetary unit***—Standard money of a country about which other values are determined: that is, the United States dollar, French franc, British pound, etc.

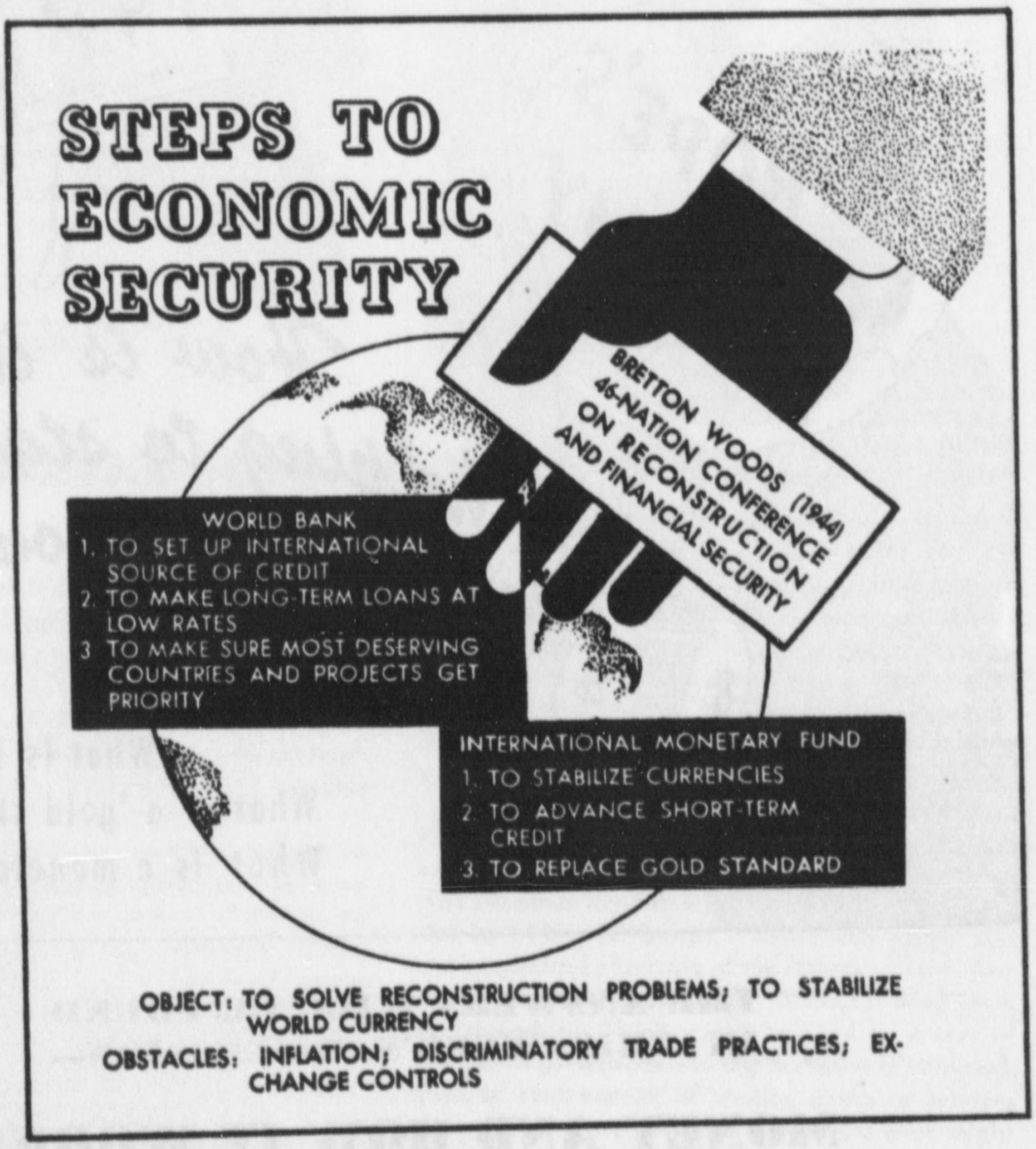
***Inflation***—Increase of the amount of currency in circulation, causing the monetary unit to lose buying power, resulting in higher prices.

***Deflation***—Decrease in the amount of currency in circulation, causing the monetary unit to rise in buying power, bringing prices down.

***Balance of trade***—The difference in value between the exports and imports of a country.

***Gold standard***—A system under which the value of money is measured in terms of the gold it will buy; this value, once determined, is fixed by law and helps to assure stable currencies.

***Exchange controls***—Government trade and price controls on exports and imports.

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**THE ANSWERS WILL BE FOUND IN THIS WEEK'S DISCUSSION—**

# MONEY AND HOW IT WORKS

(Time) (Place)

(CUT ON DOTTED LINE AND MOUNT IN INFORMATION CENTER)

HEADQUARTERS
U.S. FORCES, EUROPEAN THEATER
Office of the AG of S, G-1

FSB/AS/SCP/jnc
19 November 1946

SUBJECT: Occupation Expense Fiscal Policy

TO : Chief of Staff

I. DISCUSSION:

1. A circular setting forth basic policies regarding expenses of the occupation forces which are to be borne by the German economy has been prepared in order to clarify the position of the U.S. Army with respect to procurement of supplies and services from the German economy (TAB A). This Circular is based on the following principles:

a. No agency of the occupation forces other than the U.S. Army will procure any supplies, services, or facilities for payment from the German economy (para 10, TAB A).

b. The U.S. Army will procure supplies, services, and facilities from the German economy as an occupation cost when such items would be charged to appropriated funds if procured and used in the Zone of the Interior. In addition, the Theater Commander may authorize the procurement and charging of certain other items to the cost of occupation when they are required for the effective discharge of the occupation mission and can be so procured under existing international or quadripartite laws or agreements (para 11, TAB A).

c. When the U.S. Army undertakes projects such as capital construction and care of Displaced Persons, indigenous costs will be borne by the German economy but will not be charged against the United States as an occupation cost (para 12, TAB A).

d. Assimilated commercial agencies defined in para 8 at TAB A, will be as nearly independent of the U.S. Army for supply as their treasury licenses, available facilities, and applicable procurement directives will allow. Each assimilated commercial agency will have a contract or special agreement with the U.S. Army to cover functions of the U.S. Army and of the agency with regard to supply, maintenance, and reimbursement. In order to protect the limited supply of real estate and material available from the German economy, the procurement policies of this headquarters must govern (para 13, TAB A). However, indigenous personnel required in the operation of these assimilated commercial agencies will be hired and paid by the agency (para 18 i, TAB A), and rail facilities for the movement of freight will be procured by the agency concerned but will be given the same consideration as U.S. Army freight (para 22c, TAB A).

e. Reimbursement to the U.S. Army in cases of sale or rental of items which have been procured by the U.S. Army from the German economy will be in dollars (para 14 and 15, TAB A).

f. Since collections made by the U.S. Army through the sale or rental of indigenous items do not represent reimbursement due the U.S. Government for sale or rental of U.S. Government property, there is need for an accounting vehicle to facilitate their deposit in such a manner that they can be readily identified. To satisfy this need, on 23 July 1946 the War Department was requested to establish an account in the U.S. Army fiscal system with the suggested title "Liquidated Occupation Cost Account, Germany". Indications are that the War Department is giving favorable consideration to the establishment of such an account but that final action may be delayed for some time. Pending final War Department action it is proposed that such collections be deposited with U.S. Army finance disbursing officers for accounting in accordance with existing War Department regulations (para 16, TAB A). It will be a simple matter to install the "Liquidated Occupation Cost Account, Germany" when it is established.

g. All real estate and real property procured in the U.S. Occupied Zone of Germany for the use and maintenance or operations of the U.S. occupation forces will be procured from the German economy by the U.S. Army (para 17a, TAB A). Minimum indigenous personnel necessary for the maintenance and upkeep of all real estate

MAJ PHILLIPS

will be procured by the U.S. Army from the German economy as an occupation cost (para 18c, TAB A).

h. The employment of indigenous personnel is covered in para 18, TAB A, and the methods of payment of such personnel are covered in para 19, TAB A.

i. In view of previous decisions of the Theater Commander relative to individual rail travel in Germany, para 20a, TAB A, covering such travel is written to conform to current policies as established by both Circular 120 (TAB B) and an approved staff study originating with the AC of S, G-4 on 9 August 1946, subject: "Fares for U.S. and Allied Personnel on German Local Public Conveyances". G-4 points out that the proposed Circular at TAB A constitutes an almost complete return to charges and procedures followed in the Zone of the Interior by placing the majority of unofficial activities on a "pay as you go" basis, therefore unofficial travel on German trains and local common carriers should be paid for by the agency or individual concerned. It is understood that the transportation corps is not in a position to handle unofficial transportation on a reimbursable basis except on regularly scheduled military trains; consequently a "pay as you go" policy on individual rail travel would require individuals to buy regular German passenger tickets for marks to travel on German trains not under direct military control. It is believed that such a system would encourage procurement of marks from illegal sources. It is therefore concluded that individual rail travel should continue to operate under the present policies.

j. German rail facilities for the movement of freight in Germany will be procured by the U.S. Army from the German economy except that rail facilities for the movement of freight for assimilated commercial agencies will be procured by the agency concerned, and similar facilities used in transportation of supplies procured from the German economy and exported for the use of U.S. Forces outside Germany will not be charged against the German economy as an occupation cost. (para 20b, TAB A).

k. Resale merchandise and raw materials for the production thereof procured from the German economy by revenue producing agencies of the U.S. Army will not be charged against the German economy as an occupation cost, but will be procured at the expense of the agency concerned. The method of procurement, method of payment, and accounting for funds will be as directed by the Theater Commander for each agency and type of merchandise concerned (para 21c, TAB A).

2. Throughout the proposed Circular at TAB A, agencies are required to purchase mark currencies from U.S. Army finance disbursing officers whenever payment is to be made directly to a German supplier of supplies or services. This procedure will contribute materially to the reduction of the Army's holdings of surplus mark currencies which accumulated largely through black market activities of occupation force personnel. Indications are that the War Department is extremely anxious to use every possible method to reduce these holdings. However, CMCUS takes exception to this procedure and states that German suppliers of supplies and services should be reimbursed from mark currencies already in circulation in the German economy. Without the afore mentioned "Liquidated Occupation Cost Account, Germany", it would be virtually impossible to satisfy the desires of CMCUS with regard to the source of mark currencies. Since the U.S. Army finance system is the recognized facility for the exchange of currency for occupation force agencies and personnel, it is only logical to require that agencies and individuals of the occupation forces obtain mark currencies from this source. So long as the mark currencies held by the U.S. Army are not invalidated by higher authority, they represent a legal source of such currencies and should be used as prescribed in the proposed Circular. In any case, it is clear that the U.S. Army finance system should be used for currency exchange and any disagreement with respect to the value of mark currencies held by the U.S. Army should be settled by separate study.

II. ACTION RECOMMENDED:

3. Approval of the proposed Circular (TAB A).

III. CONCURRENCES:

G-4 _____ G-5 _____
Bud. Dir. _____ OFD _____

J. M. EVANS
Major General, GSC
Assistant Chief of Staff, G-1

Telephone 22038

IV. CONSIDERATION OF NON CONCURRENCE:

4. Comments of G-5 (TAB C) point out minor omissions in the proposed circular at TAB A and involve no policy change. Changes recommended by G-5 are incorporated in the new proposed circular (TAB F).

5. Comments of OMGUS (TAB D) are confined to points of basic policy as follows:

a. OMGUS still contends that US Army mark currencies should not be used by agencies of the occupation forces in making payments to the German economy. Since this headquarters has been instructed by the War Department to utilize every available means to liquidate mark balances held by the US Army, there is presently no alternative but to use these marks as prescribed in the proposed circular.

b. OMGUS feels that all items of service or supply primarily serving purely private, recreational or entertainment purposes and which are not chargeable to appropriated funds in the Zone of the Interior should be subject to dollar charges as a dollar credit to the German economy. The proposed circular provides that items subject to dollar payment will be selected exactly as OMGUS proposes with two notable exceptions: (1) Free rail transportation for occupation personnel and for freight of nonappropriated fund agencies, and (2) Provision of a minimum number of domestic servants. Factors relating to rail transportation are discussed in para 1 i above. In this connection, circular 120 (TAB B) has been superseded by circular 9 (TAB G). Since indigenous personnel are provided for household duties and operation of type B messes in bachelor quarters, it is felt that the provision of indigenous personnel for similar duties in quarters of married personnel is justified. Although OMGUS contends that dollars collected by the Army through the sale or rental of indigenous items should be credited to the German economy, the War Department policy of bending every effort to the liquidation of surplus mark holdings precludes the establishment of such dollar credits to the German economy and requires that dollars collected by the Army be used to liquidate mark holdings as prescribed in the proposed circular.

c. OMGUS contends that the Army Exchange Service is essentially a supply agency of the US Army and as such should be permitted to charge their indigenous personnel against the cost of occupation. This appears to be inconsistent with their view that this theater return to ZI fiscal policies. The Army Exchange Service was conceived as a self supporting activity, and this theater will be open to criticism if the AES is not required to pay for their indigenous personnel. It is felt that revenue producing agencies of the US Army should all be made self supporting, thus contributing to reduction of the indigenous budget and reduction of the Army holding of excess marks.

d. OMGUS indicates that some payments may be made in marks without suitable guarantees of dollar conversion and also that further safeguards might be provided with respect to financial activities of assimilated commercial agencies. The proposed circular allied with existing directives of this headquarters are considered to provide adequate guarantee of dollar conversion in the case of Army agencies. However, as also pointed out by the Fiscal director in comments at TAB E, there is possibility of illegal financial activities in the case of assimilated commercial agencies. Since this study deals primarily with occupation cost factors and cannot be expected to solve all financial problems associated with the operation of these commercial companies, it is felt that this circular should be published as written and that a separate study should be initiated to determine the legal status of these companies and to establish the exact responsibilities of this headquarters and of OMGUS with respect to the financial supervision and control of these companies.

e. OMGUS takes exception to the proposed method of establishing dollar charges to be levied when indigenous items are sold or rented. The proposed system (para 14, TAB F) is based on standard Army price lists of comparable items coupled with the military exchange rate. The OMGUS proposal to establish charges based on relative purchasing power of the two currencies is not considered to be workable and is inconsistent with the exchange rate recognized by the War, Treasury and State Departments.

6. Comments of the Fiscal Director are at TAB E. The comments in para 5 d above apply with respect to theater audit of books of assimilated commercial agencies. Reference para 1 c, TAB E, the AES is not taking over all QM laundry, cleaning, and other service activities. Any monies collected by QM through operation of these service activities should continue to be deposited for credit to applicable replacing accounts as provided in para 24, TAB F.

7. The revised circular, TAB F, was prepared in conference with G-4 and the Theater Budget Director who concur.

V. FINAL ACTION RECOMMENDED:

8. Approval of the draft circular, TAB F.

J. M. BEVANS
Major General, GSC
Assistant Chief of Staff, G-1

Telephone 22038

(Classification)

# INTERNAL ROUTE SLIP

HEADQUARTERS
THEATER SERVICE FORCES
EUROPEAN THEATER

FILE NO:

SUBJECT: Occupation Expense Fiscal Policy DATE: 30 October 1946

(Number each memo or minute consecutively. Fill in each column, signed legibly draw a line across the sheet. Use entire width of sheet for long memoranda.)

| No. | From | Pass to | Date | HAS THIS PAPER BEEN COORDINATED WITH ALL CONCERNED? |
|---|---|---|---|---|
| 1. | OTFD | G-1 (Attn.: Col. Brown) | 30 October 1946 | FJS/lt<br><br>1. In accordance with conversation Col. Stagliano-Col. Brown, (G-1), 29 October 1946, the following observations, reference G-1 staff study on "Occupation Expense Fiscal Policy", 28 September 1946 are made, keyed in each case to corresponding paragraphs of the staff study:<br><br>a. (Ref. par. 2(c), cover letter to the C. of S.): Final sentence indicates that indigenous personnel hired by assimilated commercial agencies will be <u>hired and paid by the agency</u>. This assumes that no measure of the value of the withdrawal of indigenous services by assimilated commercial agencies need be recorded for future reference. This is considered questionable policy in view of the fact that possible later determination to give the German economy dollar-credit for these withdrawals will encounter lack of data. It is considered that correct policy should require adequate account keeping by the U. S. military administration. See par. 2, this text.<br><br>b. (Ref. par. 2(g) of cover letter to the C. of S. - -): Suggestion that each military community devise its own accounting and payment methods for indigenous personnel hire is not concurred in. Correct and standard hiring and payment methods, applicable theater-wide, are preferred. Reason therefor is indicated in preceding sub-paragraph.<br><br>c. (Ref. par. 3, cover letter to C. of S. - -): Final sentence is objected to owing to the fact that AES is a profit-making institution in addition to being a morale agency. It is considered that, while it may be immediately desirable for German budget to stand the cost of AES indigenous hire, the corresponding dollar-value of such cost should appear in AES book-keeping records as wage expense; and such expense should be disbursed by the AES as dollars, and proceeds deposited in an official U. S. account designated "Liquidated Occupational Costs". Reason for this appears in part in preceding sub-paragraphs. Aside from such reason, however, coverage of this wage factor in the mentioned account will hold for and on behalf of the U. S. a dollar fund which need not and should not benefit either patrons of the AES (as reduced retail prices), or the AES, or the theater Central Welfare Fund.<br><br>d. (Ref. par. 4(c), TAB A): Change the words in second line "cannot be procured from" to "are not proper for charging against"; change beginning word in the third line "from" to "against". |

(Classification)

AGPD-1001-9-45-100 M 32243

e. (Ref. par. 6 and 7, TAB A): Reason for the two accounts mentioned, one to receive and disburse Mark funds, and the other, foreign exchange, is not understood. Primary interest rests, of course, with OMGUS. However, it would appear that there should be but one Export-Import account, valued in dollars regardless of type of currency concerned; the account-keeping agency to be responsible for maintaining subsidiary currency records supporting the entry in the master account.

f. (Ref. par. 15, TAB A): Final sentence is redundant and should be deleted.

g. (Ref. par. 16 and 17, TAB A): Possibly paragraphs are adequate as stated. However, in such case a new paragraph 18 should provide that uniform accounting methods covering collection and deposit procedures appear, or will appear, in another theater document (cited by name). See par. a above.

h. (Ref. par. 19(f) and 19(g), TAB A): Idea that local regulations for hire and payment, whether conceived by military government or a military community, is not concurred in. Uniform methods of hire, payment, collection and deposit of proceeds, etc., are considered essential. In particular, dollar value of indigenous hire by any U. S. or affiliated commercial agency must be reflected in official books of account. See reasons in a above.

i. (Ref. par. 20, TAB A): Transportation revenues realized for non-official travel should be recorded and accounted for by a system identical with that suggested in a and g above.

j. (Ref. par. 22, TAB A): Underlying principles are obscure. Primary interest appears to rest with OMGUS, particularly with respect to whether, or in what circumstances, use by assimilated commercial agency of indigenous transport facilities should be regarded as an Export reimbursable by the user agency with dollars to Export-Import account. However, unless such user is regarded immediately as a reimbursable dollar-export transaction, the Army is chargeable with accounting responsibility for the dollar value of the Mark reimbursement of the user agency to the German Transport system. Reason for this is similar to those offered in the preceding paragraphs of this text re indigenous hire. An alternative to the Army undertaking the laborious task of maintaining money records on such transport hire is to require affirmatively that user agencies maintain, and be prepared to disclose to OMGUS officials, the precise quantum of Mark payments to the German Transport system. By so doing it will be possible at a later date to grant dollar-export credit if a change of policy makes it necessary. In the absence of records, maintained either by the military or by assimilated commercial agencies, later decision to grant export credit could be implemented only by consulting books of account of the German transport agencies.

k. (Ref. par. 2(b); proposed letter to TAG; TAB D): Latter part of paragraph should clarify that profit-making military instrumentalities, regardless of classification as essential or desirable, will be charged the dollar-value of cost of indigenous hire, and such revenues will be covered into an ear-marked collection in disbursing officer's accounts. Accordingly, paragraphs 3 and 4 should be modified or deleted.

1. (Ref. Balance of par. 2, proposed letter to TAG; TAB D); Additional modifications to accord with major suggestions in preceding text appear proper.

2. Repeated comment is made in pertinent parts of preceding text to necessity for uniform methods of indigenous hire and of account-keeping with respect to collections and deposits of monies realized as liquidated occupational costs. As general comment on the staff study as a whole, attention is called to this major defect; namely, absence of policy recognizing the importance of reducing values realized as liquidated occupational costs to readily measurable amounts through uniform accounting controls. In this respect reference is made to IRS of this office to G-1 (Attn.: Major Phillips) 16 August 1946, which forwarded a paper on occupational cost factors parallel to the staff study here discussed, but which emphasized standard controls and included a proposed system.

R. B. CONNER
Col. FD
Theater Fiscal Director

Tel: FRANKFURT 33256

SECRET

Urgent

15 August 1946

War Department Special Staff
Budget Division
Foreign Financial Branch
WDSBU 125 (10 Apr 46)

2806

Colonel Tench

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X

COMMANDING GENERAL UNITED STATES FORCES EUROPEAN THEATER FRANKFURT GERMANY

COMMANDING GENERAL UNITED STATES ARMY FORCES MEDITERRANEAN THEATER CASERTA ITALY

COMGENUSFET AND COMGENMED FOR ACTION SIGNED WARBUD

SALIENT FEATURE OF MILITARY PAYMENT CERTIFICATE PLAN AS NOW SET UP IS THAT IT EXERCISES A COMPLETE BLOCK AGAINST CONVERSION OF INDIGENOUS CURRENCIES OF COUNTRIES IN WHICH PLAN IS IN OPERATION SMCLN WHILE AT THE SAME TIME PROVIDING TO THE SOLDIER A MEDIUM OF PAYMENT AND DAILY USE ~~CMA IN PLACE OF THE DOLLARS WHICH HE IS PROHIBITED FROM RECEIVING WHILE ABROAD CMA~~ WHICH MAY BE CONVERTED TO DOLLARS ON HIS DEPARTURE FROM OVERSEAS PD PARA TREASURY DEPARTMENT HAS NOW EVIDENCED CONCERN LEST INDIVIDUALS CMA USING BLOCKED INDIGENOUS CURRENCY OF COUNTRIES WHERE PLAN OPERATES CMA WILL PROCURE CONVERTIBLE CURRENCY OF COUNTRIES WHERE PLAN DOES NOT OPERATE SMCLN AND EXCHANGE SUCH CONVERTIBLE CURRENCY FOR DOLLARS PD PARA TO PREVENT THIS LEAK CMA THE ADOPTION OF ONE OF TWO ALTERNATIVES HAS BEEN SUGGESTED CLN EITHER PAREN ABLE PAREN THE EXTENSION OF THE MILITARY PAYMENT CERTIFICATE PLAN TO ALL COUNTRIES IN YOUR THEATERS WHERE UNITED STATES TROOPS RECEIVE PAY IN INDIGENOUS CURRENCY SMCLN OR PAREN BAKER PAREN A PROHIBITION AGAINST REDEMPTION OF THE CURRENCIES OF CERTAIN OR ALL OF THE COUNTRIES WITHIN YOUR THEATERS CMA EVEN THOUGH INTRODUCTION OF MILITARY PAYMENT CERTIFICATE PLAN MIGHT NOT BE



SECRET

contact 17698

SECRET

WDSBU 125 (10 Apr 46)

15 August 1946

X

DEEMED NECESSARY IN COUNTRIES IN QUESTION FD POSSIBILITY OF UTILIZATION BY MILITARY PERSONNEL OF LOCAL BANKING FACILITIES FOR CONVERSION OF FOREIGN CURRENCY INTO UNITED STATES DOLLARS SHOULD BE EXPLORED CMA PARTICULARLY IN COUNTRIES WHERE ONLY RELATIVELY FEW MILITARY PERSONNEL ARE STATIONED FD PARA WAR DEPARTMENT WILL BE GREATLY AIDED BY YOUR COMMENTS ON THESE PROPOSALS BY URGENT RADIO REQUEST LISTING OF AFFECTED COUNTRIES BY NAME IN EITHER CASE



SGD

D/SSP
D/PA
D/PO
SERVAT Fin

D/I - Navy
S/W (Col Extom)
DCSA
CSA

GEORGE J. RICHARDS
Major General, GSC
Chief, Budget Division

SECRET

(10)

HEADQUARTERS
U.S. FORCES, EUROPEAN THEATER
Office of the AC of S, G-1

PSS/PWB/fbs
10 July 1946

MEMORANDUM TO: General Bevans

SUBJECT : Payment for Indigenous Supplies and Services in the US Occupied Zone of Germany.

1. A conference was held on 8 July 1946 attended by representatives of G-1, G-4, G-5, OMGUS, JAG, OFD, I&E, AES, Stars and Stripes, Special Services and Budget Director, to discuss the extent to which payment for indigenous supplies and services would be made out of the German economy. It is contemplated that a circular will be published covering the matter in detail. Prior to publication of this circular, it is desired that a basic decision be obtained that will affect the entire circular. This decision is discussed in detail in paras. 4 to 8 below.

2. The following points were agreed upon:

a. Procurement of indigenous supplies and services that would normally be paid for by appropriated funds if procured in the ZI should be continued. An example is the replacement of soldiers by indigenous personnel for duty such as mechanics and kitchen police. Locally available supplies such as lumber and furniture are similar items. It was further agreed that manpower and supplies are limited and must be controlled by OMGUS.

b. Procurement of real estate, utilities and minimum maintenance personnel should be chargeable to German economy. This includes buildings for nonappropriated fund activities such as PX's and Clubs.

c. Some entertainment should be charged to German economy. The present $1.00 per man per quarter allotment is unsatisfactory because of duplication in all echelons. This matter will be clarified.

d. Indigenous personnel employed in authorized messes should be paid by German economy.

e. Minimum household servants should be procured from Germany economy.

3. Items listed in para 2, above, were concurred in to the point that it is believed that only exact wording in the final directive is in question and no further consideration need be given to them at this time.

4. Personnel in the following categories caused disagreement; with G-1, AES, S&S, I&E and Special Services taking the stand that they should be charged to German economy, whereas representatives of other sections non-concurred to various degrees.

a. AES employees, other than those listed in para 2, above. This includes bookkeepers, store-keepers, cashiers, etc.

b. Stars and Stripes employees, other than those listed above, including indigenous personnel for operation of presses and delivery.

c. Special Services employees, other than those listed above, including indigenous personnel for the operation of Army motion picture theaters.

5. The arguments <u>favoring</u> charging these indigenous employees to the German economy are briefly as follows:

a. Prices will be increased materially if indigenous employees must be paid from operating income.

b. It is understood that the British charge these items to German economy and it is further believed that the French and Russians do also.

c. Nonappropriated funds are not sufficient to make these facilities self-supporting because of the number of such activities required due to the disperson of troops. As a result, it might require curtailing activities, particularly Clubs and PX's, to the point where an adverse morale affect would result.

6. The arguments <u>against</u> charging these to the German economy are as follows:

a. A cable from WARBUD (TAB A) directs to the contrary.

b. The indigenous budget recently presented to OMGUS was so large as to approach the entire German Government revenue from taxation and has had to be reduced.

c. These facilities are normally self-supporting in the ZI. Prices here are generally much cheaper than in the ZI and could stand an appreciable raise before they become exorbitant, except in the case of clothing items.

Incl 1

7. It is the opinion of this Division that the WARBUD cable at TAB A was sent only because of ZI practice. Further, that the Theater Commander under the provisions of WD Circular 53 (TAB B) is authorized to handle these matters as he sees fit, since it has no effect on the economy of the United States.

8. It was generally agreed that a decision on AES employees will apply to similar employees for all other agenices. This basic decision is required prior to a more detailed presentation of the problem.

ACTION RECOMMENDED:

(1) This matter be discussed informally at a Chief of Staff's conference. That the G-1 attitude be as outlined above and that a basic decision be obtained on the above points.

(2) That, if the G-1 attitude is sustained, the cable at TAB C be approved for dispatch to the War Department.

P. W. BROWN
Colonel, GSC.
Chief, Personnel Services Branch

Frankfurt 22038

CIRCULAR No. 53

WAR DEPARTMENT
WASHINGTON 25, D. C., 17 February 1945

***Effective until 17 August 1946 unless sooner rescinded or superseded***


| | Section |
|---|---|
| AR 35-320—Correction in supersession note | I |
| BADGE—Station control levels for aviation badges and qualification badges and bars | II |
| HOSPITAL—Redesignation of Army Air Forces hospital, Miami Beach, Fla | III |
| LOCAL PROCUREMENT—Certain restrictions imposed—Cir. 330, WD, 1944, amended | IV |
| REPAIRS—PAYMENT—Government property damaged while under shipment on Government bill of lading | V |
| TM 11-820—RESTRICTED classification removed | VI |


***I..AR 35-320.***—So much of the supersession note at the bottom of page 1, AR 35-320, 5 February 1945, as reads "section VII" is changed to read section VIII.

[AG 130 (17 Feb 45)]

***II..BADGE.***—1. Station control levels for badges, aviation, and badges and bars, qualification, silver, have been authorized and are maintained in accordance with the provisions of TM 38-220. Supply sources for these items are announced in Supply Bulletin 10-182.

2. War Department Memorandum No. W600-53-43, 29 June 1943, subject, Badges and Bars, Marksmanship Qualification, as amended by section I, Circular No. 335, War Department, 1943, is rescinded.

[AG 300.5 (6 Feb 45)]

***III..HOSPITAL.***—The Army Air Forces Regional and Convalescent Hospital, Miami Area, located at Miami Beach, Florida, is redesignated as the Army Air Forces Regional and Convalescent Hospital, Miami District. This hospital comprises the facilities of the Casa Loma Hotel and Miami Biltmore Hotel, Coral Gables, Florida, referred to as Army Air Forces Regional Station Hospital No. 1, Miami, Florida, in section II, Circular No. 228, War Department, 1944, and the installation formerly known as the Army Air Forces Convalescent Hospital, Miami Beach, Florida, and referred to in section III, Circular No. 6, War Department, 1945.

[AG 323.3 (10 Feb 45)]

***IV..LOCAL PROCUREMENT.***—Circular No. 330, War Department, 1944, is amended as follows:

1. Paragraph 1, section I, is changed and paragraph 6 is added as follows:

1. Each commanding officer in charge of United States armed forces outside the continental United States and its Territories and possessions, including Alaska, who is responsible direct to the War Department (whether such forces constitute a defense command, a base command, a theater command in a theater of operations, a task force, a project, a United States Army force operating under unity of command as defined in par. 10, Joint Action of Army and Navy, or any other command or activity) has full power, except as provided in paragraph 6 or as limited by any special restrictions in a particular case, to do any acts or things within the area of his responsibility outside the continental United States and its Territories and possessions, including Alaska, in connection with the procurement of arms, munitions, materials, supplies, quarters, services, works, and facilities which he may deem necessary or appropriate to facilitate the prosecution of the war and to accomplish the mission confided in him, or to protect the health, safety, and welfare of the forces under his command, including the

[illegible] and deem appropriate or necessary.

6. Unless otherwise authorized by the War Department, no such commanding officer shall, pursuant to paragraph 1, engage within the area of his responsibility in procurement of any arms, munitions, materials, or supplies from manufacturers or suppliers within such area, if such arms, munitions, materials, or supplies, in complete and finished form, are to be obtained by such manufacturers or suppliers from sources within the continental United States.

2. Paragraph 1, section II, is changed and paragraph 6 is added as follows:

1. Each commanding officer in charge of United States armed forces outside the continental United States but within the Territories or possessions of the United States, including Alaska, who is responsible direct to the War Department (whether such forces constitute a defense command, a base command, a theater command in a theater of operations, a task force, a department, or a United States Army force operating under unity of command as defined in par. 10, Joint Action of Army and Navy, or any other command or activity) has full power, except as provided in paragraph 6 or as limited by any special restrictions contained in his instructions in a particular case, to do any acts or things within the area of his responsibility outside the continental United States but within the Territories and possessions of the United States, including Alaska, in connection with the procurement of arms, munitions, materials, supplies, quarters, services, works, and facilities which he may deem necessary or appropriate to facilitate the prosecution of the war and to accomplish the mission confided in him, or to protect the health, safety, and welfare of the forces under his command, including the power to do any acts and things relating to the making, amendment, modification, or performance of contracts which he may deem appropriate or necessary.

6. Unless otherwise authorized by the War Department, no such commanding officer shall, pursuant to paragraph 1, engage within the area of his responsibility in procurement of any arms, munitions, materials or supplies from manufacturers or suppliers within such area, if such arms, munitions, materials, or supplies, in complete and finished form, are to be obtained by such manufacturers or suppliers from sources within the continental United States.

[AG 160 (11 Nov 44)]

*V..REPAIRS.*—1. Supplies and/or repair services, in connection with damage to Government property while under shipment by carriers on Government bills of lading, are generally secured by a purchase agreement drawn specifically to cover the required repairs or by a delivery order drawn against an indefinite quantity contract. Such specific purchase agreement or delivery order should designate the same disbursing officer who normally makes payments for the procuring installation ordering the repairs.

2. Generally, it is the responsibility of the Finance Officer, U. S. Army, Washington, D. C., to collect damage claims, resulting from damage to Government property while under shipment on Government bills of lading (see par. 10, AR 35-6120), but not the responsibility of such office to make payment for supplies and/or repair services in connection therewith, unless the procuring installation normally designates that office as the paying agency.

3. The appropriation to be charged for such supplies and/or repair services will be that charged for the original procurement of the damaged item and the allotment will normally be the same as that used at the time of original purchase.



Availability of funds will be cited without reference to the Finance Officer, U. S. Army, Washington, D. C., for collection information. Such damage deductions are normally credited to applicable replacing appropriations or to the appropriations originally charged with the procurements (see par. 11, AR 35-6120).

[AG 552 (15 Feb 45)]

*VI..TM 11-820.*—Classification of TM 11-820, Radio Transmitter T-4/FRC, Radio Transmitter T-5/FRC, Power Rectifier PP-1/FRC, Modulator MD-1/FRC, Switch Panel SA-2/FRC, Oscillator O-2/FRC, and Amplifier AM-2/FRC, 10 November 1944, is changed from RESTRICTED to unclassified.

[AG 300.7 (14 Feb 45)]

BY ORDER OF THE SECRETARY OF WAR:

G. C. MARSHALL
*Chief of Staff*

OFFICIAL:
J. A. ULIO
*Major General*
*The Adjutant General*



U. S. GOVERNMENT PRINTING OFFICE: 1945

GENERAL HEADQUARTERS
UNITED STATES ARMY FORCES, PACIFIC

CIRCULAR )
:
NO. 52 ..)

APO 500
18 June 1946

FOREIGN CURRENCY EXCHANGE CONTROL


| | Section |
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| General . . . . . | I |
| Definitions . . . . . | II |
| Payment of Personnel In and Under The Military Establishment in Affected Areas . . . . . | III |
| Conversion of Foreign Currencies . . . . . | IV |
| Conversion of Dollar Instruments and Type A Military Yen Currency . . . . . | V |
| Applicability of this Directive . . . . . | VI |


I. GENERAL - 1. General. - This directive establishes foreign currency exchange control applicable to certain affected areas within the theater.

2. Purpose. - The purpose of this directive is to: a. Implement War Department policies pertaining to foreign currency exchange controls.

b. Promulgate instructions on the use of a special negotiable instrument used by the United States Army Forces in the areas occuped by them in Japan, Korea and the Ryukyu Islands.

c. Supplement certain general and technical instructions on foreign currency exchange control stated in Circular 64, War Department, 1946.

3. Foreign currency exchange controls prescribed herein are designed to: a. Protect personnel in the handling of funds derived from official or other legitimate sources by establishing a medium of exchange which is readily interchangeable for dollar transmissions to the United States through Army finance and postal channels.

b. Protect the interests of the War Department by preventing accumulations of United States and foreign currencies in the accounts of Army disbursing officers in excess of their requirements, and by preventing the creation of a deficit in the net troop pay account of the Army forces in the affected areas.

c. Prevent illicit currency manipulations inimical to the interests of the United States government and to the monetary and economic stability of the governments of Japan and Korea.

d. Prevent the introduction of indigenous currency secured through the sale of Government property or other illegal means into Army finance channels.

c. Prevent the unauthorized circulation in and under the military establishment in affected areas of United States currency and other currency not legal tender in the areas concerned.

II. DEFINITIONS.- 4. Types of Personnel.- Personnel falling within the purview of this directive who are authorized to use the United States dollar instruments and special military currency defined herein, subject to limitations stated in paragraph 8, below are:

a. Members of the military establishment and of the naval establishment attached thereto for duty.

b. Civilians, who are citizens of the United States employed directly, or indirectly through contractors, by the military establishment and are paid from funds appropriated by the Congress of the United States.

c. Dependents of persons in subparagraphs a and b above.

d. Civilians, who are citizens of the United States, employed directly by the United States government and paid from funds appropriated by the Congress of the United States, when authorized by the theater commander or the Commanding Generals 8th Army, XXIV Corps, and PACUSA.

e. Civilians of allied countries employed directly by the military establishment, and paid from funds appropriated by the Congress of the United States, when authorized by the theater commander or the Commanding Generals 8th Army, XXIV Corps, AFWESPAC, and PACUSA.

f. Civilians who are employed by quasi-official organizations in and under the military establishment and working for the benefit of the armed forces of the United States, whose pay is derived from United States dollars, when authorized by the theater commander or the Commanding Generals 8th Army, SSIV Corps, AFWESPAC, and PACUSA, subject to the limitation stated in paragraph 8, below. Included are employees of Army Exchange Service, United Service Organizations, American Red Cross, Unit Clubs and Officers' Clubs.

g. Persons accredited to the occupation forces who in the opinion of the theater commander, can best perform their mission by having access to United States Army facilities, subject to the limitations stated in paragraph 8, below. Included are foreign correspondents, members of missions and committees from the United States.

h. Former enemy nationals are specifically excluded from those listed in subparagraphs f and g above.

5. Type A Military Yen Currency.- a. Type A Military Yen Currency may be defined as the instrument which is the medium of exchange in all

establishments within the military enclave in the areas to which this directive is applicable. It is not legal tender in the affected areas, but it may be readily exchanged for local foreign currency which is legal tender within those areas.

6. United States Military Disbursing Officers Payment Order.- a. This form of United States dollar instrument (hereafter referred to as Military Payment Order) is defined in Section IV, Circular 159, War Department, 1945.

7. Miscellaneous.- a. United States Treasury Checks, when referred to herein, are standard checks provided to disbursing officers of the United States Government.

b. United States Dollar Currency, where reffered to herein, is the currency accepted as legal tender in the United States, and, for the purpose of this directive, is considered a dollar instrument.

c. Traveller Checks, where referred to herein, are those issued by the American Express Company, the Bank of America National Trust and Savings Association; the Mellon National Bank of Pittsburg; and the National City Bank of New York, which are normally negotiable by disbursing officers under the provisions of paragraph 4d(1), Circular 64, War Department, 1946.

8. Limitations.- a. No persons shall be construed as coming within the purview of this directive unless they are in possession of Type A Military Yen Currency acquired pursuant to instructions contained herein.

b. Possession of Type A. Military Yen Currency is prohibited unless acquired pursuant to instructions contained herein.

c. The use of United States currency by persons in and under the military establishment of the United States is prohibited in areas affected by this directive.

d. Dependents as defined in paragraph 4 c, above, are limited in their transactions with United States Army disbursing officers or their agents to:

(1) Exchange of any type of authorized United States dollar instruments for any other authorized type of such instruments; for Type A Military Yen Currency or for indigenous yen currency.

III. PAYMENT OF PERSONNEL IN AND UNDER THE MILITARY ESTABLISHMENT IN AFFECTED AREAS.- 9. Types of Disbursements.- Disbursements falling within the purview of this circular are:

a. Regular monthly pay and allowances.

b. Partial Payments.

c. Travel payments.

d. Station and living allowances, when authorized.

e. All other payments authorized by Army regulations to individuals in and under the military establishment.

10. Medium of Disbursement.- a. Disbursements, specified in paragraph 9 above to personnel defined in paragraph 4 above, shall be in Type A Military Yen Currency.

b. Disbursements in United States dollar currency or instruments will be made only when specifically authorized by the theater commander.

IV. CONVERSION OF FOREIGN CURRENCIES. - 11. Disbursing Officer.- a. United States Army disbursing officers or their agents may convert United States dollar instruments or Type A Military Yen Currency into authorized foreign currency.

b. Conversion of foreign currency into Type A Military Yen Currency or into any United States dollar instrument by United States Army disbursing officers or their agents is unauthorized.

c. Conversion of one foreign currency for another by United States Army disbursing officers is unauthorized.

21. Army Postal Officers.- a. United States Army postal officers or their agents shall:

(1) Issue for cash United States Postal Money Orders in exchange for Type A Military Yen Currency.
(2) Effect no transactions in foreign currency or coin.

31. Other Army Facilities.- a. No foreign currency or coin shall be accepted, or allowed to be accepted, as a medium of exchange in any of the facilities listed in paragraph 17 below in payment for merchandise sold or services rendered in such facilities. Acceptance of United States currency or coin from persons falling under the provisions of paragraph 4 is unauthorized in such facilities in areas affected by this directive.

14. Departure From Affected Areas.- No United States Army disbursing officer or postal officer or their respective agents shall convert any foreign currency or coin into United States dollar instruments or into Type A Military Yen for persons departing from the theater.

V. CONVERSION OF DOLLAR INSTRUMENTS AND TYPE A MILITARY YEN CURRENCY.-
15. Conversion of Type A Military Yen Currency Into Dollar Instruments or

into Foreign Currency. - Personnel falling under the provisions of paragraph 4 may exchange Type A Military Yen Currency in their possession for:

a. Authorized foreign currency.

b. United States dollar currency or coin.

(1) Upon departure for the United States.
(2) Upon departure for countries where United States currency is customarily used by persons in and under the military establishment station therein. Example: China Theater.

c. United States Treasury Checks, when preceeding to any non-affected area in which Army disbursing facilities are not available.

d. Postal Money Orders.

e. Savings bonds.

f. Personal transfers to the United States.

g. Soldiers Deposits.

h. Military Payment Orders.

16. Conversion of Dollar Instrument Into Type A Military Yen Currency.- Persons falling under the provision of paragraph 4 may convert the following types of dollar instruments into Type A Military Yen Currency:

a. United States dollar currency or coin.

b. United States Treasury Checks.

c. Military payment orders.

d. Postal money orders.

e. Dollar traveler checks.

17. Use of Type A Military Yen Currency.- Type A Military Yen Currency is the only authorized medium of exchange in:

a. All United States Army sales and service installations and activities both official and quasi-official.

b. Theater, moving picture and other entertainment facilities operated in and under the military establishment.

c. Officers, enlisted and civilian clubs and messes, including American Red Cross installations.

(Cir 52)

d. Payments to all radio, cable, telegraph and telephone companies, travel agencies and other service facilities of similar type, wherever ultimate remittances to the United States through channels in and under the Military establishment is involved.

e. Sale of stamps and other postal services at United States Army postal install ations.

f. Contributions for all elemesynary purposes including all authorized charitable appeals, church collections and chaplains' funds, wherever ultimate remittance to the United States through channels in and under the military establishment is involved.

VI. APPLICABILITY OF THIS DIRECTIVE.- 18. Areas Involved.- a. All instructions contained herein shall be applicable to all areas of the theater where yen currencies are the legal tender of the civilian population living therein. This includes Japan, Korea, and the Ryukyu Islands south of 30° North Latitude.

b. The following portions of this directive are applicable to all parts of the theater:

(1) Sections I and II.
(2) Section IV, paragraphs 11 b and c; 14.
(3) Section VI, paragraphs 18 b; 19; 20.

19. Effective Date.- The instructions contained in this directive shall become effective as of 0001 on _____1946 (Date and month to be supplied).

20. Rescission of Previous Directives.- All theater directives issued by this headquarters in conflict with those stated herein are rescinded.

BY COMMAND OF GENERAL MacARTHUR:

PAUL J. MUELLER,
Major General, General Staff Corps,
Chief of Staff.

OFFICIAL:

JOHN B. COOLEY
Colonel, AGD
Adjutant General

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COPY

WDSSU 123.7 (10 Apr 45)5333 14 June 1946 CHF, JR. 2806

nek

MEMORANDUM FOR THE SECRETARY OF WAR:

THRU: The Chief of Staff

SUBJECT: Foreign Currency Exchange Control

1. During the initial Combat Phase of World War II, the control over the reconversion of foreign currencies held by individuals of the Armed Forces into U. S. dollars or dollar instruments was not considered an immediate problem because of the local controls already in effect within the foreign countries, and inherent in certain military government agreements and directives providing for additional controls effected by the U. S. Army, and because of the little time in which military personnel had opportunity to effect transactions involving relationships between foreign currencies and the U. S. dollar.

In the later stages of combat and during the redeployment period, especially in the European Theater, and in other areas where the effects of the war disturbed the local currency equation, some American military as well as civilian personnel associated with the prosecution of the war or the occupation, acquired abnormal amounts of foreign currency and used U. S. Army facilities as a means of converting such currency directly or indirectly into U. S. dollars.

Controls, to the extent administratively feasible in the various areas in which American personnel were stationed, were attempted during this period by the various theater commanders. These controls permitted the reconversion into dollars or dollar instruments of any portion of the pay and allowances of military personnel drawn in foreign currencies. Within the military enclave itself, despite the controls attempted, authorized personnel have, through the reconversion privileges offered them, returned foreign currencies in excess of the amount originally drawn by them.

2. In areas such as France, The Netherlands, Belgium, Netherlands East Indies, Italy, Germany, Austria and Japan/Korea, the currencies ultimately used there were advanced to the U. S. Army, the dollar countervalues thereof being charged against the War Department and placed in a special deposit account, one for each country involved, in the Treasury Department. The purpose of such special accounts was to provide, not dollar backing in lieu of the sovereign liability of the relevant issuing country, but to provide a source of dollars to be drawn upon when authorized personnel requested reconversion of the foreign currencies in their possession, drawn by them as pay and allowances, which they deemed excess to their needs, or to pay to a liberated nation the net countervalue of its currency placed in the local economy by military personnel.

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3. It should be noted that at the present time the U. S. Army does not have sufficient dollars set aside to reconvert the German Allied Military Mark, Austrian Schilling, Netherlands Guilder, Japanese Yen and certain other currencies now on hand in official accounts or quasi-official organizations or in the pockets of its military and civilian personnel.

a. A major portion of the excess foreign currencies now held by the U. S. Army result from the following: On the disbursements side, the U. S. Army pays and records as pay and allowances only for its own military personnel and civilians working directly for the military establishment; whereas on the receipts side, however, owing to the availability of Army service and administrative facilities to many U. S. civilians not paid by the War Department, and to non U. S. personnel affiliated with the U. S. military establishment, cash collections reflect the foreign currencies received from all such personnel in these facilities, and returned by the latter to U. S. Army Finance Officers for reconversion into dollars. Stated in another manner, through its vast network of administrative and service facilities, the U. S. Army has received foreign currency for which it cannot readily find an outlet, and for which there is no dollar equivalent appropriated to the War Department.

b. United States troops have, in the main, been stationed in areas where the local economy was severely damaged during the war, resulting in vast quantities of cash in the hands of the local population and no commodities or goods available at the wholesale or retail levels. Consequently, the temptation to sell post exchange and items of individual equipment was great; money meant nothing to the native population; cigarettes, sweets, soap and ordinary personal items commanded high prices.

c. The results of these and other factors are set forth in Tab A.

4. The elimination of such conditions is, in essence, the basic problem which must be solved. The War Department must, therefore, achieve the maximum possible foreign currency exchange control.

5. Since early April 1945, all of these problems have been carefully studied, as they developed, both within the War Department and in the field, and many situations have been anticipated.

a. In mid-July 1945, the European Theater established controls, initially in the Berlin District and, within a short time, throughout the theater; followed on 10 November 1945 by the installation of a currency control book recording individually foreign exchange transactions of military personnel. For a number of reasons, the control book did not prove entirely satisfactory. (Details concerning the control book can be found at Tab B.)

b. On 2 February 1946, the Mediterranean Theater inaugurated a system of individual currency control books, following a period of local controls. Profiting by experience of the European Theater, the control

system in Italy started on a more stringent basis; but inherently the same disadvantages are present in its currency control book.

c. The Pacific Theater does not use a control book system, but has effected some control through the medium of certifications and affidavits signed by personnel requesting reconversion of foreign currency. This has not proved too efficacious.

6. The Budget Division invited representatives of the European, Mediterranean and Pacific Theaters to a conference in April, 1946. High echelon officers, thoroughly familiar with the problems of foreign currency exchange control in their respective theaters attended; the War Department being represented by officers from Personnel, Plans and Operations, Civil Affairs and Budget Divisions. Technical guidance was provided by the Office, Chief of Finance. Various proposals were examined thoroughly and four methods were selected for the most minute scrutiny, relative their effectiveness of complete control and administrative feasibility. (Brief descriptions of these plans are at Tab D.)

7. The plan unanimously and enthusiastically selected for recommendation by the conference group, was the use of a single special medium of exchange within the military enclave and no foreign currency reconversion.

a. The acquisition and use by the War Department of a single special medium of exchange would be predicated upon the proposition that whatever flows into the Army service and administrative facilities, from authorized personnel enjoying privileges therein, regardless of status or nationality if properly accredited, should be backed at all times by dollars under War Department control. Uses of this medium of exchange are shown in Tab C. A single special medium of exchange for use within the military enclave is not a new concept. Prior to the war, many overseas departments and some Zone of Interior installations required the use of nontransferrable coupon books in post exchanges, quartermaster sales stores, post theaters and the like. Coupon books are often used in officers' messes and clubs. In attacking the same problem which is now facing the War Department, and in the face of a graver financial situation, the U. K. War Office is inaugurating a system of canteen money as the sole medium of exchange in the military enclaves of the British zones of Germany and Austria, on or about 1 August 1946.

b. The drastic change inherent in the War Department plan, as approved by Theater and War Department conferees, is the proposal of no further reconversion of local currency back into U. S. dollars and/or dollar instruments. The Army payrolls are, and always have been, computed in dollars; reserving to the individual the right to draw, when stationed overseas, as much or as little of his pay in a foreign currency as he desired. Concurrently, authorized personnel have had the right to reconvert foreign currencies drawn by them, deemed excess to their needs, at any time at the same rate at which acquired. This reconversion privilege

obtains in all areas overseas except where the troops actually draw U. S. currency over the pay table and then acquire local currency at whatever rate they can arrange for themselves in the local free market.

c. The adoption of a "no reconversion of local currency" policy requires only the promulgation of a War Department directive to the theaters. The adoption of a single special medium of exchange requires administrative and mechanical preparations of considerable magnitude. While the problem of no reconversion was being thoroughly explored, based upon a staff study produced by the currency control conference implementation inherent in a single medium of exchange was being explored from various angles, based upon a staff study prepared in this office. Copies of these staff studies are on file in the Budget Division.

8. Copies of the staff studies referred to in paragraph 7 c above, and tentative War Department and Theater Circulars prepared during the conference, were carried back to the three theaters by their representatives for full discussions with the Commanding Generals and their staffs. Immediate actions of various kinds have been taken in each of the three theaters, pending further detailed study of the overall proposal that has been evolving since the April conference.

a. The European Theater has tightened its control measures and effective 20 June 1946, a new currency control record will be installed throughout the theater; the new record containing control features considerably more stringent than those inherent in the previously used control book.

b. The Mediterranean Theater has reexamined certain details of its currency control system and invoked certain stringent measures predicated thereon.

c. The Pacific Theater, which has had no currency control books has, since the return of their conference representatives, worked out an interim plan closely parelelling the joint War Department/Theater overall plan and utilizing readily available stocks of an unused special currency (Type "A" Yen) not now in circulation. The two salient features are a single medium of exchange within the military enclave in the occupied areas of Japan and Korea and no reconversion of indigenous or of Type "B" Yen. This Pacific Theater interim proposal has the complete support of its Commander-in-Chief. Teletypewriter conferences of 11/12 and of 13/14 June 1946, indicate that detailed plans to introduce the interim measure have been carefully prepared and major technical and administrative problems solved. Provision has been made to convert local yen derived from official sources into the new medium of exchange.

9. Concurrences relative to the Pacific Theater interim proposal and the general War Department plan, in the event that the AFPAC trial is successful, have been obtained by the undersigned on an informal basis,

following discussions with the Director of the Bureau of the Budget, the Comptroller General, the senior members of the Senate and House Appropriations Committees and of the House Judiciary Subcommittee. All have given their informal approval.

10. The keystones of a currency exchange control system, designed to afford military personnel abroad flexibility in the management of their day to day affairs as well as to safeguard the American taxpayer from assuming a burden not authorized by Congress, stemming either from the Army's offering services and facilities or from the irresponsibilities of American citizens stationed abroad, are:

a. A single medium of exchange for use within the military enclave, backed at all times by dollars under War Department control. These dollars should not be subject to use by any other agencies of the U. S. Government for any unauthorized purposes national or international, according to political pressures; and should not lapse or revert to the General Fund until they have served their purpose.

b. No reconversion of indigenous foreign currencies drawn, or purchased, by military personnel at their own discretion.

11. It is recommended that approval be given by the Secretary of War to:

a. The interim proposal of the Commander-in-Chief, AFPAC, in order to provide the War Department with a trial period for careful observation of its overall currency control plan.

b. The War Department placing an order for the production of a suitable medium of exchange for circulation within the military enclave in the three major theaters. This will avoid considerable delay when the War Department plan is approved and introduced if the AFPAC interim plan has demonstrated its desirability.

4 Incls
Tabs A,B,C&D

GEORGE J. RICHARDS
Major General, GSC
Budget Officer for the War Department

Concurrences: AS/W ( )
D/PA ( )
D/PO ( )
CAD ( )

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## EXCESSES OF FOREIGN CURRENCIES

The Army, in surveying the accounts of various foreign currencies now held within the several Theaters, finds that it has reconverted for military or authorized civilian personnel foreign currencies in excess of pay and allowances in the following approximate amounts:

| | |
|---|---|
| German Allied Military Mark Currency | $111,000,000 |
| Japanese Yen Currency | $ 27,000,000 |
| Netherlands Guilder Currency | $ 22,000,000 |
| Austrian Schilling Currency | $ 21,000,000 |
| Czechoslovakian Crown Currency | $ 3,000,000 |
| TOTAL | $184,000,000 |

No War Department appropriations are available to meet these excess reconversions. Recovery of the U. S. dollar countervalue of these excesses can only by through —

a. Using the currency for local procurement purposes in the country concerned,

b. Turning the currency directly back to the country concerned for dollars,

c. Working off the excess through sale to U. S. commercial firms,

d. Accepting the loss and asking the Congress of the U. S. to relieve the Army of this responsibility by appropriation of the necessary dollars to back the excess foreign currencies,

e. Absorb the loss under the provisions of Section 2 of Public Law 554, 78th Congress,

f. Enforcement of strict exchange control to the end that, where troops are still located in a specific foreign country where an excess exists, the excess be gradually reduced.

Attention is invited to the fact that recovery by the methods in a, b, c, and d above is normally not easily accomplished and in a, b, and c could not be done without the permission of the country involved. The method in e would probably require Comptroller General and/or Treasury Department approval. In the case of Germany and Japan, only the methods in d, e and f are open to recover from this position.

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TAB A

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FOREIGN CURRENCY EXCHANGE CONTROL BOOK

In the European and Mediterranean Theaters a system of individual control books has been established. Each individual paid by the U. S. Army disbursing officer acquires a control book in which his unencumbered pay and allowances issued him or dollar instruments converted into foreign currency are recorded. Similarly each reconversion of foreign currency into dollars or dollar instruments is recorded and appropriate deductions made from the available balance as noted in the book. In this manner no individual can reconvert foreign currency into dollars for a sum greater than the dollar value of the balances available in his control book.

The administrative burden of a book control is considerable. It requires that the personnel officer of each organization maintain the control books, record all money issued to the soldier and record and deduct all reconversion or other transactions desired by the soldier. It requires close checks and supervision to insure that the individual does not illegally acquire control books and forge entries in such control book.

It requires continuous renewal of books if they become lost, torn up or stolen. It requires that any funds received by the individual from non-appropriated funds source such as company funds, post exchange, etc. be coordinated with the personnel officer before payment is made. At its best, the human element of error is ever present.

Under this system, however, it is still possible for an individual to draw his pay in foreign money, spend it in the local community, replace it by black market activity and turn it into dollars up to the net credit balance on his control card by reconversion through the disbursing officer. The individual may also use foreign currency received through the black market in commissary and post exchange purchases, which currency in turn is reconverted into dollar instruments.

TAB B

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EMPLOYMENT OF THE SINGLE MEDIUM OF EXCHANGE

It has been assumed that the proposed single medium of exchange will be used exclusively, as the only authorised medium of exchange for purchasing goods and services, in:

a. All Army Post exchanges and all Navy Ship's service stores.

b. All U. S. Army and Navy sales and service installations and activities.

c. Theater, moving picture and other entertainment facilities operated by the military establishments.

d. Officers' and enlisted men's messes and clubs, including Red Cross installations.

e. Wherever ultimate remittance to the United States through Army channels is involved, contributions for all eleemosynary purposes, including all authorized charitable appeals, including church collections and Chaplain's funds.

f. Wherever ultimate remittance to the United States through Army channels is involved, payments to all travel agencies, radio, cable, telegraph and telephone companies, and all other service facilities of similar types.

In addition, the authorized personnel in possession of the proposed medium of exchange may use it at any time for the purpose of military payment orders, postal money orders, U. S. stamps, U. S. Treasury checks and U. S. dollar currency and coin under suitable appropriate conditions, travelers checks, U. S. Savings Bonds, personal transfers to the U. S., and for making soldiers' deposits.

Furthermore, if military or authorized personnel desire local foreign currency for expenditures outside the military enclave, the proposed medium of exchange may be converted by Finance officers into such local currency at the prescribed rate of exchange.

It should be noted that no member of the military establishment will be required to draw any part of overseas pay and allowances in the proposed medium of exchange. It is proposed that personnel paid by U. S. Armed Forces will be given the choice of drawing their pay and allowances overseas in:

a. Military payment orders; or

b. The proposed medium of exchange; or

c. Any combination of the above.

The same would be true for the encashment of various dollar instruments received from the U. S.

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FOREIGN CURRENCY CONTROL PROCEDURES
AND THEIR RELATIVE EFFECTIVENESS
CONSIDERED BY THE
WAR DEPARTMENT AND THEATER CONFERENCES

1. Pay of personnel of the military establishments overseas in U. S. dollar currency and coin.

Effectiveness of control: 100%. (No foreign currency reconversion allowed as original conversion rate is not uniform.

All pros and cons of payment in U. S. dollars overseas are detailed in report on House Resolution 150 dated 28 April 1945. Principal considerations are:

a. Dollars are not legal tender in most foreign countries, and their circulation is prohibited and often a criminal offense.

b. More effectively to mobilize their foreign exchange assets, including dollars, foreign governments prefer receiving the dollar equivalent of net troop pay spent in their local economy as an intergovernmental payment and not through the medium of dollar currency scattered into their economy through the pay and allowances of individual military personnel.

c. Presence of a large supply of dollars would hamper the restoration of confidence in the local foreign currency and render even more widespread currency black market operations detrimental to morale on both sides.

2. Use of a single special medium of exchange within the military enclave and no foreign currency reconversion.

Effectiveness of control: 100%.

All pros and cons are discussed in detail in the memorandum to the Budget Officerfor the War Department dated 27 April 1946, and the two staff studies inclosed therewith, all on file in the Budget Division. Major factors are:

a. Single medium of exchange to which access may be had by military and authorized civilian personnel under conditions prescribed by the War Department/Theater commanders results in a currency at all times backed by dollars under the control of the War Department. The proper disciplinary actions can be taken if such a medium of exchange is found in the hands of the native population or unauthorized personnel, since this special medium is not eligible for circulation outside of areas prescribed by the theater commander. Even if this medium does get into native hands, its reintroduction into the military enclave, through a black market transaction, does not effect the War Department's ultimate liability inasmuch as, except by counterfeiting, the said special medium does not get into use without dollar backing.

TAB B

CONFIDENTIAL

b. Until personnel overseas become accustomed to acquiring local foreign currencies in small amounts only as they are needed, there may be some inconveniences to them. Once the habit is acquired, carrying excess funds in dollar instruments such as military payment orders, express checks, etc., will be found more convenient.

c. The normal ebb and flow of funds between members of a large military and authorized civilian group, without the use of a special medium of exchange, certain members of the community may legitimately acquire large balances of currencies which they can not convert into dollar instruments under record or any other similar procedures.

3. Use of currency control book and a system of a single medium of exchange or of coupon books within the military enclave.

Effectiveness of control: not complete; dependent entirely upon complicated administrative measures taken to impose mathematical limits on net credit balances accruing in the control book.

This system has already been outlined within the War Department and to the theaters in the proposed War Department Circular as forwarded to them at the beginning of April 1946 prior to the conference. No theater headquarters approved thereof.

Pros and cons of this combination are discussed in the two staff studies referred to in paragraph 2 above. Major considerations are:

a. Proceeds of black market operations will be introduced into the U. S. Army finance channels (and/or A.P.O. system) to the extent that net credit balances accrue in the currency control books; and/or to the extent that coupon books, or the non-detachable coupons therein, get into circulation more than once.

b. See also description of Control Books in Tab B.

c. Control Books themselves can not be made efficiently voluminous to take care of every transaction such as purchases of PX's for American produced merchandise aggregating less than $1.00 or even $5.00; U. S. stamped envelope purchases at A.P.O's; as well as meals and other club facilities furnished for cash.

d. See also Tab B.

4. Use of Control Books alone (requiring tightening in ETO and MTO, and introduction in AFPAC); virtually status quo.

Major considerations are:

a. The implied use, under this system, of foreign national and occupation currencies within the military enclave, allows for receipts of such foreign currencies by the U. S. Army, through its various service and administrative facilities, as an excess over the foreign currencies disbursed in pay and allowances.

b. Potential excesses will accrue to the U. S. Armed Forces even though the foreign currencies used by authorized personnel were legitimately acquired, but, of course, acquired with dollars and/or other foreign currencies not of War Department origin or under War Department control.

5. Also included in the conference discussions but discarded for various political and technical reasons, have been such proposals as:

a. Fixed denomination military payment orders in bearer form.

b. Military payment orders issued in accordance with the provisions of WD Circular 159/45.

c. Coupon books of different gross values, each containing varying quantities of non-detachable coupons of various denominations from five cents to five dollars per coupon.

d. Continuous scrip certificates, similar to the American railroad mileage book.

e. Military certificates, as proposed by the U. S. Treasury Department.

f. Special canteen money as proposed by the U. K. Treasury.

g. Any combination of the above.

For Info
Request Action.

WAR DEPT. SIGNAL SERV.

1946 JUN 11 11 52

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CNC 194

JOB 20

FROM Frankfurt
Msg No. SC 28174
D. T. G. 110930B
Action Bud Div
MC-IN-NO : 54876
Receipt NO :

WAR V DAAA NR 18/11 R R

FROM USFET G-1 110930B

TO AGWAR FOR WARBUD

BT

SC-28174 U N C L A S S I F I E D

90602

UNCLASSIFIED REFERENCE YOUR WILLIAM NINE ZERO SIX ZERO TWO DATED SEVEN JUNE ONE NINE FOUR SIX CMA DO NOT AT THIS TIME CONSIDER SUCH PROPOSAL ADVISABLE IN VIEW OF SERIALATION FEATURE OF CURRENCY CONTROL RECORDS TO BE INSTITUTED TWENTY JUNE ONE NINE FOUR SIX PD FEEL MAXIMUM CONTROL REQUIRES LIMITATION OF ISSUING AGENCIES TO

GENERALLY STATIC ORGANIZATIONS WITHIN THEATER PD ATTENTION

INVITED TO PARAGRAPHS THREE CMA FOUR CMA SEVEN AND NINE CMA

CIRCULAR EIGHT TWO HEADQUARTERS USFET THREE JUNE ONE NINE FOUR SIX

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CMA SIX COPIES OF WHICH WERE DISPATCHED TO WAR DEPARTMENT BY AIR

COURIER THREE JUNE NINE FOUR SIX WITH COVERING LETTER THIS HEADQUAR-

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TERS SAME DATE FILE ABLE GEORGE ONE TWO THREE DECIMAL SEVEN GEORGE

ABLE PETER DASH ABLE GEORGE OBOE SUBJECT QUOTE CURRENCY CONTROL

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BUDGET DIVISION
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For 7 in Request - Cable

CINCFET (a)

# WAR DEPARTMENT
## CLASSIFIED MESSAGE CENTER
# OUTGOING CLASSIFIED MESSAGE

RESTRICTED

PARAPHRASE NOT REQUIRED. HANDLE AS RESTRICTED CORRESPONDENCE
PER PARAS 51 (1) and 60 (a). AR 380-5

War Dept Special Staff Bud Div
WDSS WDSBU 123 (9 Dec 45)
Lt Col Feyereisen, 73289

7 June 1946

COMGENUSFET Frankfurt Germany

Number: WAR 90602

COMGENUSFET Main signed WAREUD.

Possibility issuance currency control records at United States Ports of Embarkation to personnel enroute to European Theater presently under consideration. War Department will effect distribution records at ports of water and or air embarkation subject your views and desires. In event you are interested this measure in your overall currency exchange control plan as revised effective 20 June 1946, request you forward comments to War Department.

End.

Budget Div., WDSS
FOREIGN FIN. BR.

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Remarks:

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OM-OUT-90602 (Jun 46) DTG 072302Z

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Bud Div
28

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CORRESPONDENCE PER PARAS 51 i and 60 a, AR 380-5

WDSS Bud Div Foreign Financial
Br. WDSBU 123 Cur (7 Sep 45)
2250 2806 Col Pforzheimer

27 May 1946

CG, USFET Frankfurt Germany

Number: WAR 89467

COMGENUSFET signed WARBUD reurad S 4343.

Nothing further to report at this time concerning a proposed War Department circular on foreign currency exchange control.

Reference relations with British military personnel and with British zone.

A. In United States Zone you may wish to arrange for British personnel to acquire such medium as is used for expenditure in US military establishments by the surrender of British canteen money at approved sterling/dollar cross rate. Such canteen money as you take in should be redeemed by British paymasters in dollars.

B. US military personnel entering British zone and requiring British canteen money should acquire same pursuant to regulations mutually satisfactory to you and to British zone commander. Canteen money returned by American military personnel should be redeemed with care and only after you have ascertained that it is in turn to be redeemed by British authorities in dollars. In the event that you wish to acquire a supply of British canteen money in advance, for issuance by you to US military personnel ordered into British zone, you are authorized to acquire same through payment to appropriate British authorities in sterling.

CM-OUT-89467 (May 46)

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SECRET



C. British Staff Mission here so advised.

End.

S 4343 1s CM IN 4996

ORIGINATOR : Bud Div

DISTRIBUTION: ASF-Fin, OPD, G-1, G-2, CAD

CM-OUT-89467 (May 46) DTG 281501Z vh

SECRET

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67

May 1946 cxc War Dept

1. Infantry Journal. Col Green 76733
Received from U.S. troops overseas for subscription.
6613 Marks
846 Francs
10700 Lire
75 yen.

Call Green + suggest that he

a) Take no more foreign currencies as subscription money.

b) Write the Chief of Finance a letter requesting the reconversion of the foreign currencies
give the forms - ? Massey-Ross
when obtained - ?
how - ?
Any unusual sums by any one person?

→ Col. Green advised to write memo as above
22 May 1946.

P.A.

STAFF STUDY

on the

MAJOR CONSIDERATIONS AFFECTING THE LEGALITY OF THE
USE OF A SINGLE SPECIAL MEDIUM OF EXCHANGE
WITHIN THE MILITARY ENCLAVE

Prepared by:

Chief, Foreign
Financial Branch,
Budget Division, WDSS

27 April 1946

## STAFF STUDY ON THE MAJOR CONSIDERATIONS AFFECTING THE LEGALITY OF THE USE OF A SINGLE SPECIAL MEDIUM OF EXCHANGE WITHIN THE MILITARY ENCLAVE.

### STATEMENT OF THE PROBLEM

The problem has now arisen as to the legality of the use by the U. S. Armed Forces, for all purposes within the military enclaves in the European, Mediterranean and Pacific Theaters, of a special medium of exchange which the War Department would buy with appropriated funds, out of Army Account of Advances, from the Treasury Department.

### FACTS BEARING ON THE PROBLEM

A. Excesses of Foreign Currencies

The Army, in surveying the accounts of various foreign currencies now held within the several theaters of Operations, finds that it has reconverted for military or "authorized" civilian personnel foreign currencies in excess of pay and allowances in the following approximate amounts:

| | |
|---|---|
| German Allied Military Mark Currency | $34,000,000 |
| Netherlands Guilder Currency | $20,000,000 |
| Austrian Schilling Currency | $13,000,000 |
| Japanese Yen Currency | $11,000,000 |
| Czechoslovakian Crown Currency | $ 3,000,000 |
| TOTAL | $81,000,000 |

No War Department appropriations are available to meet these excess reconversions. Recovery of the U. S. dollar countervalue of these excesses can only be through --

a. Using the currency for local procurement purposes in the country concerned,

b. Turning the currency directly back to the country concerned for dollars,

c. Working off the excess through sale to U. S. Commercial firms,

d. Accepting the loss and asking the Congress of the U. S. to relieve the Army of this responsibility by appropriation of the necessary dollars to back the excess foreign currencies,

e. Absorb the loss under the provisions of Section 2 of Public Law 554, 78th Congress,

f. Enforcement of strict exchange control to the end that, where troops are still located in a specific foreign country where an excess exists, the excess be gradually reduced.

Attention is invited to the fact that recovery by the methods in a, b, c, and d above is normally not easily accomplished and in a, b, and c could not be done without the permission of the country involved. The method in e would probably require Comptroller General and/or Treasury Department approval. In the case of Germany and Japan, only the methods in d, e and f are open to recover from this position.

This staff study assumes that these currency excesses should not continue to increase, nor should new excesses be allowed to accrue to U. S. Army accounts during the occupation period.

B. Background

During the initial Combat Phase of World War II, the control over the reconversion of foreign currencies held by individuals of the Armed Forces into U. S. dollars or dollar instruments was not considered an immediate problem because of -

a. The controls already in effect by and within the allied and neutral foreign countries, and inherent in certain SHAEF agreements and directives thereunder;

b. The additional controls effected by the U. S. Army; and

c. The scarcity of time in which the members of the Armed Forces had opportunity to deal in currency transactions involving relationship between foreign currency and the U. S. dollar.

In the later stages of combat and during the redeployment period, especially in the European Theater of Operation and in other areas where the effects of the war disturbed the local currency equation, some American military

as well as civilian personnel associated with the prosecution of the war or the occupation, acquired abnormal amounts of foreign currency and used U. S. Army facilities as a means of converting such currency directly or indirectly into U. S. dollars.

Controls, to the extent administratively feasible in the various areas in which American personnel were stationed, were attempted during this periodby the various theater commanders. These controls permitted the reconversion into dollars or dollar instrument of any portion of the pay and allowances of military personnel drawn in foreign currencies. Within the military enclave itself, despite the controls attempted, authorized personnel have, through the reconversion privileges offered them, feturned foreign currencies in excess of the amount originally drawn by them. The procedures involved in allowing excess reconversions are covered in C below.

C. War Department Acquisition of the Single Medium of Exchange

In certain areas the War Department has paid for local currency, tobe held available for drawing as pay and allowances if desired, through outright purchase by U. S. dollar Treasury Check or other direct dollar credit to the foreign government. This method was used only in those areas not directly involved in combat operations, such as Australia, India, South America, and the United Kingdom. The same mode of purchase was employed to acquire Philippine "Victory" Pesos, but this was in order to meet the provisions governing required dollar backing for the Philippine peso.

In areas such as France, Netherlands, Belgium, Netherlands East Indies, Italy, Germany, Austria and Japan, the currencies decided upon for those particular areas were advanced to the U. S. Army and the dollar countervalues thereof were charged against Army Account of Advances and placed in a special deposit account, one for each country involved, in the Treasury Department. The purpose of such special accounts was to provide, not dollar backing in lieu of the Soverign liability of the relevant issuing country, but to provide a source of dollars to be drawn upon when military personnel requested reconversion of the foreign currencies in their possession, drawn by them as pay and allowances, which they deemed

excess to their needs.

It will be noted from the table in para A above, that at the present time the U. S. Army does not have sufficient dollars set aside to reconvert the AM Mark, Guilder, Yen and certain other currencies now in the hands of official or quasi-official organizations or in the pockets of its military and civilian personnel. A major portion of the excess foreign currencies now held by the U. S. Army result from the following:

a. On the disbursements side, the U. S. Army pays and records as pay and allowances only for its own military personnel and civilians working directly for the military establishment.

b. On the receipts side, however, owing to the availability of Army service and administrative facilities to many U. S. civilians not paid by the War Department, and to non U.S. personnel affiliated with the U. S. military establishment, cash collections reflect the foreign currencies received from all such personnel in these facilities, and returned by the latter to U. S. Army Finance Officers for reconversion into dollars.

Stated in another manner, through its vast network of administrative and service facilities, the U. S. Army has received foreign currency for which it cannot readily find an outlet, and for which there is no dollar equivalent appropriated to the War Department.

The elimination of such conditions is, in essence, the basic problem which must be solved in order to achieve the maximum possible foreign currency exchange control. The acquisition by the War Department of a single special medium of exchange, from the Treasury Department, would be predicated upon the proposition that whatever flows into the Army service and administrative facilities, from authorized personnel enjoying privileges therein, regardless of status or nationality if properly accredited, should be backed at all times by dollars under War Department control. This may be accomplished as follows:

a. The War Department purchase outright control of a single special medium of exchange from the Treasury Department by charging Army Account of Advances; and,

b. The proceeds of such purchase be deposited in a "Special Deposit Account" in the Treasury Department in such form that the funds therein

(1) can be used solely to provide the dollar backing for the special medium of exchange to be used within the military enclave; and

(2) cannot be used by any other agency of the U. S. Govt. for any purpose national or international, according to political pressures; and

(3) cannot lapse, or revert to the General Fund, until it has served its purpose.

D. Employment of the Single Medium of Exchange.

It has been assumed that the proposed single medium of exchange will be used exclusively, as the only authorized medium of exchange for purchasing goods and services, in:

a. All Army Post exchanges and all Navy Ship's service stores.

b. All U. S. Army and Navy sales and service installations and activities.

c. Theater, moving picture and other entertainment facilities operated by the military establishments.

d. Officers' and enlisted men's messes and clubs, including Red Cross installations.

e. Wherever ultimate remittance to the United States through Army channels is involved, contributions for all eleemosynary purposes, including all authorized charitable appeals, including church collections and Chaplain's funds.

f. Wherever ultimate remittance to the United States through Army channels is involved, payments to all travel agencies, radio, cable, telegraph and telephone companies, and all other service facilities of similar types.

In addition, the authorized personnel in possession of the proposed medium of exchange may use it at any time for the purpose of military payment orders,

postal money orders, U. S. stamps, U. S. Treasury checks and U. S. dollar currency and coin under suitable appropriate conditions, travelers checks, U. S. Savings Bonds, personal transfers to the U. S., and for making soldiers' deposits.

Furthermore, if military or authorized personnel desire local foreign currency for expenditures outside the military enclave, the proposed medium of exchange may be converted by Finance officers into such local currency at the prescribed rate of exchange.

It should be noted that no member of the military establishment will be required to draw any part of overseas pay and allowances in the proposed medium of exchange. It is proposed that personnel paid by U. S. Armed Forces will be given the choice of drawing their pay and allowances overseas in:

a. Military payment orders; or

b. The proposed medium of exchange; or

c. Any combination of the above.

The same would be true for the encashment of various dollar instruments received from the U. S.

E. General Approach to Legality:

According to Article I, Section 8, Paragraph 5 of the Constitution of the United States, the Congress shall have the power "To coin money, regulate the value thereof, and of foreign coin, and fix the standard of weights and measures".

Many U. S. Army and Navy service facilities, in many areas within and without the continental U. S., currently require the use of special coupons, scrip or special media of exchange in order to make purchases therein. In many instances, the acquisition of such currently used media of exchange is by payroll deduction; that is, military personnel, at their own choice, draw a portion of their payand allowances in these special media of exchange.

All of the proposed medium of exchange would have complete "appropriated" U. S. dollar backing ab initio. Other than by the introduction of counterfeit reproductions of the proposed medium of exchange, no excess of such a medium could be acquired by the U. S. Army, since the Army would have complete control over disbursements only to authorized personnel of the medium of exchange. Stated from

another point of view, since the proposed medium of exchange would be used only under terms and conditions controlled by the War Department and by the affected theater commanders, the U. S. Army would not be called upon to take in as cash collections any medium of exchange other than that which is proposed, none of which could have been acquired by authorized personnel in exchange for non-U. S. dollars on non-U. S. dollar instrumentalities.

The War Department proposal, as set forth above in paragraph c, contemplates the purchase of the proposed medium of exchange in a manner similar to that by which the War Department has acquired the local currencies of all countries in which no immediate dollar credit was made available to the foreign government, regardless of whether printed by them or by the U. S. for them.

It is contemplated that the production of the proposed medium of exchange will be accomplished by the U. S. Bureau of Engraving and Printing who have every means at their disposal to preclude counterfeiting. These include special papers, inks and serialization. It is estimated that the use of non-detachable coupons, with a one-time use, would require six to nine times the number of printed pieces of paper that would be required for the proposed single medium of exchange. Some of the additional cost can be readily applied to further anti-counterfeiting devices on the single medium of exchange.

The Judge Advocate General, the Treasury Department and the Comptroller General have, in the past, agreed to allow U. S. military personnel overseas to draw a portion of their pay in local foreign currencies, even when the dollar backing necessary to reconvert same was not clearly apparent except by the fiat of creating special deposit accounts, subject, under the "certification of net troop pay" system, to over-depletion and therefore reliance upon the ability of a foreign government to return over-certified dollars. In addition, the same local currencies are in the hands of Allied military and civilian personnel using U. S. Army facilities, but such holdings are often without dollar backing for reconversion purposes.

F. Administration in the Field:

Various proposals relating to a media of exchange for use within the military enclaves in the three theaters have been thoroughly canvassed by the staff divisions and technicians of the War Department and by the representatives of the European, Mediterranean, and Pacific Theaters.

Included in these discussions have been such proposals as:

a. Fixed denomination military payment orders in bearer form.

b. Military payment orders issued in accordance with the provisions of WD Circular 159/45.

c. Coupon books of different gross values, each containing varying quantities of non-detachable coupons of various denominations from five cents to five dollars per coupon.

d. Continuous scrip certificates, similar to the American railroad mileage book.

e. Military certificates, as proposed by the U. S. Treasury Department.

f. Special canteen money as proposed by the U. K. Treasury.

g. Any combination of the above.

Non-detachable coupons, or scrip certificate strips have many disadvantages, far outweighing any advantages that may be gained bytrying to enforce a one-time, non-transferable use which results in enormous accumulations and handling of paper in all military enclave installations, since even low denomination pieces of strip scrip or coupons could not be used in making change. It should be noted that a question of bulk is of equal nuisance value to the individual and to the service facility. In addition, the non-detachable feature of scrip certificate strips and/or coupon books, aside from the enforcement difficulty, precludes ready settlement of petty cash transactions by the individuals that constantly arise at meal times, in clubs etc., to say nothing of the great variety of cash settlements constantly arising between individuals in any large community.

The issuance of books of non-detachable coupons, implying non-negotiability, presents two grave difficulties.

a. The personal inconveniences are greatly multiplied by use of a non-detachable coupon book. Although the gross amount left in the coupon book may be sufficient to meet purchases contemplated, the denominations may not be suitable and no change could be offered by the facility. In the second place, while shopping or relaxing within the military enclave, the holder of a coupon book may run short and might not have enough dollar instruments on his person to aquire another one. He could not borrow from another because the mode of repayment might be difficult of accomplishment in odd amounts. While it is true that the same circumstance of running short is applicable to the proposed medium of exchange, its negotiability would allow for borrowing and repayment without affecting its dollar backing or violating any regulations.

b. After their single use, the procedure for the disposition of coupons results in many successive handlings in order to accomplish accounting and reconversion into dollars prior to their ultimate destruction. Each step requires manpower and permits of error. As masses of detached coupons and/or whole coupon books flow up to the central offices and higher echelons, the time consumed in counting and checking (with concurrent greater risk of error and loss) increases. The volume of work would be tremendous and manpower in the theaters is limited. In many areas, this type of accounting is being done by former enemy nationals (PW's) or displaced persons. Here again, through the medium of private arrangements which might be consummated at any stage in the handling of coupon books prior to their destruction, it is quite possible for whole coupon books (tendered for an expensive purchase) to get back into circulation; thereby becoming a medium of exchange with no dollar backing.

Finally, use of the proposed medium of exchange within the military enclave will be binding on those, following proper accreditation, who have been the chief causes of excess cash collections of foreign currencies acquired from non-War Department dollar sources, including:

a. Employees of other U. S. Government agencies.

b. U. S. employees who, under special conditions, are currently paid in local currency.

c. Business men travelling on invitational orders.

d. Airline crews, whether of ATC or private commercial lines.

e. Allied Forces, military or civilian, affiliated with U. S. military headquarters, or having access to U. S. facilities.

f. All black market operators.

The proposed single special medium of exchange, in conjunction with the presently proposed War Department circular on foreign currency exchange control, will very materially reduce the need for all authorized personnel in overseas areas to retain large holdings of foreign currency. In addition, the use of the proposed medium of exchange would eliminate all foreign currency from circulation within the military enclave in all official and quasi-official organizations and facilities.

The smaller the amount of foreign currency needed by all authorized personnel overseas, the less danger exists that the U. S. Army will acquire excess amounts of foreign currencies, in the event that a "no reconversion" policy is not adopted and reliance must be placed on currency control books. In addition, the reduced requirements of military personnel for foreign currencies, and the elimination of foreign currency from quasi-official channels will greatly lessen the overall requirements of the Armed Forces to maintain large on hand balances of foreign currencies. This is particularly desirable during the difficult economic period lying just ahead and the potentialities of rapid changes in foreign exchange rates because of these unstable economic conditions.

Given the general policy of the U. S. Government with regard to the soverign powers of a foreign government, with particular reference to the latter's responsibility for currency rates of exchange, it does not seem likely that too many written currency repurchase agreements will be consumated between the U. S. and various foreign governments guaranteeing U. S. Army Forces official, quasi-official and personal funds against exchange losses. The absorption of such losses should be held to a minimum by adopting a medium of exchange designed to keep foreign exchange balances in the hands of U. S. Army Disbursing Officers at a minimum.

The greatest advantage, however, of the proposed single medium of exchange is that such a medium will be entirely controlled as to its circulation within the military enclave by the U. S. Armed Forces. Since such a medium designed exclusively for use within the military enclave would have no value in the local economy of any country, it would have no great appeal for black market operations.

Even if it did get into the hands of indigenous populations, the proposed method of acquisition from the Treasury Department and the regulations for its use as contemplated by the proposed War Department Circular, would result in complete "appropriated" dollar backing at all times for the proposed medium of exchange, regardless of who becomes authorized personnel under the theater commanders regulations. In other words, the proceeds of black market operations, no matter how widespread, could not flow back into the military enclave even if military personnel acquired the proposed medium of exchange from local civilians, since the original mode of its introduction into circulation would have already required full dollar backing.

This statement can not be made concerning liberated or occupied area currencies, since access to such local currencies may be had by many who are paid by U. S. agencies other than the War Department; are paid by agencies which acquire their foreign currencies without U. S. dollar backing; or are the direct results of black market operations.

From the point of view of general legality, this factor may or may not have great weight; but as various U. S. Government agencies have to date approved the use of certain occupation and invasion currencies, the proposed medium of exchange should be considered at least as favorably.

The War Department and theater representatives are unanimous, following thorough investigation of the various media of exchange or combinations thereof, in their strong support of a single medium of exchange, good in all installations within the military enclave and valid for all conversions into dollar instruments, as the only sound solution to both problems of the elimination of all foreign

currencies from the military enclave and of the exclusion of media of exchange not acquired originally by War Department dollar backing.

CONCLUSIONS

A. The seriousness of the situation, which has already resulted in a potential drain of nearly $100,000,000 on the War Department, for which it has no appropriated funds, demands that a completely effective foreign currency exchange control system be established for the occupation period.

B. The War Department must device a special medium of exchange for the military enclave which will effectively preclude the use in official and quasi-official service and administrative facilities of all media other than those backed by War Department appropriated funds.

C. The medium of exchange adopted, and its mode of circulation, must, in the interest of effective control, be simple and reduce the administrative burden, thus allowing least possible loopholes, to the minimum, yet flexible enough to meet varying local requirements.

D. Its use must be approved by the War Department, the Treasury Department, the Attorney General, and the Comptroller General. In view of the presently approved overseas financial procedures for using various foreign and special occupation currencies, the proposed single medium of exchange seems highly susceptible of general approval and legality.

RECOMMENDATIONS

A. That the general legality of the proposed single medium of exchange be submitted to the General Counsel of the Treasury Department, the Attorney General and the Comptroller General, following approval by the War Department.

B. That, following War Department approval and declaration of legality, the proposed medium of exchange be prescribed in the proposed War Department Circular on foreign currency exchange control.

# STAFF STUDY

# ON THE

# RECONVERSION FEATURE

# OF

# CURRENCY EXCHANGE CONTROL

Prepared by:

Committee on Foreign Currency
Exchange Control
27 April 1946

STAFF STUDY

OF THE

RECONVERSION FEATURE

OF

CURRENCY EXCHANGE CONTROL

## STATEMENT OF THE PROBLEM

The problem has now arisen as to whether or not the U. S. Army should, in the future, discontinue the reconversion of foreign currency into dollars or dollar instrumentalities in order to establish rigid currency exchange controls.

## FACTS BEARING ON THE PROBLEM

A. Excesses of Foreign Currencies

The Army, in surveying the accounts of various foreign currencies now held within the several Theaters of Operations, finds that it has reconverted for military or "authorized" civilian personnel foreign currencies in excess of pay and allowances in the following amounts.

| | |
|---|---|
| German Allied Military Mark Currency | $34,000,000 |
| Netherlands Guilder Currency | $20,000,000 |
| Austrian Schilling Currency | $13,000,000 |
| Japanese Yen Currency | $11,000,000 |
| Czechoslovakian Crown Currency | $ 3,000,000 |
| TOTAL | $81,000,000 |

No War Department appropriations are available to meet these excess reconversions. Disposition of these excesses and recovery of the dollar equivalents can only be through--

a. Using the currency for local procurement purposes in the country concerned,

b. Turning the currency back to the country concerned for dollars,

c. Working off the excess through sale to U. S. Commercial firms,

d. Accepting the loss and asking the Congress of the U. S. to relieve the Army of this responsibility by appropriation of the necessary dollars to back the excess foreign currencies,

e. Enforcement of strict exchange control to the end that, where troops are still located in a specific foreign country, where an excess exists, the excess be gradually reduced.

Attention is invited to the fact that recovery by the methods in ~~a~~ b, ~~c~~, and d above is normally not easily accomplished and in a, b, and c could not be done without the permission of the country involved. In the case of Germany and Japan, only the methods in d and e are open to recover from this position.

Of direct concern to the staff study herein is the fact that these currency excesses should not continue to increase, nor should new excesses be allowed to exist in U. S. Army overseas accounts during the occupation period.

B. Background

During the initial Combat Phase of World War II, the control over the reconversion of foreign currencies held by individuals of the Armed Forces into U. S. dollars or dollar instruments was not considered an immediate problem to the U. S. Army by virtue of--

a. The controls already in effect by and within the allied and neutral foreign countries,

b. The additional controls effected by the U. S. Army and,

c. The scarcity of time in which the members of the Armed Forces had opportunity to deal in currency transactions involving relationship between foreign currency and the U. S. dollar.

In the later stages of combat and during the redeployment period, especially in the European Theater of Operation and in other areas where the effects of the war disturbed the local currency equation, some American military as well as civilian personnel associated with the prosecution of the war or the occupation, acquired abnormal amounts of foreign currency and used U. S. Army facilities as a means of converting such currency directly or indirectly into U. S. dollars.

Controls, to the extent administratively feasible in the various areas in which American personnel were stationed, were attempted during this period by the various theater commanders. These controls permitted the reconversion into dollars or dollar instruments of any portion of the pay and allowances of military personnel drawn in foreign currencies. The procedures involved in allowing such reconversion are covered in C below.

Within the military enclave itself, despite the controls attempted, authorized personnel have, through the reconversion privileges offered them, returned foreign currencies in excess of the amount originally paid them.

C. Present Currency Exchange Controls

In the European and Mediterranean Theaters a system of individual control books has been established. Each individual paid by the U. S. Army disbursing officer acquires a control book in which his unencumbered pay and allowances issued him or dollar instruments converted into foreign currency are recorded. Similarly each reconversion of foreign currency into dollars or dollar instruments is recorded and appropriate deductions made from the available balance as noted in the book. In this manner no individual can reconvert foreign currency into dollars for a sum greater than the dollar value of the balances available in his control book.

The Pacific Theater does not use the control book system, and has, to date, affected controls through the medium of circulars and theater directives plus the medium of certifications and affidavits signed by the personnel requesting reconversion of foreign currency. Information from the Pacific Theater, however, indicates that the excess return of Yen recently appearing dictates stricter enforcement of existing controls on the initiation of stricter controls than now used.

The administrative burden of a book control is considerable. It requires that the personnel officer of each organization maintain the control books, record all money issued to the soldier and record and deduct all reconversion or other transactions desired by the soldier. It requires close checks and supervision to insure that the individual does not illegally acquire control books and forge entries in such control book.

It requires continuous renewal of books if they become lost, torn up or stolen. It requires that any funds received by the individual from non-appropriated funds source such as company funds, post exchange, etc., be coordinated with the personnel officer before payment is made. At its best, the human element of error is ever present.

Under this system, however, it is still possible for an individual to draw his pay in foreign money, spend it in the local community, replace it by black market activity and turn it into dollars up to the net credit balance on his control card by reconversion through the disbursing officer. The individual may also use foreign currency received through the black market in commissary and post exchange purchases, which currency in turn is reconverted into dollar instruments.

D. Proposed Currency Exchange Control

The War Department, with relevant theater representatives, is presently considering more rigid currency exchange controls on a uniform basis in those countries where an unstable currency situation exists.

The proposal for strengthening controls includes the introduction of a medium of exchange to be used within the military enclave, (PX's, clubs, messes, etc.) which would be freely exchanged into dollar instruments for "authorized" personnel by the Army. Individual military personnel will, on occasion, have use for foreign currency. Such foreign currency can be purchased with the same medium of exchange as will be used in the military enclave, at the approved rate of exchange.

The reconversion of this foreign currency, if permitted, can only be controlled through the medium of an exchange control book or other administrative control. In order to effect a complete control, not resulting in further excesses and eventual possible cost to the American taxpayer, additional personnel will be needed for this function and additional administrative burden will be placed on the individual military personnel.

F. Banking Facilities

Since facilities are available through Army Finance channels for transmittal to the United States of the unexpended part of a soldier's pay and allowance drawn overseas, there is no special need for the use of commercial banking facilities for such transmittal.

It is further believed that virtually no foreign banking institutions would freely reconvert foreign currencies into dollars for American military personnel in liberated or occupied areas without the dollar counterpart having been originally deposited with the banking institution.

Banking facilities which would be available for--

a. The deposit of dollar instruments.

b. The drawing of foreign currencies against those dollar instruments, and

c. The reconversion of any part or all (minus banking charges) of the foreign currency into dollars or dollar instruments are already or could easily be made available to authorized personnel in countries such as England, France, Belgium, Netherlands, Italy, Japan, etc.

The facility of Soldier Deposits within the Army system, offering as dollar or dollar instrument depository upon which drawings can be made, is available for use within the occupied areas such as Germany.

G. Theater Consideration Requested

By radios WARX 83567, 83568, 83566, 5 April (see Appendix A) the commanding Generals of the European, Mediterranean and Pacific Theaters were requested to consider the advisability of implementation of a rigid currency exchange control with a provision that foreign currencies in the hands of "authorized" personnel will not be reconverted into dollars or dollar instrumentalities from 1 July 1946 forward.

H. War Department Conference

Theater representatives are presently in conference with representatives of the War Department on the subject of currency exchange control for overseas areas. The problem of non-reconversion has been discussed in considerable detail.

## DISCUSSION

The proposed controls as presently envisaged include the use of a "medium of exchange" within the military enclave. This measure will very materially reduce the amount of foreign currencies needed by the "authorized" personnel in overseas areas. The added feature of non-reconversion of foreign currency will absolutely assure that excesses of foreign currencies, with the resulting deficit in the War Department dollar accounts, can not accrue in the future. Furthermore, existing excesses in Germany and Japan can be gradually reduced and finally eliminated.

The feature of non-reconversion will to some extent require planned purchasing and handling of such currency by the individual. It will be to his advantage to purchase only those amounts of currency he needs, facilities for which will be provided. He will have full knowledge that reconversion is impossible.

This feature opens the possibility whereby personnel may leave their overseas station with small amounts of foreign currency, representing part of pay and allowances, which cannot be reconverted into U. S. money. This, however, has been the case for military personnel in China throughout the war, resutling in little if no criticism to the Army.

The non-reconversion feature will, however, free him of the administrative details accompanying the use of a control book, eliminate approval by the personnel officer each time he needs foreign currency, and will in general allowarelatively greater freedom of activity in his personal currency transactions outside the military enclave. This feature of non-reconversion will release Army administrative personnel of a considerable burden.

Under any system of control allowing reconversion, it is possible for a person to draw his pay in foreign currency, spend it in the local community, replace it through black market activity and convert the non-dollar backed currency into dollars up to the net credit balance on his control card. Accordingly, an unequal opportunity presents itself, depending

on the station overseas to which he has been assigned, to individuals within the Army. This practice might well result in criticism of the U. S. Army.

Currency exchange control measures effected to date and containing reconversion privileges have consistently been proven inadequate over a period of several months. There is no reason to assume that control measures again promulgated with reconversion privileges will be adequate to prevent excesses of foreign currency in U. S. Army accounts.

Representatives of the European, Mediterranean and Pacific Theater in conference with War Department representatives from G-1, OPD, Budget Division, CAD and Office Chief of Finance on the subject of Currency Exchange Control have informally, following detailed discussion, reached the concensus of opinion that reconversion of foreign currency into dollars should not be permitted. It is not considered that any other feasible controls will prevent reconversions in excess of appropriated funds available to meet such reconversions.

## CONCLUSIONS

A. The seriousness of the situation, which has already resulted in potential additional cost for which the War Department has no appropriations, demands that a completely effective currency control be established.

B. The keystone to absolute currency exchange control is non-reconversion of foreign currency for authorized personnel.

C. Non-reconversion would not be a serious handicap to military personnel in overseas areas inasmuch as all transactions in military installations will, in the future, be in dollar instruments or special "medium of exchange", and the need for foreign currency by military personnel will consistently be at a minimum.

D. A reconversion feature to a currency exchange control plan will afford an unequal opportunity to personnel in the military service stationed in various areas throughout the world and might possibly result in criticism of the War Department.

## RECOMMENDATIONS

A. That the feature of non-reconversion be incorporated in the proposed plan for complete currency exchange controls.

B. That, following approval of War Department on the feature of a single "medium of exchange" for use within the military enclave overseas, the theater commanders be contacted either by radios or teleconferences for their final comments on the non-reconversion feature of currency exchange control prior to War Department announcement of policy.

* * * * * * *

COPY

27 April 1946

MEMORANDUM FOR THE BUDGET OFFICER FOR THE WAR DEPARTMENT:

SUBJECT: Foreign Currency Exchange Control.

1. Conferences and prolonged discussions have been held each day of the past week in an effort to devise the most complete and effective foreign currency exchange control plan feasible, considering both the effect on the morale of military personnel and on the financial interests of the U. S. Government. Staff and Fiscal representatives of the European, Mediterranean and Pacific Theaters as well as representatives of War Department G-1, OFD, Budget Division, CAD and OCF/ASF have participated in these discussions.

2. Two basic problems have arisen for which solutions must be reached before the group can proceed further with the promulgation of firm War Department and Theater policies on the subject of Foreign Currency Exchange Control.

3. The first problem, the use of a single "medium of exchange" for paying troops and its use within the military enclave overseas, if legally possible, is discussed in some detail in Tab "A" attached. It is clearly a War Department responsibility to determine the legality of the proposal.

4. The second problem, whether or not the U. S. Army should, in the future, discontinue the reconversion of foreign currency into dollars or dollar instrumentalities in order to achieve rigid currency exchange controls is presented in detail in Tab "B" attached. This is a problem upon which policy must be determined by War Department following final comment by the overseas Theater Commanders or their representatives.

5. The representatives of the European, Mediterranean and Pacific Theaters have indicated strong support of the use of a single "medium of exchange" if legal, and have approved a non-reconversion feature as the keystone to a new currency exchange control plan in the event the use of a single "medium of exchange" is approved by War Department. Following approval and appropriate War Department coordination, it is felt that the Theater Commanders involved should be consulted for comment on the intended War Department announcement of a non-reconversion feature in the proposed currency exchange control plan.

6. In order to achieve effective foreign exchange currency control during the occupation period (Phase III), it is the considered opinion of the undersigned that the War Department should prescribe in its Circular

to be issued to the Theater Commanders

a. Use of a single "medium of exchange", if legal; and

b. Non-reconversion of foreign currency by finance officers from a given date forward.

C. H. FORSHEIMER, JR.
Colonel, GSC
Foreign Financial Branch and
Chairman, Committee on Currency
Exchange Control.

CONFIDENTIAL

WAR DEPARTMENT GENERAL STAFF
DISPOSITION FORM

FILE NO. WDSBU 300.5 Prop Cir (3 Apr 46)

SUBJECT
Proposed WD Circular on Foreign Currency Exchange Control.

TO JAG FROM BOWD DATE 16 Apr 1946 COMMENT NO. 1
Colonel Pforzheimer/2806

1. Reference is made to the attached draft War Department Circular with particular reference to paragraph 8 in Section II thereof.

2. Your opinion is requested as to the legality of the issuance and use of the United States Military Establishment Coupon Books as proposed in said Circular.

3. Inasmuch as representativesof the several affected theaters are expected in the War Department within a week, it will be appreciated if your reply to this memorandum is expedited.

4. It is imperative that the consideration of this matter be confined to the facilities of the War Department and that there be no distribution or publication of your reply at this time.

Incl
Prop WD Cir

/s/ George J. Richards
GEORGE J. RICHARDS
Major General, GSC
Budget Officer for the War Department

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SPJGA 1946/667

TO
Budget Officer for the War Department, War Department Special Staff, Room 3A-882, The Pentagon

FROM
The Judge Advocate General

DATE
Apr 22, 1946

COMMENT NO. 2
Lt. Higgins/3403

The provisions of the inclosed draft of War Department circular indicate that the coupon books will be issued for certain stated purposes and will be limited to certain authorized personnel for use as the medium of exchange in making purchases of goods and services at facilities operating under the control of overseas military establishments. It is the opinion of this office that there is no legal objection to the issuance and use of the United States Military Establishment Coupon Books as proposed in said circular, the submitted copy of which has been retained for the files of this office. The foregoing opinion with respect to the use of coupon books as the sole medium of exchange in Navy ship's service stores is predicated on the assumption (a) that the stores concerned are under War Department control or (b) that the proposed use of such books in the stores has been approved by the Navy Department.

FOR THE JUDGE ADVOCATE GENERAL:

/s/ J. W. Huysoon,
J. W. HUYSSOON, Col., JAGD
Chief of Military Affairs Division

Incl
w/drawn

CONFIDENTIAL

HEADQUARTERS
U.S. FORCES, EUROPEAN THEATER

CIRCULAR )
:
NUMBER 50)

15 Apr 194

CURRENCY EXCHANGE CONTROL

1. Rescission. Cir 139, 10 Oct 1945 is rescinded effective 15 May 1946, and the currency exchange control book authorized therein will no longer be used.

2. Policy. Funds presented to theater facilities for purchases, exchange, or transmission will be limited to those derived from cash pay or allowances, or money lawfully imported into the theater by persons authorized to use such facilities.

3. Original Issue. a. Commanders of all echelons will issue to all personnel within their command, or under their jurisdiction, a Currency Control Record.

(1) Records will be serially numbered and issued through command channels. Each headquarters will maintain a record to account for all issued and unissued records.

(2) Currency Control Records may be issued to dependents of those persons authorized to use finance facilities, by the personnel officer of such authorized persons.

b. Effective 15 May 1946, personnel officers, or such officials as may be designated by commanders to act as such for the purpose of this circular, of all persons in the theater authorized to use finance facilities will make an initial entry in the record of each such individual. This initial entry will be the sum of money expressed in whole dollars which each such person has in his possession, including European bank deposits, derived only from pay and allowances and money lawfully imported into the theater. This entry will be made only on presentation of Currency Exchange Control Book authorized by Circular 139, and in no case will the initial entry exceed the balance available as indicated therein. For new arrivals see Par 7.

4. Custody of Record. a. After the initial entry has been made in the Currency Control Record, the Record will be issued to the individual concerned and will be retained in his possession. A record of the serial number of the Currency Control Record thus issued, (as well as subsequent replacements), the date of issue and the amount of the initial entry will be made by the personnel officer and attached to the individual's Service Record, WD AGO Form 66-1 or other appropriate permanent personnel file. This record will be consulted prior to replacement of the Currency Control Record under the provisions of Par 9.

b. When replacements are made under the provisions of Par 6 or 9 of this circular, the data pertaining to the previous record of issue will be cancelled by drawing a single line through it, followed by the words "used up" or "lost", whichever is applicable, and the personnel officer's authentication. (See paragraphs 6, 7, 9 and 11)

5. Subsequent Entries in the Record. a. All entries will be expressed in dollars to the nearest whole dollar and blank space will be zeroed. $0.50 or more will be entered as a dollar. Example: 0 5 0 to express a debit or credit entry of $49.50 or $49.75.

b. Amounts received by the owner of the Record as pay and allowances in marks or Austrian currency will be entered in column 3, and amounts so paid to him in the currency of other countries within the theater will be entered in column 6. The amount of the balance in column 5 or 8 will be increased accordingly. All such entries will be made by the disbursing officer, agent officer, or other person authorized to pay personnel, who will authenticate such entries by placing his signature and serial number (or AGO identification card register number in case such official is a civilian) in column 9.

c. Currency Exchange. (1) No entries will be made in the Record of exchanges involving only German and Austrian currencies, or exchanges involving only the currencies of other countries in this theater.

(2) The dollar value of marks or Austrian currency exchanged for money of other countries in this theater will be entered in column 4 and the balance in column 5 reduced accordingly; the same amount will be entered in column 6 and the balance in column 8 increased accordingly.

(3) The dollar value of currency of other countries in this theater exchanged for marks or Austrian currency will be entered in column 7 and the balance in column 8 will be reduced; the amount of the exchange will be entered in column 3 and the balance of column 5 increased accordingly.

(4) Currency exchanges will not be made without presentation of proper travel orders and/or compliance with such other regulations as may be promulgated by the Theater Fiscal Director.

(5) All exchange entries will be made by the officer, cashier or other authorized person who receives the money for exchange, who will authenticate the entry by signature and serial number (or AGO identification card register number in case such official is a civilian) in column 9.

d. Exports. (1) The purchase of any dollar instrument shall be considered as an export from the theater, regardless of the payee named thereon.

(2) The exchange of marks, Austrian money, or currency of any other country within the theater, for the currency of any country outside of the theater shall be considered as an export.

(3) All exports shall be deducted from the balance in columns 5 or 8 by appropriate entries in either column 4 or 7.

(4) Export currency exchanges (subparagraph (2) above) will not be made without presenta-

tion of proper travel orders and/or compliance with such other regulations as may be promulgated by the Theater Fiscal Director.

(5) All export entries will be made by the officer, cashier, or other authorized person who receives the money for exchange or transmittal, who will authenticate the entry by signature and serial number (or AGO identification card register number in case such official is a civilian) in column 9.

e. Imports. (1) The cashing of any dollar instrument shall be considered as an import into the theater.

(a) The finance officer, cashier, or other authorized person cashing such instrument will furnish a certificate dated, signed and stamped with his block stamp or APO stamp substantially as follows: "I certify that I have on this date cashed a (check) (traveler's check) (money order) (bank draft) for _____(name, rank, and organization) in the amount of $ _____ or equivalent, and that such amount has been properly entered in the concerned individual's Currency Control Record."

(b) The person for whom such transaction is effected will be advised to retain such certificate until the book in which the corresponding entry is made has been used up and replaced.

(2) The exchange of any currency of a country outside the theater for marks, Austrian money, or currency of any other country within the theater shall be considered as an import.

(3) All imports shall be added to the balance in column 5 or 8 by appropriate entries in either column 3 or 6.

(4) All import entries will be made by the officer, cashier, or other authorized person handling the transaction, who will authenticate the entry by signature and serial number (or AGO identification card register number in case such official is a civilian) in column 9.

(5) Except for new arrivals in the theater and personnel returning from the ZI, the amount of imports through currency exchange (subparagraph (2) above) shall not exceed the amount of previous currency export (subparagraph d(2) above) plus such pay and allowances as have been paid during absence.

f. Purchases. (1) The dollar value of all purchases from official agencies in the theater, such as exchanges, commissaries, clothing stores and messes, shall be entered in column 4 (or 7) and the balance of column 5 (or 8) reduced accordingly. Such entries will be made to the nearest dollar, and no entry need be made for individual purchases amounting to less than $0.50. Entries will be made by the person receiving payment.

(2) In order to reduce the number of entries in the Record the agencies concerned will, where practicable, establish a credit, coupon, chit or similar sales system, so that the one debit entry will eliminate a number of entries for subsequent transactions. In the case of messes where each meal is paid for separately in advance, such credit, coupon, chit or similar sales system is mandatory for permanent members of such messes.

(3) All entries for purchases, which reduce the balance available, will be made by the person receiving payment and will be authenticated.

g. The transfer of funds to a dependent's Record will be accomplished by appropriate entry in columns 3 (or 6) and 5 (or 8) of the dependent's Record, and similar entry in column 4 (or 7) reducing the balance available in column 5(or 8) of the Record of the head of the family. Such entries will be made by the personnel officer and authenticated by signature and serial number (or AGO identification card register number in case such official is a civilian) in column 9.

h. All entries which increase the total balance available (column 5 plus column 8) will be made only by authorized personnel, as defined herein, who will authenticate entries by signature and serial number (or AGO identification card register number in case such official is a civilian).

i. No exchange, export, purchase or transfer will be made of amount greater than the last balance shown in column 5 or 8, whichever is applicable.

6. Space Exhausted in Record. When space has been exhausted in any individual's Currency Control Record, he will be issued a new Record with an initial balance equal to the currency he then has in his possession but not more than the final balance on his old Record. The new initial entry will be verified and authenticated by the personnel officer concerned; the old book will at the same time be taken up by such personnel officer, the action required by Par 4, above, completed, and the old book destroyed. (See paragraph 11)

7. New Arrival in Theater. a. All finance officers exchanging currency from outside this theater into the currency of a country in this theater, for the personnel arriving in the theater without a Currency Control Record, will furnish such personnel, including dependents, with a statement in substantially the following form:

> "I certify that I have converted _____ dollars (in words and figures) worth of_____ (name of country,) money into _____ (name of country) currency for _____ (name, rank and serial number) who has recently arrived in the European theater."

Such certificates will be dated and signed by the finance officer, giving his disbursing symbol number

b. Upon arrival at his first station in this theater, the individual will be issued his Currency Control Record by his unit personnel officer or such official as may be designated by the commander to act as such (see Par 3b). Such personnel officer will make an initial entry therein not exceeding the amount stated in the certificate referred to in a above, and make and file the records prescribed in Par 4.

8. Departure from Theater. a. When an individual, upon departure from the theater on permanent change of station, makes his final exchange of currency, his Currency Control Record will be taken up by the officer making the exchange and destroyed. (See paragraph 11)

b. When an individual departs from the theater on leave, temporary duty or detached service, any currency of a country within this theater which he exchanges will be entered as in Par 5d above, and when such person returns to this theater, his exchange of outside currency for currency of a country in the theater will be entered as in Par 5e above.

9. Loss of Record. a. When a Currency Control Record has been lost or destroyed the owner will execute a certificate or affidavit as follows:

"I *(certify) *(solemnly swear) *(affirm) that my Currency Control Record No._____ has been *(lost) *(destroyed) under the following circumstances_____ and that_____ (amount and type of currency) which I have in my possession does not exceed the balance on my old Record in the type of currency involved; and that this currency was obtained only from cash pay and allowances received in this theater and money lawfully imported into this theater."

b. (1) Upon execution of such certificate or affidavit, a new Record will be issued with an initial balance in the amount and type of currency the individual has in his possession but not greater than the sum stated in such certificate or affidavit, subject to the provisions of (2) below.

(2) The personnel officer will compare the amount arrived at as provided in (1) above, with the initial balance and date of previous last Record and will approve such amount only if the increase, if any, in the former can be accounted for as pay and allowances received in the interim and/or importations substantiated by evidence supplied by the claimant (see Par 5e(1)(a) and (b)). In the event reconciliation cannot be thus effected, the amount claimed will be reduced accordingly and such reduced amount will be entered as the initial balance in the replaced Record.

(3) As thus approved by the personnel officer, the new initial entry will be authenticated and the action required by Par 4, above, completed. (See paragraph 11)

c. Individuals requesting transmittal and/or exchange or conversion service at finance or postal facilities who claim to have lost their Records will not be granted transmittal service (PTA, Spearhead Deposit, Postal Money Order, Soldier's Deposit, etc) but may exchange into other theater currencies in a nominal amount sufficient to overcome a demonstrated emergency pending issuance of a new Record.

10. Pay from Army Agencies. Money received by enlisted men as payment for employment at Army agencies may be entered in the Currency Control Record as provided by Par 5b.

11. a. In the case of used up or closed out Records (Par 6 and 8a) the cover thereof bearing the serial number will be mailed on the first day of each month by letter of transmittal to this headquarters, attention of the Adjutant General, in order that such numbers may be cancelled from the list of outstanding Records.

b. When new Records are issued to replace those which have been lost (Par 9) the serial number of the lost Records will be reported by letter to this headquarters attention of the Adjutant General.

c. The Adjutant General, this headquarters, will in the case of serial numbers of lost books (b above) furnish a list of such numbers to the Theater Fiscal Director and the Theater Postal Officer.

12. Reference is made to letter, this headquarters, AG 123.7 GAP-AGO, subject: "Prohibition against circulating, importing, mailing or exporting United States and Continental Currencies, including British currency, in Liberated and Occupied Areas and transaction involving all currencies except through official channels", 27 February 1946, and to Circular 64, WD, 5 Mar 1946.

13. Violation. Any false or unauthorized entry in the Currency Control Record, any improper exchange or transmittal of currency, or any other violation or evasion of the terms of this circular, will be dealt with by appropriate disciplinary action.

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*Strike out parenthetical words not applicable.

BY COMMAND OF GENERAL McNARNEY:

H. R. BULL,
Major General, GSC, Chief of Staff.

OFFICIAL:

L. S. Ostrander

L. S. OSTRANDER,
Brigadier General, USA, Adjutant General.

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