The Association for Diplomatic Studies and Training
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INTERVIEW

[NOTE This interview was not edited by Mr. Reinstein]

Q: This is an interview with Jacques Reinstein, who had extensive experience in the State Department in economic affairs and, in particular, had great responsibilities in the area of relations with Germany in the immediate post-war period. He started his interest in this when he was Acting Chief of the Financial Division of the State Department in 1944-45. And he went on to be Economic Advisor to the Secretary for making of European peace treaties, and Economic Advisor to the delegation to the Paris Peace Conference in 1946. And thereafter he was in the Economic Bureau specializing in European economic problems. And later, in 1949-50, he was the Director of the Office of German Economic Affairs. And then later he was Director of the Office of German Affairs. His close association with Germany during the period 1945 to, shall we say, 1960 is the main theme of this record.

How did things look to you, Jacques, in 1945 at the end of the hostilities, in terms of the German position?

REINSTEIN: I think we have to go back a little bit further, because my connection with Germany really began earlier in the War. I was financial advisor to the Liberated Areas Division before the State Department decided that having Financial Affairs handle the six or seven different divisions was not a good idea and set up an Office of Financial Development Policy. I believe it was called, OFD. But I became involved in the planning, the wartime planning, because I was deputy to James Clement Dunn who was the top man in European affairs and later became Secretary Byrnes's deputy in the peace treaty negotiations. In that capacity I worked on financial planning for all of the liberated and enemy territories, which got us into a number of curious political problems.

One of the things that happened was that, owing to the need to have to print currency for all those areas, the financial planning had to be undertaken far in advance and involved a large number of political decisions. As a matter of fact, we got in quite a tangle with General De Gaulle at the time of the Normandy landings. General De Gaulle's behavior at that time, which makes a fascinating story in itself, led, eventually, to sharpen up the debate on how to deal with the French National Committee, the French committee of liberation.

And, in point of fact, the committee which dealt with these wartime financial planners was the forum in which the policy debate was carried on and resulted in the formulation of a position which was recommended to President Roosevelt, who disliked it wholeheartedly and did not wish to have a general imposed on the French people by America. But we finally persuaded President Roosevelt to go along with dealing with the goals of the Free French Committee and extending de facto recognition to the Free French organization. Actually, I think the formula by which we did this was one I drafted.

Anyhow, I got into all the planning for Germany at that stage, on the military side. And that planning was never intended to last for very long. This was the famous JCS1067 that went through, probably, 500 drafts, which became our initial guiding policy and was only slowly altered in terms of practical events as the situation unfolded in Germany.

Q: To what extent was the Morgenthau Plan involved in this?

REINSTEIN: Well, the Morgenthau Plan really was involved. But what happened, I was just going to say, the other way in which I became involved with Germany was that the State Department had an organization for the post war planning, which was run by Leo Kazwalski. And they brought a lot of academics who wrote interesting papers on frontier questions. They wrote a paper, I remember, reestablishing the Austrian-Hungarian Empire as a republican federation. The fact that the Soviets might get there and change things hadn't occurred to anybody, at least in that organization.

Anyhow, they had a committee on reparation and restitution. I was the only person on the committee from the regular operating part of the State Department. All the rest of the people were academics. Some rather strange ideas got knocked around in that committee. Eleanor Dulles was on that committee and at one point she wrote a paper demonstrating that Germany could pay $50 billion in reparations. Very early in that process I wrote a memorandum, the text which I have around here somewhere. One of the people who did research on this, I talked to a good many scholars on this bureau, dug it out of the archives and brought it up to me. I had forgotten I had written this paper in December of 1943. I wrote a very strong memorandum saying that the kind of discussion that was going on in this committee represented the kind of thinking that took place after the first war. And, if pursued, would lead us into exactly the same problems we had before. And I disassociated myself from this line of thought.

They came up with some kind of compromise, the text of which I don't really remember. I don't know whether I just disassociated myself from the paper or not. What it really proposed was putting Germany to work as central machine shop of Europe and cranking up European recovering by rebuilding Germany. And that paper went from the State Department into an interdepartmental committee. That paper, I think, triggered the Morgenthau Plan. The Morgenthau Plan was never adopted by the United States.

The subject of policy toward Germany was just, in a sense, put aside and operated in practical terms. But there's a great myth about this. The Germans, I think, are convinced that the Morgenthau Plan was actually adopted by the United States Government. It never was. Of course, Morgenthau was a very close friend of President Roosevelt's. As a matter of fact, it was through Morgenthau that we got Roosevelt to recognize the goal. Morgenthau went to the President with Jack LaCloy and Jimmy Dunn, but they stayed in the background while Morgenthau argued with him. I didn't get into that meeting, I'm sorry to say. It would have been fascinating. Anyhow, that was what triggered the Morgenthau Plan.

I think it might be constructive to remind people of just how the situation developed at the end of the war. In the first place, nobody had a very clear idea of how things were going to come out or the degree of destruction that there would be in Europe. At one time, we started planning for relief behind the lines of battle, which we undertook jointly with the British and Canadians.

And I would like to just say here how important the Canadians were in this war effort in the various roles they played. They really were a very constructive force because they were concerned with seeing things work. They were kind of the voice of the rest of the world, in a sense. The voice for sanity when the big boys for struggling among themselves and doing, frequently, very stupid things. Canadians were very helpful, indeed. And they did make a major effort to financing behind the lines of relief. That, in itself, is a great story.

They originally were going to have something like nine different plans for just starting to get things going, sending supplies into Europe, based on three different dates for the termination of hostilities, and three different assumptions on the degree of scorched earth which would be left. So there would be Plan A, B, and C; A-1, A-2, A-3, and so on. We wound up with only one plan, which frequently altered. It was known as Plan A as amendment. A mention of Plan A in this town some years back could make strong men shudder thinking of the agonies we had gone through and the fights we had over procurement, financing, and all kinds of other things. Those were rough days but we really had no idea of how things would wind up.

I had the same experience twice in the military planning side. One had to do with North Borneo, which was a British territory. And we had no plans for doing anything there, had refused to talk to the British who came around and said they had some ideas about what we could do. We told them to go away, we're not planning to go there. Well, MacArthur,

in his island hopping, decided to go into North Borneo. I got a telephone call from the Pentagon saying, "Come over right away. The General wants you here right away." That was General Hillins of the Civil Affairs Division. I said, "What's it about?" "Can't tell you." "Well, what part of the world is it?" "Can't tell you." You know, I wanted to pick up the right files and carry them over.

I went over there and said, "What's this about?" "MacArthur has decided to go into North Borneo. The General wants a Civil Affairs directive to go out by midnight, so we've got to sit down and do it." I had to write the financial stuff. Well, I had a vague recollection that they used the straits dollar there. And the straits dollar was worth 50 cents U.S. I could not find any literature. I was not allowed to just call up the Department of Commerce who used to have a handbook of foreign currencies. They couldn't find a copy of it in any libraries they might have had in the Pentagon. I'm not sure that they had a library at all. I finally got a copy of the Statesmen's Yearbook, which confirmed my memory. And with the assistance of the Statesmen's Yearbook wrote the financial directive for British North Borneo.

Well, the same thing happened in Europe. One day, rather late in the war, early in 1945, we had a meeting on some other problem, probably the Far Eastern problem. And at the end of the meeting I said, "Well, there's a point I'd like to raise, which is that the way Patton is slicing across southern Germany, he's going to be in Czechoslovakia in no time at all. And I just want to remind you we have absolutely no arrangement. We've never talked to the Czechs. We have no arrangement of any kind to govern what we do when we get into Czechoslovakia." "Ho, ho, ho," said the General. "Don't worry your pretty, little head about that, my boy. It isn't in the plans."

About two or three days later, I was telephoned from the Pentagon. "The General wants you here right away." "What's it about?" "Can't tell you." I go over. "Patton is in Czechoslovakia. What do we do now?" Well, we really botched it.

The Czech Government was carefully locked up by the Soviets in Eastern Czechoslovakia. We had no contact with them at all. And so we made some rough calculations. But we set a rate for the Czech crown. And Bill Taylor of the Treasury and I fell into an extraordinary trap. We didn't set the rate recognizing the cross rate with the German mark. The American troops were great arbitrageurs, they really were. They creamed us for $50 million before we could straighten it out. $50 million of the taxpayers' money paid for that error.

Q: This was because we didn't set the cross rate right?

REINSTEIN: We didn't set the cross rate.

Q: We didn't take account of the cross rate?

REINSTEIN: We didn't take account of the cross rate. The soldiers could shift back and forth between the two currencies.

Q: And they didn't need Economics 101 to figure out which worked better?

REINSTEIN: No, no. They didn't. They took us to the cleaners much more in Germany because of the black market operations. You know, they could sell cigarettes and get almost anything they wanted, which they could send home. But they could exchange whatever money they got with the Germans for occupation marks. We had both currencies circulating for the same value. And they would bring their German occupation marks back to the paymaster or finance officer and send it home in a postal money order or something like that. And the arrangement that we had was that whenever the army drew occupation marks for troop pay, they had to take the corresponding appropriated funds and put them in a special fund in the U.S. Treasury.

Well, we started in Italy when we found out that we had absolutely no money at all to finance relief, finance getting food to the Italian population. a bright idea occurred to people to borrow from this fund. And we were able to borrow $100 million on the Italian account and buy wheat and other things for Italy. We thought that this was going to be an amount that we would have for use in Germany. Well, it turned out that the whole of that money was drawn down by the soldiers and there was an overdraft on the account which, eventually, ran to about $300 million or more. I'm talking about 1945-46 dollars. That's a heck of a lot of money.

The same thing happened in Japan, too. The Treasury and I tried to persuade the military to take measures to prevent black marketing or at least cut it down. And it was resisted as on balance of troop morale until this thing got to be an absolutely outrageous scandal involving not only enlisted men, but lots of officers. We eventually clamped down on it.

Q: Everybody was in the act.

REINSTEIN: Everybody.

Q: Almost everybody.

REINSTEIN: Well, the State Department tried to control its own offices and found it very hard to do. But we had some fairly strict instructions on black marketing. Of course, having written these instructions, I was never able to profit from any black market operations.

We didn't know what was going to happen in Germany. The first thing that happened right after the war was the Potsdam Conference. That conference really started us down a road that lead to the situation we found in Europe. Whether there was anyway of avoiding that, I don't know. I wasn't at Potsdam. I was at this end of the telegraph line. I must say

that the reaction of those of us in Washington that read the Potsdam Agreement was one of dismay.

As a matter of fact, this tone became evident in our telegram writing. Will Clayton and Ninyo Colaro, Pete Colaro, who was then my boss, were traveling around Europe having a look at what was going on and they got very annoyed at this suggestion. They wrote a lengthy telegram, which I've never seen published, explaining that Potsdam really wasn't all that bad. But there it was.

Q: As I recall it, Potsdam provided for the provision of military occupation in Germany. It agreed on boundaries for military occupation.

REINSTEIN: No. That had already been worked out.

Q: That had been worked out?

REINSTEIN: That was worked out in the European Advisory Conference, which sat in London and Ambassador Winant was our principal representative.

Q: Phil Mosley made an effort to recruit me for that and I didn't go.

REINSTEIN: Well, Phil was his strong right hand. Another thing which had an absolute immediate impact was the decision to set up a Council of Foreign Ministers. The Council of Foreign Ministers, which would consist of the five members of the Security Council. It was to be the counterpart of the Security Council in the areas in which the UN didn't have jurisdiction.

Q: And also the peace treaties.

REINSTEIN: The peace treaties or anything else because Article 107 of the United Nations charter excludes from jurisdiction of the UN any matters relating to any country which has been at war with any member of the United Nations which, of course, in the beginning was the Wartime Alliance. And then it was shifted to this organization.

The Council of Foreign Ministers really was a kind of continuation of, having invited the French and the Chinese in, of the wartime planning agencies of the top leaders of the Alliance. Well, the State Department, in it's wartime planning, had come to the conclusion that one of the great mistakes made at the end of the First World War was that it had peace treaties too rapidly. It sat down and wrote treaties when passions were high and there should be a cooling off period before you decide to settle affairs. But this thinking never got to the new Secretary of State or the new President. And so we were somewhat appalled, when we got the text of the agreement, to find that the Council of Foreign Ministers had not only been set up to deal with peace treaties and other matters, but that it was agreed that its first meeting would take place in London in the first week of September.

Q: Potsdam was in what, August?

REINSTEIN: Yes. August 1, 2, and 3 in 1945. We had a month to get ready for this conference. I was Acting Chief of the Financial Division at that point. And my boss, George Lutherner, was in Europe with a number of other people attached to Mr. Ed Pauley's mission. Ed Pauley was American representative on the Inter-allied German Reparation Commission. He had set it up with the British and the Soviets at Soviet insistence. And they were wandering around Europe trying to figure out what was going on. They drained a lot of bright people from the State Department. They were locked up in what turned out to be a rather futile exercise.

Anyhow, I was the boy at home in charge in that particular area. And I was told to pull together some interdepartmental committee and go to work on the economic causes of peace treaties with Italy, Balkan satellites, and Finland. Well, the first thing I did was to get out the Treaty of Versailles. When I was in college I had looked at the war guilt clause and one or two other things, but I never looked at the treaty as a whole to see what was in it. I must say I was appalled to find all the technical stuff that had to be dealt with putting things back to work again, on which absolutely no work had been done. The Potsdam agreement said that each foreign minister would be accompanied by a high ranking deputy and a small staff.

The next thing that happened was I ran into Freeman Matthews in the State Department cafeteria around about mid-August or a little thereafter. And he said, "Oh, you're going to London with Secretary Byrnes." I said, "I am?" He said, "Yes."
My wife was then seven months pregnant and my two older boys were up in New Hampshire. I managed to get to her by telephone, we had no telephone ourselves up there, that evening. And said to her, "Look, I think you'd better come home right away because I'm going off to London to work on the peace treaties. I have no idea how long I'll be gone and when I'll ever get back." We organized my personal life quite rapidly. We went off with really nothing in the way of preparations at all. Fortunately, from that viewpoint, they never really got a story on the subject and the conference broke down.

Now the conference, this was the first real nasty split with the Soviets. I watched it happen and I never understood just what happened. And I've never seen much in the way of speculation about this, why, all of a sudden, did the Soviets become destructive. They were destructive in certain ways already. We had a number of rows with them about one thing or another, but we arrived at some working relations.

For example, we had in Poland the matter of the German currency. We asked them if they would like to have the same currency we were using and they said yes. And they said they would be very glad to cooperate in that respect. But that said that they would want to have plates so they could print it themselves. Well, this was one of our first major, practical problems. In the first place, the currency technicians said we couldn't do it as a practical matter. That if you did not have all of your currency printed under rigidly maintained

controls, quality controls, temperature, it would be too easy to counterfeit. So they were overruled on that for political reasons.

Then we ran into another curious problem, which we were having to print so much currency for use here, there, and elsewhere that it strained the capacity of the Bureau of Engraving and Printing. It just couldn't handle all this. As a matter of fact, we even ran out of storage space in the Pacific because we had two types of yen, one for the main Japanese Islands and one for Taiwan. We didn't know what was going to happen with Taiwan. We didn't want to use the same kind of currency but you had to get the Japanese yen there so we had type A and type B. Type B, I think, was for Taiwan. So you shipped this currency out so it would be nearby when you had landings. But then the plans were changed as to whether you would attack Taiwan first or you would attack Japanese main islands first. And every time they made a change in the plans you would have to ship the currency back to California because you didn't have adequate storage facilities up front. This is the kind of problem we had.

Q: So what the Russians actually did was engage in legal counterfeiting?

REINSTEIN: Well, no. Well, the next problem we ran into was that, when we ran out of our own capacity, we went to the private bank printing companies. There were a number of them and they produced a very high grade of currency. And they have smaller countries which don't have that kind of facility. And the German mark was being printed by a company in Boston. They refused to turn the materials over to the Soviets. They said it was contrary to the traditions of the industry.

Q: I'm sure that's right.

REINSTEIN: That got us into a real pickle. At that point, I must say, I lost out on some of that. While the government had the authority under the draft act to take over private property, requisition it for good and sufficient technical reasons, which had to do with the Draft Act in the first place, this authority didn't extend to this kind of a case so we couldn't requisition the plant. And at one point there was a Senate investigation on German currency after the war.

All the documents were requisitioned by the Senate committee, which has an interesting list of the people who were involved. Those who knew everything were five, and those who knew most of it were another five. I find my name in that one. And interesting pieces of paper were in that document.

One is a rather raspy memorandum from George Lutheran to me saying that he had discovered that the Eastern Europeans were handling these financial matters without telling us anything about it and would I please get into this thing and see it was done properly. I can't remember what specific matter it was, but the EE was negotiating with the Soviets without talking to us, bringing us in at all, and we had to stop that.

There is another memorandum, a fascinating memorandum, of conversation with Ambassador Gromyko when they explained to him the problem they had with the currency printing plates, that they couldn't take the plates away from the company. It is a rather entertaining memorandum because Gromyko, you know, said, "Why should they be concerned? We're not going to compete with them. This is a government operation. We're all in this together." But it was highly suspicious that we had decided to backtrack for political reasons.

Anyhow, they were very sensitive about this kind of thing because the outcome of the war was not fully certain at this particular point. Somehow or other they managed to get the stuff away from the private printing company and the Soviets sent something like 14 airplanes to pick up the paper, the ink, the plates, and all the rest of it. They were loaded up here at National Airport. At the very last minute one of the planes was unloaded and some trucks came up with a lot of delicacies of one kind or another which were loaded instead. Whether all the Soviet planes got back, I've often wondered, because they had to fly way up over Siberia. Aids for flying were not all that good in those days, particularly, in bad weather.

Q: These were Soviet transport planes that went across the Alaska-Siberian route?

REINSTEIN: Yes.

Q: Which we had well established during the war.

REINSTEIN: We had it well established.

Q: For ferry service, because I was very familiar with that.

REINSTEIN: Yes.

Q: But that was for combat planes.

REINSTEIN: That's right.

Q: Of course, we had a route and we had refueling available.

REINSTEIN: Yes. Well, somehow or other, they got back. And, eventually, at one of our meetings they sent us samples. And we had a guy from the Bureau of Engraving and Printing and he said they were absolutely identical. He could detect no defect. So they pulled it off and they printed as much as they wanted. On what basis they ever handed it out to their people, I don't know. But knowing some of their rules, for instance, every officer was allowed to ship home two private automobiles, if he could lay his hands on them.

Q: The reason I raised the question about counterfeiting was there was no limit on the allowance they could print.

REINSTEIN: Absolutely no limit.

Q: And it was all cashable in our part of Germany if they wanted to.

REINSTEIN: We never found much evidence of leakage. You know, there was some at border places. You did have a certain amount of leakage.

Q: But it was circulated freely among Germans?

REINSTEIN: Yes. Some soldiers sold Mickey Mouse watches to the Russians. This paper money, I guess, was handed out rather freely, at least to some people, didn't mean all that much because they didn't observe some of the niceties.

Anyhow, the point is well taken, which is you had people issuing money with no central plan.

Q: No central control.

REINSTEIN: No central control and no understanding as to any of the financial arrangements. The currency, all kopeck's, reichsmarks and occupation marks, were exchangeable freely all over Germany. But, on the other hand, there weren't all that many things to use money for except to pay salaries and things of that nature.

Q: Services. There weren't any goods, there were services.

REINSTEIN: Yes.

Q: And the Russians didn't pay for the goods they took home, they just took the goods.

REINSTEIN: That's right, they didn't. So we never had any idea what they were doing. When this conference in London started, we got it put off a week, finally. And we went over on the first Queen Elizabeth, which the Government had put to use as a transport during the war. Both Queens were used as transports. By this time, every time they came they brought back 18,000 men. We landed blacked out because the Queen couldn't outrun a German Sub and they weren't sure whether there was some lurking around or not. We rounded up all of them. We had never had any episode which somebody escaped from our control. But we just weren't sure. Like Confederate raiders, one of them that never heard about the end of the Civil War, kept sinking Union shipping for awhile after the war was over. So you never know.

Anyhow, we got there and the American delegation consisted of ten people, the Secretary of State, Jimmy Dunn; Ted Achilles was assigned to the embassy in London and he was

secretary of the delegation. We had a guy who was an expert on waterways, because it was a great interest of Mr. Truman's. We wanted to make sure that they established the proper control over the brokerage. And I was supposed to deal with all the economic matters that applied to treaties of peace by myself. There was Phil Mosley, I guess, and a couple of others. But the whole delegation amounted to ten people. Mr. Molotov arrived with a delegation of 87 officials; we're talking about officials, not secretaries.

Anyhow, the discussions got started and they didn't really do very much about peace treaties. They took up a variety of subjects which were rather hot. One of which was the withdrawal of troops from Iran. And one of the achievements, and the Soviets did not renege on it, was the agreement to withdraw Allied forces from Iran, the British from the South and Soviets from the North. That agreement, as far as I know, was respected.

Then another question came up which was the Soviets wanted a trusteeship over Libya. I think this was a genuine misunderstanding. During the San Francisco conference, or maybe here at another conference, I don't know which, the Soviets talked to Stettinius about this and asked if they would be eligible for a trusteeship and indicated an interest in Libya. Stettinius said, "Yes, they would be eligible. But the Soviets, I think, thought they had a commitment from Stettinius and thought they were getting a trusteeship. The British, of course, were dead set against it. The French were, too.

Q: So was the U.S. Navy, I'm sure.

REINSTEIN: So was the U.S. Navy. Anyhow, that didn't work out. We had a discussion of Germany at French insistence. The French had one day on Germany. The French said that before we went further along dealing with Germany, they would like to have a discussion of what our long term objections were going to be. What they wanted to do was partition Germany and they made this quite clear. Mr. Molotov said that all this was not appropriate for discussion and should be taken up through diplomatic channels. Well, there was quite a tussle about that. Mr. Byrnes said, "Look, what the heck are diplomatic channels but just conversations between us. If you are going to take it up through diplomatic channels why can't we talk about it here?" The Soviets were absolutely adamant against having any discussions with the council at that stage about Germany.

Q: They probably didn't have a position.

REINSTEIN: Yes, I think they did. If they didn't, they developed one. Well, the French said very well, they would take it up through diplomatic channels. But they wanted to make clear that they would not cooperate in the administration of Germany in their zone of occupation until these discussions had taken place. So it was the French who first really broke down the negotiations. It may have been very useful to the Soviets to hide behind the French at this early stage. Discussions did take place. Couve de Murville, who was Bidault's representative. He was acting as the President of the French Provisional Government, President, Prime Minister, Chief of State. He was nominal Chief of State. By that time, you see, De Gaulle had quit. So somewhere along there, and I don't

remember the exact time, when we got to Paris later, Bidault was acting. De Gaulle was still around. Bidault was the Foreign Minister and after De Gaulle quit he was then put in as nominal head of state.

Couve de Murville was his deputy, but Elly Alpha was the top economic guy, although, Couve's opinion was respected, also. He led the French delegation to each of the capitals. They came to Washington in December of 1945 and outlined their position to us on the partition of Germany. On our side the delegation consisted of Jimmy Dunn, representing the Secretary, and Jimmy Riddleberger, and myself. I can't remember whether there was anybody else. It was a small group. And we listened to them politely and then told them that we weren't buying the partition of Germany, and this is the answer they got from the other capitals, including Moscow. Between the French and the Soviets, we got off to a pretty bad start in Germany. Our idea had been to set up a government of technicians.

Q: For all of Germany?

REINSTEIN: For all of Germany, that's right. Which we did manage to do in Austria. I forget what genius it was who worked this out. The Austrian arrangement was different from the German arrangement because the Austrian Government was allowed to act unless all four vetoed some action. We let the Austrian Government function.

Q: But there was an Austrian Government?

REINSTEIN: It was constituted. I mean, after all, there was no Austrian Government after the Anschluss.

Q: No, but there wasn't a German government in Austria. It was an Austrian Government?

REINSTEIN: Yes, it was an Austrian Government. Yes, the remnants of the old political parties composed of the Socialists and the Catholics managed to get together and form a government.

Q: There was a government of technicians in being?

REINSTEIN: Yes. In effect, it was constituted. And this was really what we wanted to do in Germany but we were never able to do.

Q: Because of the Russians, primarily?

REINSTEIN: Because of the Russians and also the French. The French continued to drag their feet and they were rather slow in working toward this.

Q: When did the Russian position become clear? At this conference? And what was the Russian position?

REINSTEIN: At that point, I was working on Italy and the Balkans and I just didn't have time to read German traffic, telegram traffic about Germany. And so I did lose touch. Let me explain what happened first in London. At some point things went sour. I don't know why. I heard from a German defector directly an explanation, but I don't know whether it's any good. At any rate, all of a sudden Mr. Molotov said all the discussions were improper because there were people in the room who had no business being in the room. And the British secretariat had prepared papers indicating what decisions needed to be made and Mr. Molotov refused to approve these papers because all the actions had been illegal.

Well, they sat and argued and argued about that for a week or ten days. And finally the conference broke down and the Soviets went home. Mr. Byrnes went home but he left a Corporal's Guard led by Jimmy Dunn in London indicating our willingness to sit down and go to work or whatever else we had to do. There were about four of us who were left there. I think Tommy Thompson turned up for that. I was left there as one of the hostages.

I finally managed to get myself loose because my wife was about to produce a child. I had the interesting experience of flying across the Atlantic in a DC-4 military transport which took four days to get from London to Washington. The ventilation and heating system went wacky during the flight, which had no seats, incidentally. It was a cargo plane. They had compartments. They simply moved up a couple of benches along the wall. The walls were curved so there was nothing to lean back against. They didn't even have proper seats. Dunn came home also, of course, so we were both here for those discussions with the French.

At Christmastime, Secretary Byrnes went to Moscow with two objectives. One was to start up the peace treaty process again and persuade them to come back. And the other was to make another attempt to sell our plan for dealing with atomic materials for atomic weapons. You may remember, having dropped two of these bombs and discovering how horrible the results were, we proposed an internationalized control.

Q: I remember that effort, yes.

REINSTEIN: You know, people tend to forget this. Byrnes didn't get anywhere on atomic weapons but he did get their agreement to start discussions with peace treaties. And those were started up in January of 1946.

We went back to London. This time there was at least a little more staff. I was able to take two people with me. Bill Gray and Julia Shira worked for me in the Financial Division. She was a very bright gal and he was a very bright young fellow. Anyhow, I had a little help to get started.
Well, as I say, Secretary Byrnes had gotten the Soviets to agree to reopen discussions. They compromised. The first compromise was to exclude from participation in the discussion of any particular problems in the peace treaties any country which had not

been at war with those countries. This excluded the Chinese from everything because they had only been at war with Japan and we were not dealing with Japan. And it excluded the French from the Balkans, but not from Italy or Germany. And it excluded the United States from discussion with Finland, because we were not at war with Finland.

Q: It left the smaller powers like the Dutch and the Belgians out in the cold. The Norwegians, Danes, Dutch, Belgium, they were all invaded by the Germans.

REINSTEIN: The idea was that the principal powers would draft treaties of peace. Then they would have a conference and invite the other countries to come and comment.

Q: That's the pattern that was used on Japan later. That brought it down to the British, Russians, and us. How about the Canadians?

REINSTEIN: No. The Canadians weren't there.

Q: But they were at war with Germany.

REINSTEIN: You see, there were a number of countries that were at war with Germany but they were not members of the Big Five.

Q: You were subtracting France and China from the Big Five to make a council of three. I get it.

REINSTEIN: Let's go back and pick up this business about when did the Soviets manifest their lack of cooperation. As I say, being occupied with Italy primarily at that point, it was sometime before we got to the Balkans. I had virtually no possibility of paying much attention to what was going on elsewhere. My task was to somehow develop some positions, in the first place, for Italy and then see where we should go from there. So I really did not follow the developments in Germany at this stage.

We're talking about 1945 before the creation of the geographic duels, when matters were divided between political and economic, although, economic matters were cleared with the political people; the political people didn't clear things with the economic people.

Q: That's not new.

REINSTEIN: That's not new. I can remember a marvelous fight within the Department. At the time of the fall of France we had frozen all the French assets here, including large dollar balances and a big hunk of gold that was in the vaults of the Federal Reserve Bank in New York. At some point the Swiss legation in charge of French interests, this was after our break with Vichy when we took the position that the Vichy government didn't exist anymore. And so we had the rather curious situation. After all, we wanted the Swiss to protect our interests in France and the Swiss maintained that they were in charge of French interests acting for Vichy. We pretended that the Swiss were acting on their own,

not getting instructions from Vichy. At some point the Swiss sent a letter to one of the New York banks asking what the state of the accounts was.

Q: Where's my monthly statement, in other words?

REINSTEIN: The bank took it up with us. We had a case not long ago where the State Department's Institutional Memory [failed], where I can't remember what the problem was, but it was a nasty, little one, but people thought the Secretary of State had functional impairments.

At the time of the fall of the low countries we had frozen the assets and they had governments in exile and we allowed the governments in exile to use a certain amount of money, to use their own money, really. The Dutch wanted to requisition all private assets. We had a merry dance on that subject for a period of time. Anyhow, I think it was the French-American Banking Corporation wrote to the State Department and asked for funds.

Oh, what I left out was at the time of the fall of Yugoslavia, it wasn't clear whether there was any Yugoslavia government left and there was concern that the Germans would get hold of the Yugoslav official assets. They whipped through Congress a piece of legislation which provided the Secretary of State would determine who was authorized to operate official accounts and, if he gave a certification to the bank that the person before him was authorized to have that authority and was, in fact, a proper representative, the bank was protected against suit. So it was an ingenious piece of legislation. At a late stage, I was one who gave the certification.

Q: You became the Secretary of State for this purpose?

REINSTEIN: For that purpose, yes.

Q: You were also immune from suit, I trust.

REINSTEIN: I assume so. I got involved in the final settlement of the suit between the Bank of Belgium and the Bank of France because the Belgians had shipped their gold to Paris and then the French shipped it down to Africa. The Vichy government, under German pressure, brought the gold back and turned it over to Bank of Belgium in Brussels and it disappeared. Anyhow, the Bank of Belgium brought suit against the Bank of France. They had a very clever lawyer named John Foster Dulles.

Mr. Dulles handled this case and he had a series of delaying actions. He completely outmaneuvered the other side. After the French Liberation he just asked for it and they finally made a settlement. They reimbursed the Belgians and accepted their claim It was part of the reparation thing which is another part of the German reparations that I handled while I was in Paris. Let's go back and mention that.

But to get back to the question of how things fell apart, I really don't know. The State Department began to move in and try to work out policy for Germany. And you had the division between political people handling Central Europe, except they added Switzerland to it. Switzerland was previously considered part of Western Europe. Central Europe was Germany and Austria. In developing a very competent staff that was organized under Bill Clayton, Assistant Secretary for Economic Affairs, we got some extremely bright people, Charles Kimmelberger, a well-known economist, MIT

Q: Ed Martin was in there somewhere, too.

REINSTEIN: Ed Martin came along later. They set up an office of occupied territories, later divided between Japan, Korea, and Germany, Austria. And then they had brought in a fellow who I had substituted for twice under circumstances that affected my career substantially, Emile Dupres. Emile had been in the OSS during the war. He was in Italy and was supposed to come back and be the financial advisor of the Liberated Areas Division. He never came back. I was told to temporarily take charge of that problem and so that was how I got officially involved in financial work and how I came to be Jimmy Dunn's deputy in the occupation planning exercise.

And as I say, it's interesting how things work. Dunn was an absolute master at making things work without anyone quite realizing how he did it and he had an extraordinary knack for that. When we got into this whole question of recognizing De Gaulle earlier, I went to him and said, "Look, Jimmy, I think I know what we're going to do but it seems to me you ought to have your French desk officer deal with this." And Dunn said, "No, you go ahead and handle it." Of course, I was used to dealing with the Treasury people. You know, if somebody they didn't know suddenly turned up, they probably wouldn't have listened to him at all; whereas, they would listen to me.

So I found myself dealing with all kinds of political problems as Dunn's deputy. Then Dunn took me back to London. He took me to London first, I guess. I take it he was the guy who had picked me for the job and he took me back with him. I had tried, without any success, to get the Department to pay some attention to these peace treaty problems. But they were coping with these immediate problems of making things work at all and I think they regarded Mr. Byrnes's fascination with peace treaties as a curious, silly idea that he had. They really wouldn't give us any backup or help.

Well, the first thing I had to do was on the way over on the Queen Mary I drafted a sort of general statement of what we were trying to work out in the economic proposals in the Italian peace treaty. I went over it with Dunn and then we shipped it back to Washington and said, "Unless we are instructed to do something differently, this is the line we are going to take." We never received any instructions. On matters which we had no particular background or competence, we didn't get any help at all. So we started off in a rough way. We soon found that we were not making any headway with the Soviets at all.

Q: This was in London, England?

REINSTEIN: Yes, in London.

Q: This is 1946?

REINSTEIN: This is early 1946. In principle, the drafting work was to be done in time for a peace conference to be called inviting all the rest of the countries into the process by the first of May. That was the date that had been established for holding a peace conference. Well, it became very clear quite rapidly that nothing was happening at all. About the only thing that happened was they sent a fact-finding commission down to look at the situation on the spot. That was Phil Mosley, I guess, and our contingent. It was a lengthy debate about where and what the terms of reference of the commission would be. That used up practically all the time of the deputies for a long time.

Finally, discussions broke down completely. The Soviets wanted the commission to go into a province which had no Slavs in it at all. It had some Austrians but we were not dealing with that. So Dunn said, "All right. They can go there but only on two conditions. One is that the commission also goes to a city where the entire Italian population had been deported. Obviously, the Italians were not going to get back.

Q: And the Russians had no occupation role?

REINSTEIN: They had no occupation role at all. That was one condition. The other condition was that they would only go there if time permits. The Soviets refused to accept the phrase, "if time permits," and so discussions were suspended all together for about ten days until they finally came around. They were getting people organized to put on demonstrations for the benefit of the commission.

When we came back, we were driving to our office for a meeting and we passed by Buckingham Palace. They were just about to have the changing of the guards so there was quite a crowd. And someone said, "The crowds are looking in the wrong direction."

The level of discussion that took place, indicated by my experience with the Soviets, we were the economic committee. Of course, I was the representative. I sat on vast numbers of committees, the Italian Reparation Commission, the Port Authority, the Committee on A Free Port Authority for the city of Trieste. My British opposite number was Arnold J. Tweenby, who had absolutely no knowledge of courts or anything like that at all.

But the economic committee was instructed to prepare invitations to the country for people to make reparation claims against. And so we got started off by the Soviet representative saying that the invitation should only go to countries which had suffered from Italian aggression. That would have limited the list, presumably, to Yugoslavia, Greece, and the Soviet Union.

Q: What about the British?

REINSTEIN: Yes, I guess the British would have been, too.

Q: Well, they would have had to have been because of Malta, Libya and all that.

REINSTEIN: But it included Canada and other countries and all the occupied countries which had claims. Among other countries, Brazil, which had forces on the Italian front as part of the American Fifth Army. Anyhow, we never discussed the formula because I objected to it. I said this prejudges a question. All we were supposed to do was ask people what their positions were, if they had any claims and, if so, what for and the like. Well, we debated this for about 27 hours in a series of meetings. We just went over the same conditions over and over again.

A very entertaining poem, which was done by my British colleagues, should be added at some point to this documentation. It's really very entertaining. As a matter of fact, I did a song, too, based on this incident that we sung to the tune of As Time Goes By. We had a couple songs done to that tune.

We made a report to the deputies about what the positions were. When it got to the deputies, Mr. Dunn rejected the report. This is about what was going on. Finally, I guess Mr. Byrnes intervened at this point and called for a meeting of the Foreign Ministers to try to get something done to be held in Paris. So we went to Paris.

Q: This is the three foreign ministers?

REINSTEIN: Well, at that point, that solved a bunch of problems because you couldn't very well exclude the host. So as a second compromise, the French were allowed back in and so we could talk to Harris Wolf. Mr. Dunn decided that, for tactical reasons, we should table complete drafts of all the treaties under discussion. So I was working at night because we were going to meetings in the daytime. I went to all the meetings of the deputies.

We did get into the discussion of the Soviet reparation claims against Germany. They put that forward. They wanted $300 million in reparations in U.S. dollars from Italy. So we began a tussle with the Italian reparation problem and the deputies because we said we would pump in money into Italy and we just could not agree with the Soviet statement of taking it out. It would affect our financing their reparation claim and we weren't to accept that position. Eventually, they later compromised on that.

We went to Paris and we started to get further into the substance of some of the issues, particularly the reparation issue. Reparation became a major stumbling block. And the foreign ministers went home and we sat around there trying to get things started. At this point, we put in complete drafts of treaties. And what this did was make us have to deal with all the technical problems, copyrights, the return of property that had been sequestered, the liquid property. We sat in my office in Number 5 Grosvenor Square.

As I said, you had a meeting of foreign ministers in the spring without results, wheel-spinning, really, in between with the deputies and the committees. Because of the fact that we had submitted the text of agreements, we didn't have the text to discuss. While many issues didn't get solved, we began to put the pieces together, in a way, in committee structure. And so we got a fair amount of technical work done but we didn't get at the major stumbling blocks.

The foreign ministers came back to Paris the second time in June and July. Byrnes said, "Look, let's sit here until we solve two questions: the Soviet claims for reparations from Italy and the opening date of the peace conference. And we just sit until we settle those." And we did settle both points. I was the representative from the Italian reparations committee, which the second deputy foreign minister was my Soviet opposite number. Hervé Alphand was the French representative, and a U.K. Treasury official, Sir David Laly. And I tried out several things in the way of gimmicks to sort of give them some kind of satisfaction so they could say they had gotten something that they wouldn't buy.

We came up with another solution which was to have the Soviets deliver raw materials to the Italians who would then custom manufacture them for Soviet use, which seemed to us would enable us to respond to Congressional criticism that we were financing the Italian reparations. We putting money in and the Soviets taking things out. This really worked out between me and Byrnes and we were sitting there and were negotiating language right there at the table.

And he finally handed me a text which he had written down to try and express this idea. The language was subject to negotiation and, of course, the language barrier. And he finally handed me this piece of paper and said, "Jacques , what do you think of this?" I looked at it very carefully and didn't think there was anything fishy about it. I handed it back to him and said, "Mr. Secretary, I think we can buy that." And he turned to Molotov and said, "The United States agrees."

So we settled that and we settled the date of the peace conference. And then the next day the Soviets were busily obstructing that. Molotov had, apparently, gotten his lines crossed with Moscow and had gone further than they thought he should have or something, and so they hung everything up on procedural grounds for about three days until they sorted things out among themselves. And then we went on to the peace conference.

Now in that time period we had, for the second time, a discussion of Germany. By that time things were really a mess in Germany. We were not getting anywhere in setting up a governmental administration of the kind we expected, a government of technicians who would operate under Allied direction. We couldn't get anything of that kind and we weren't getting any cooperation from the Allied Control Council. And the discussions with the Soviets indicated quite clearly that they weren't going to cooperate. I don't recall the exact date in July, but it's all in the records.

Those records were very carefully put together. I kept all of my files and I had an excellent secretary in Washington who later put them in first rate order. They were all transferred to the Archives in quite good shape.

Two things happened at that stage. I don't know how much discussion there had been about this. Like I say, we never had any delegation meetings. But it was at that point that Byrnes said, "Well, if we can't get everybody to cooperate, we'll cooperate with anybody else who will cooperate with us." This was read by the British as an invitation to get together and did result in their offering to do this and the negotiation of the Bizone Infusion Agreement, which was worked on in Washington and in Germany over the coming months, and finally concluded in December.

Q: December of 1946?

REINSTEIN: December of 1946. Substantive decisions being worked between Washington and New York.

Q: When did the French zone get to be part of it?

REINSTEIN: The French zone came in bit by bit. As I say, they kind of waffled. They had communists in the government and they were trying to play a position of being intermediaries between the U.S., and the U.K., and the Soviets. Although as we proceeded with the technical drafting, we increasingly found the French sliding over to our direction, particularly when we got the Marshall Plan stage. They had to come along. Although, you know, in the Marshall Plan we had bilateral agreements between the three military governors and the United States. The U.S. one was signed by General Clay on the German side, and Bob Murphy, his political advisor, for the U.S. side.

Q: Perfectly reasonable.

REINSTEIN: Until the establishment of the Federal Republic in 1949 there were still, technically, some separate organizations. For instance, we had a joint export-import agency in my zone. The French had an organization to perform the same functions in their zone. In fact, though, we had a working arrangement. As I say, it was the Marshall Plan that really crystallized it. They had to cooperate at that point. Otherwise, they wouldn't have gotten any help in their zone.

Q: Or themselves, or not as much.

REINSTEIN: Well, just what we would have done in that case, I'm not quite sure. That problem, I don't think, arose.

Well, going back to 1946. We went through the peace conference with a repetition of all the same things. You know, we settled a few things, but a repetition of all the same record-playing. You just had a larger cast of characters in the peace conference. It dragged

on to the point that it was up against the starting date for the first United Nations General Assembly, so they asked the General Assembly to postpone its meeting. We still didn't get anywhere and, finally, they decided this was really getting to be a scandal. It was holding up the creation of a world organization. So they just gave instructions to committees to wind up their work by a certain time and we just sat night and day until we went through all the process of getting out committee reports with disagreements, and then going up to general conference and holding the same positions in the general conference without a final solution.

You asked a question at some point about when did we get the Italian Treaty. We finally got it, and the others, in December. I think Mr. Byrnes finally told Molotov that he was tired of discussion. So at that point, they decided to come along and we got instructions, "Wind the thing up." So then we went into the hectic final negotiations. They tried tricks on us.

Q: Was there any other treaty agreed to at that time?

REINSTEIN: Yes, all the treaties.

Q: All except Germany's?

REINSTEIN: No. Germany, Austria, and Japan. I think this is very important, the concept which Byrnes and, I think Ben Cole, had, whether Foster Dulles at one stage. Foster was at the London conference in 1945. But it 1946 it was Tom Connally and Vandenberg who were the advisors. We had bipartisan advice. In September there was a big uproar when Wallace made a speech which was widely construed as beginning a willingness to deal with the Soviets. [Transcribers note: This paragraph was very difficult to make out due to low volume on the tape, but I tried to catch part of it.]

Q: He was still Secretary of Commerce, wasn't he?

REINSTEIN: I'm trying to remember. He was Vice President at one time.

Q: He was Vice President under Roosevelt in his third term. Then when Harry Truman became President, he was in one term. But Harry Truman became President in 1944.

REINSTEIN: There were no vice presidents in this particular time period.

Q: Not in 1944, no.

REINSTEIN: 1946.

Q: 1946, he was Secretary of Commerce because I used to have meetings with him and I remember.

REINSTEIN: He made this speech.

Q: I remember his speech.

REINSTEIN: Byrnes, Connally and Vandenberg decided to get on the phone and tell Truman that he had to disavow this, so Harry Truman fired Wallace. But they threatened to come home. And at that point, I was sitting as a U.S. representative with Vandenberg as my political advisor in this meeting. And he left that meeting to go back to the Maurice Hotel. I guess that's where they made the telephone call from, where our delegation was housed. Anyhow, they went and had it out with Truman on the telephone because they felt they had been completely undercut by the revelation in Paris. And so we had that thing going on.

As I say, we finally got to New York where we met at the Waldorf Astoria. The American delegation lived there.

Q: Your next venue was New York so you wouldn't interfere with the functioning of the U.N.?

REINSTEIN: It was New York so we could deal with both of these things at the same time. And in the case of the Soviets, they had to use the same personnel. They had a hell of time running back and forth between Lake Success and the Waldorf Astoria. They finally caved in to Byrnes pressure and the treaties were all agreed to and the final drafting and tidying up had to be done. I was left with the team in New York to do that.

Then I received a phone call from Washington. The Soviets had also agreed, when they finally caved on the treaties, that we would start discussions in London at the beginning of 1947 on Germany and Austria.

Q: But the treaties were made with Italy and which other countries?

REINSTEIN: Italy, Hungary, Romania, Bulgaria. The original theory, I think, of the strategy which the Americans were following, and I think this was the brainchild of Ben Cole, maybe, was that this should have been the easier one to deal with.

Q: Yes, that's right. You knock off the small ones first.

REINSTEIN: Then you would work your way toward the Germans and the Japanese. When they began to realize this wasn't working, Byrnes tried to see whether he could pin something down to give us a basis for beginning to move forward. He made his offer of the treaty for the demilitarization and disarmament of Germany. This was made in Paris at one of those foreign ministers' meetings. I think it was in the July meeting.

There was one thing about developing of the policy on Germany which I have left out. The State Department had begun to put together a very competent economic team under Will Clayton. Well, I don't know whether I mentioned the part of the State Department.

Q: This belongs here. That's fine.

REINSTEIN: And they began evolving policy. Clayton had in his personal office Emil Dupres, who had been in the OSS during the war. I think I mentioned that on two occasions in my life I substituted for him when he didn't appear at the State Department. Once when he didn't come from Italy in the OSS during the war and I became temporarily, and then permanently, the financial advisor in the State Department and concluded that having Financial Affairs deal with seven different offices didn't make too much sense. They created OFD and it still exists under Nino Colicularo.

They had a very competent staff of Office of Occupied Area Economic Affairs, I think it was called. They were very bright people. They had Charlie Kimmelberger, Walt Rostow, Charlie Dewilda, really a very competent, bright staff. And we later split that into Japan-Korea and Germany-Austria.

You were asking about Ed Martin. I don't know what he had been doing. The original plan was to bring him in as another special assistant to Clayton to perform the role for Japan that Dupres was performing for Germany. I don't know whether he really got involved in Austria or not. I remember people talking about Martin as being the Japanese Emil Dupres. Emil Dupres was a big, tall fellow, slightly hunched over, with a great, big nose, black hair and black eyebrows. I had this mental picture of this tall guy whose eyes were a little bit slanty, but who looked like Dupres and wore a kimono. Anyhow, that was Ed Martin. Well, you get these funny pictures.

The final thing is that, also going on simultaneously here, was bizone fusion agreement. The negotiators of that agreement would come up to New York and get authorization and they would finally sign the agreement. Sometimes moved these things around for strange reason and it didn't often work. We had that happen the following year.

Anyhow, I was told to return to London and start work on Germany and Austria. I then had a very curious experience with the State Department. We had two separate negotiations on that. One with the deputy for Germany, which was Bob Murphy, and the deputy for Austria was Mark Clark, who was our commander in Austria and a representative on the Allied Council Commission.

Q: Allied Control Commission.

REINSTEIN: That was Germany. Austria was the Allied Commission, I think. They didn't use the word control. On of the things I think was also going on was, during this entire period, the Soviets increasingly were fastening their controls over the Eastern European countries.

Q: That Balkans, and Poland, and Czechoslovakia. They didn't take over Czechoslovakia until 1948.

REINSTEIN: That's right. Well, Bulgaria never was a problem for them, I don't think. Bulgarians do what the Russians tell them to do.

Q: The Bulgarians viewed them as liberators until they lost all their possessions to the Russians.

REINSTEIN: Remember, in Bulgaria you started with a coalition government which included important democratic elements.

Q: The Hungarians had that.

REINSTEIN: The Bulgarians had it, too. And they overthrew their government in Romania first. The guy with whom I negotiated on Italian reparations went down and supervised the reorganization of the Romanian Government.

Then Bulgaria was next. And in the case of Bulgaria, there were two prominent leaders, you know, remnants of old parties that were the real stuff; I mean, the Peasant's Party and some other party, maybe Social Workers, or something like that. One of them, his name was Petkov, and I can't remember what the name of the other was. They were kicked out and they were either shot or hanged. This created the first real public uproar against the Soviets. For instance, in the French Parliament the communists, at one point, were shouted down by people shouting out, "Petkov, Petkov," and not allowing them to talk. These guys, I guess, were known.

Q: They were known outside.

REINSTEIN: They were known outside in the socialists international, probably. So that happened. I don't think they moved in on the Hungarians until 1947.

Q: That's right. I had a little bit to do with the Hungarians and commercial policy at that time. They had a Small Landholders Party which was trying to survive and which did not survive for obvious reasons. We were trying to help Mr. Nagy. And then there was always another Mr. Nagy. But I never thought that had any prospect of success because I knew the Russians would eventually close it off.

REINSTEIN: Well, they did. During the peace conference stage, I dealt with the head of the Hungarian Bank, who was a very, competent, decent guy. And interesting things happened. For example, one of the things that I discovered was the Soviets wouldn't tell their own stooges anything about what was going on. I developed a relationship with a Czech who was one of the Western Communists, the guys who were in London. I would

brief him on what was happening and I developed a quite good relationship with him. They couldn't talk to the Soviets about their problems.

The peace conference was getting completely bogged down. The other countries had been invited to make comments and proposals about the texts that were under consideration. So large numbers of amendments were to be tabled by them and the foreign ministers said, "What the hell do you do with all these things." It all became extremely complicated. And so they put the Four Power structure back into operation and instructed the deputies to take these things up and take them up in committees. And so we began to take these things up in committees.

There were so many of them in the economic field that we had a sort of general instruction which was if we had a staff it would be rejected. But if we didn't have a complete policy then try to see if you could agree on how to deal with these things. Well, in some cases, it was terribly difficult to understand what the problem was.

End of interview