

No. 1123

**UNITED STATES OF AMERICA
and
FRANCE**

Memorandum (with the United States-French Report of the Troop Pay and United States Armed Forces Procurement Subcommittee and memoranda annexed thereto) constituting an agreement relating to the recommendations contained in the aforementioned report. Signed at Washington, on 28 May 1946

Official texts of the memorandum: English and French.

Official text of the other documents: English.

Registered by the United States of America on 2 April 1951.

**ÉTATS-UNIS D'AMÉRIQUE
et
FRANCE**

Mémoire (avec le rapport conjoint présenté par le Sous-Comité de la solde des troupes et des achats des forces armées américaines en France et mémoires y annexés) constituant un accord relatif aux recommandations contenues dans le rapport susmentionné. Signé à Washington, le 28 mai 1946

Textes officiels du mémoire: anglais et français.

Texte officiel des autres documents: anglais.

Enregistré par les États-Unis d'Amérique le 2 avril 1951.

No. 1123. MEMORANDUM CONSTITUTING AN AGREEMENT¹ BETWEEN THE UNITED STATES OF AMERICA AND FRANCE RELATING TO THE RECOMMENDATIONS CONTAINED IN THE JOINT UNITED STATES-FRENCH REPORT OF THE TROOP PAY AND UNITED STATES ARMED FORCES PROCUREMENT SUBCOMMITTEE. SIGNED AT WASHINGTON, ON 28 MAY 1946

TROOP PAY AND MILITARY PROCUREMENT

The representatives of the Government of the United States of America and the representatives of the Provisional Government of the French Republic have accepted the recommendations contained in the joint United States-French Report of the Troop Pay and United States Armed Forces Procurement Subcommittee.

The aforementioned report, and the Memorandum of Agreement² between the Government of the United States and the Provisional Government of the French Republic Regarding Expenditures of the United States Armed Forces in French Territory, contain the arrangements and procedures for the settlement of past and future troop pay and procurement of the United States Armed Forces referred to in paragraph 4 of the Memorandum of Understanding³ of this date between the Government of the United States and the Provisional Government of the French Republic Regarding Settlement for Lend-Lease, Reciprocal Aid, Surplus War Property and Claims.

Washington, D. C.

May 28, 1946.

For the United States side :

Harold GLASSER
Carl PFORZHEIMER

For the French side :

Guillaume GUINDEY

¹ Came into force on 28 May 1946, by signature.

² See p. 141 of this volume.

³ See p. 59 of this volume.

REPORT OF TROOP PAY AND ARMED FORCES PROCUREMENT SUBCOMMITTEE

1. The War Department has submitted the attached report (Memorandum I) showing the U.S. dollar liability to France for net troop pay as approximately \$29 million and for open market procurement not eligible for reciprocal aid as approximately \$2 million, both for the period from D-Day to December 26, 1945.

2. The net troop pay was small in amount because of the large volume of local currency returned to the Army by Army personnel and by others enjoying the privileges of the PX and other Army service organizations.

The detailed reasons explaining the modest amount of troop pay were discussed by the Subcommittee and are embodied in the attached memoranda by the War Department and the French representatives (Memoranda II and III).

3. The French and U.S. representatives on the Subcommittee agree that the extremely small amount of U.S. dollar liability on troop pay account was a result far different from that which had been anticipated at the time when the financial agreements concerning lend-lease and civilian supplies were made with the French in 1943 and 1944.

It was agreed by both sides of the Subcommittee that the small amount of U.S. dollar liability on troop pay account is a factor to be considered in making the over-all settlement of the war accounts.

4. In view of the above, the French representatives on the Subcommittee have agreed to recommend that the War Department report (Memorandum I) be accepted as the basis for the settlement of the troop pay account as a part of the over-all war settlement.

5. The French Government has estimated that U.S. Army procurement through the official French office of Aid to the Allied Forces (AFA) amounted, for the period from September 2, 1945, to December 26, 1945, to five billion francs, or approximately \$100 million at the old rate of exchange. (See attached Memorandum IV.)

The U.S. liability to the French for procurement since December 26 has been estimated at \$20 million to April 1, 1946.

Both the U.S. and French representatives on the Subcommittee concur in these estimates of U.S. Army procurement with the understanding that

the actual dollar liability of the U.S. for such procurement will be determined on the basis of the French Government's presentation of appropriate documents in a form acceptable to the U.S. Army, as has been, or may be, agreed upon between the U.S. Army and the French authorities.

6. The U.S. has a liability of \$96 million for the francs in the possession of the U.S. Army after the date of conversion. The French have an obligation to convert into dollars any part of the francs not used, in accordance with the provisions of Paragraph 8(C) below.

7. Against the U.S. obligations the U.S. has advanced to the French on troop pay account \$120 million. The net result, therefore, is as shown in the following table :

U.S. Liabilities to French

	<i>(Millions of dollars)</i>
1. Net troop pay for period up to Dec. 26, 1945 (at old rate of exchange)	29
2. Direct open market procurement prior to Dec. 26, 1945, not eligible for reciprocal aid	2
3. Procurement through French (AFA) from Sept. 2 to Dec. 26, 1945	100
4. Estimated procurement from Dec. 26, 1945, to April 1, 1946	20
5. Francs acquired on Dec. 26, 1945 (at new rate of exchange)	96
TOTAL	247

French Liabilities to U.S.

1. Advances to French on troop pay	120
2. Obligation to convert into dollars excess francs held by Army	76-96 ¹
TOTAL	196-216
<i>Net estimated U.S. liability to French</i>	31-51

8. *Suggested procedure for settlement.* In order to avoid difficulties with the over-certification of troop pay, it is recommended that the following procedure be adopted for the settlement of the cash accounts by the U.S. and French Governments :

(A) The U.S. Army will apply the over-certification of net troop pay dollars (approximately \$91 million) and a small sum of additional dollars (approximately \$7 million) to pay for the francs which the Army held on December 26 after the change of the rate of exchange (approximately \$96 million) and non-reciprocal aid open-market procurement (approx-

¹ This estimate is based on the assumption that net troop pay between Dec. 26, 1945, and April 1, 1946, will not exceed \$20 million.

mately \$2 million). For additional currency needs of the U.S. Armed Forces the U.S. will pay in dollars.

(B) The U.S. Army will pay the French Government for military procurement after September 2, 1945, either in dollars or by tendering the francs which it holds, to the extent that such holdings are in excess of its current needs for troop pay.

(C) The French Government will repurchase against dollars, at the rate at which they were sold to the Armed Forces, the francs presented by the U.S. Armed Forces, but in order to avoid net troop pay negative in amount, this obligation will be subject to the qualifications to be contained in a revised currency agreement.

(D) In order to minimize the transfer into dollars of francs now being held by the Army in excess of its current needs, practical steps will be taken for using these francs for the repayment of the U.S. Army liability for military procurement as estimated in paragraph 5 above.

9. The French have submitted a statement on the Mendès-France Agreement and a proposal for its liquidation (Memorandum V).

MEMORANDUM I

STATEMENT BY THE WAR DEPARTMENT ON TROOP PAY AND PROCUREMENT

FRANCE

TROOP PAY AND PROCUREMENT

(Use of French Franc Currency by the U.S. Army— D-Day to C-Day)

Item	Millions	
	Francs	Dollars
1. Total Franc Advances	20,984	423
<i>a.</i> Through SHAEF/ETO	(18,399)	(371)
<i>b.</i> Through ETO/SOLOC	(2,370)	(48)
<i>c.</i> Through Captured Enemy Funds	(215)	(4)
2. Francs Returned to French (SHAEF/Direct)	7,478	151
3. Net Advances	13,506	272
4. Total C-Day Balance	11,432	230
5. Total Net Francs Spent Locally	2,074	42
6. Francs Spent by U.S. Army for Direct Local Procurement to 2 September 1945 Chargeable to French as Reciprocal Aid.	541	11
7. Total Due French	1,533	31
8. Direct Local Procurement	81	2
<i>a.</i> To VJ-Day Not Eligible as Reciprocal Aid	(29)	
<i>b.</i> VJ to C-Day	(52)	
9. Net Troop Pay	1,452	29

MEMORANDUM II

WAR DEPARTMENT STATEMENT ON THE MAJOR REASONS FOR THE MODEST LEVEL OF NET TROOP PAY

1. The mechanical limitations of the official accounts, maintained strictly pursuant to US/UK/French currency agreement of 15 August 1944. Thus, U.S. Army monthly French franc Currency Reports reflect :
 - a. On the disbursements side, *only* French francs used for pay and allowances to U.S. military personnel and such civilians actually paid by the military establishment.
 - b. On the receipts side, *all* cash collections taking in French francs for services rendered through all Army facilities (such as PX's, messes, clubs, canteens, saletores, commissaries, etc.) and administrative services rendered (such as personnel transfers, money orders, War/Savings bond purchases, currency conversions, etc.) not only for U.S. military personnel but also for the following groups, aggregating several hundred thousand individuals :
 - (1) U.S. civilians, employed by other U.S. departments and agencies, obtaining francs from sources other than WD dollars and from other than U.S. Army disbursing officers;
 - (2) Members of the military forces of the Allies, obtaining francs from the French Government itself and/or from non-dollar sources such as sterling, Belgian francs and other foreign currencies;
 - (3) French civilians employed by or affiliated with the U.S. and Allied military establishment, obtaining francs directly from the French Government itself.
2. The U.S. Armed Forces' observance of the overall policies of the French Government designed to preserve to the maximum extent, and revive as rapidly as possible, their domestic economy after five years of Axis occupation.
 - a. Implementation by the U.S. Armed Forces of this basic French policy was predicated upon Memorandum No. II "Relating to Currency" of 15 August 1944, and the "Memorandum of Agreement between Supreme Commander, Allied Expeditionary Forces, and the Military Delegate under the Ordinance of 14th March 1944, of the French Committee of National Liberation"; Section IV, paragraph two thereof reading in part, "... troops will be encouraged to make the maximum use of military canteens"; and paragraph three which reads, "Troops will be encouraged to reduce to a minimum their drawings on pay. Every effort will be made to induce them to invest." Accordingly, Allied troops were officially encouraged to spend a minimum in France.

- b.* Maintenance by the French Government of a 50 to 1 franc/dollar rate of exchange resulted in souvenir, gift and luxury item prices extremely unfavourable to military personnel; and U.S. troops, accordingly, could not spend freely. In addition, these luxury items were occasionally acquired in exchange for cigarettes, candy, soap, etc.
- c.* During Phase One (D-Day to VE-Day) general French hospitality minimized the need for military personnel to expend their own funds. Many comforts, local additions to unit messes and entertainment were provided by the French, either gratuitously or in exchange for eagerly sought items such as cigarettes, chocolate, soap, etc. General desire of French communities to show appreciation upon their liberation, provided units immediately behind the combat lines with many gratuitous goods and services.
- d.* Various French Ministries cooperated, from the liberation of Paris forward, with the Army Post Exchange system in order to increase production of French souvenir and gift items for sale to military personnel. The Post Exchange system imported into France to aid in this objective, millions of dollars worth of supplies and raw materials not available in France. Purchases by the Post Exchange system, from the proceeds of sales to the military, flowed freely into the French economy. This resulted, however, in additional U.S. drawn French francs remaining within, and non-dollar source French francs flowing into, the U.S. Army Post Exchanges.
- e.* During Phase Two (the redeployment period) the French Government actively negotiated with U.S. representatives in order to offset the difficult rate of exchange. Adjustment francs totalling 850 francs per man were issued monthly to those permanently stationed in France and to all U.S. military personnel arriving in France on leave, temporary duty, or upon redeployment. As pointed out to the French Government in June 1945, not being distinguishable from the pay and allowances drawn in francs, some of these adjustment francs flowed back into dollars in the form of cash collection as set forth in paragraph 1 *b* above. Tax exemption was given to the Post Exchange system on all of its ever increasing volume of French merchandise; and tax exemption was offered the individual American soldier under certain export conditions. Finally, there was inaugurated an extensive program of free tours, educational opportunities and special group entertainments.

All of the foregoing conditions described in *a* through *e* above reduced the need for American military personnel expenditures in the French local economy.

3. Extra-legal activities of military and civilian personnel in their relations with French citizens. The U.S. Armed Forces inaugurated currency control shortly after VE-Day and is continuously strengthening the control system. It should be noted:

a. The sale of U.S. Government property of material in short supply in France was eliminated by speedy joint action of military and civilian police. However, the seriousness of having French civilians participate in black market operations may not have been brought home as effectively as possible.

b. The very understandable desire of French citizens for a few of life's material comforts provided a great temptation to all Allied personnel having access to Post Exchanges and Quartermaster stores.

c. Although a premium over the official rate was consistently quoted for U.S. currency in the open market, owing to the very restricted availability of dollar notes in the lowest denominations sought by civilian operators, dealings of this nature were extremely limited.

In any event, all of the foregoing types of transactions have resulted in a substantial "value received" on the part of the French population, and represent enhancement of the French economy for which a certain amount of dollars would have had to be spent.

MEMORANDUM III

MEMORANDUM BY THE FRENCH REPRESENTATIVES ON THE AMOUNT OF NET TROOP PAY

It is difficult to discover all the reasons why the amount of net troop pay was so low, because the accounting procedure agreed upon in London on August 25, 1944, does not appear to have been exactly followed.

Memorandum II by the War Department contains an accurate analysis of most of those reasons, and as a whole gives a fair story of what happened.

It should be emphasized however that one of the main reasons for the low amount of the net troop pay is to be found in the fact that a very important quantity of U.S. Army supplies was sold for francs to the French population through various channels, and specially through sales by individual members of the American forces at black-market prices. Therefore the needs of the U.S. Armed Forces for French currency were covered to a large extent by francs obtained under conditions other than those foreseen at the time of the conclusion of the Agreement of August 25, 1944.

France has thereby lost an important source of dollars, amounting possibly to several hundred million dollars, which both American and French authorities had expected her to receive. This loss has been but slightly balanced by the advantages which resulted from the sale to the French population of various products, as those products were seldom essentials and were as a rule sold at abnormally high prices and distributed under conditions which have further upset the French economy.

MEMORANDUM IV

STATEMENT OF FRENCH GOVERNMENT ON ESTIMATE OF GOODS AND SERVICES FURNISHED TO THE U.S. ARMED FORCES BETWEEN SEPTEMBER 2 AND DECEMBER 26, 1945

According to French Government estimates, expenditures for the procurement of supplies, facilities and services for the U.S. Army in France between September 2, 1945 and December 26, 1945 amounted to 5,000,000,000 francs, that is approximately \$100,000,000. This amount was calculated on the basis of the rate of expenditures by the French Government for reciprocal aid during the months that preceded September 2, 1945, and corrected to take into account the reduction of American Army personnel during that period, as well as the decrease of their needs following the termination of military operations.

MEMORANDUM V

STATEMENT BY THE FRENCH REPRESENTATIVE ON THE APPLICATION OF THE EXCHANGE OF LETTERS OF MAY 29, 1944

1—According to the letter sent by Mr. Mendès-France to Mr. Morgenthau on May 29, 1944, the amount of dollars to be paid by the U.S. Government for the francs used for the pay of the troops should be equitably adjusted, giving particular consideration to the present rate of exchange.

The rate of 50 francs for 1 dollar which has been used as a basis for a provisional settlement should not be kept for a definite settlement, since it would be of too great disadvantage to the U.S. Government. On the other hand, the rate of about 120 francs for 1 dollar is still less to be considered as it would impose an undue burden on the French Government. It must be remembered that this latter rate has been set by the French Government with a view to leaving a margin for an eventual additional rise in French prices. Besides, it must be recalled that, at the time of the landing, French prices were much lower than they are now and that since then they have been steadily increasing. Taking into consideration these various considerations, it seems that an equitable adjustment for the net amount due for the pay of the troops could be made on the basis of 75 francs for 1 dollar.

2—As to the effect of Mr. Mendès-France's letter on the payment of supplies and services furnished by the French Government to the U.S. Army from Sept. 2 to Dec. 26, 1945, it might be discussed whether the wording and the spirit of the said letter cover such items. Without raising such a discussion it should be observed that the billings made out for that period by the French Government to the American Government are computed on the basis of French official prices and tariffs, especially for wages and transportation. When said prices and tariffs are compared with the American prices and tariffs, it appears that the 50 franc rate would be more adequate for the supplies and

services than for the pay of the troops. An adjustment, if desired, should be arrived at on the basis of a rate intermediary between 50 and 75 francs.

3—As a whole, the American Government owes to the French Government, for the period preceding the change in the French rate of exchange, the equivalent in dollars of about 5 billion francs for supplies and services and, according to American figures, the equivalent in dollars of about 1.5 billion francs for the pay of the troops and other expenses non eligible as "reciprocal aid." These figures, at the rate of 50 francs for 1 dollar, correspond respectively to about \$100 million and \$30 million, i.e., a total amount of \$130 million.

Moreover, the French Government has disbursed for the U.S. Army a further amount of about 2.8 billion francs for bonus and various facilities; therefore, the U.S. Army has received from the French Government, in cash or otherwise a total of 9.3 billion francs. If the American Government should pay 130 million dollars as a counterpart, it would correspond to an average rate of about 70 francs for 1 dollar for all the expenses of the American army.

Such a result would seem to realize the equitable adjustment contemplated in Mr. Mendès-France's letter.