

THE UNDER SECRETARY OF THE NAVY
WASHINGTON

4 May 1943

Dear Henry:

I am returning the file on the Martin plant.

Captain Eubank had quite a long talk with Glenn Martin — started at 5 minutes and went to 1½ hours. I think it was a profitable visit in many respects.

I will use this opportunity to congratulate you on the outcome of the campaign. From every indication I have, it was a splendid job of merchandising. I hope that a lot of small buyers got the bonds. From what I can learn in New York, this was true.

Sincerely yours,

Forrestal

James Forrestal

Honorable Henry Morgenthau, Jr.
The Secretary of the Treasury
Washington, D.C.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 5, 1943.

TO: Secretary Morgenthau

FROM: Emerson Waldman

As per your instructions I interviewed Martin Aircraft workers in the nearest thing to a natural, home atmosphere that is possible in Essex, Md., and in the trailer camps about the plant. (Could not attend union meeting due to fact that none was being held over weekend.) I "listened" to about 20 workers -- neither arguing with them nor asking any "leading" questions which might cause them to feel that they were expected to give certain answers. Following is a summation of their reactions:

- 1) They'd rather buy Bonds themselves than through the payroll savings plan.
- 2) All quoted "higher prices" as the reason for not buying Bonds or for not buying more Bonds than they were buying.
- 3) They said that they were buying Bonds or -- if they were not buying Bonds -- they should buy Bonds for their own futures and to "help win the war."
- 4) All expressed a willingness to do whatever the Government wanted them to do "to help win the war." It was obvious, from this, that the Martin plant workers would buy many more Bonds (their participation in the payroll savings plan is 40% at two per cent of the gross payroll) if there was a "live"

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organization of foremen and/or management within the plant to stimulate and direct and explain the immediate necessity of buying Bonds with every possible dollar through the payroll savings plan.

5) All those with whom I spoke mentioned that there were Bond-buying booths within the plant. Only a few mentioned that their foreman had approached them on the idea of buying Bonds through payroll savings. Those who told of being approached by their foreman said that he had "asked them whether they wanted to buy Bonds through the payroll savings plan". The foreman had not urged them to do so. The foreman had not asked them to invest any certain percentage of their pay. The foreman had mentioned that, if they did not want to buy Bonds through payroll savings, they could buy their Bonds at the Bond-booths in the plant.

6) None of the workers with whom I spoke had any realization of or interest in inflation. None had any idea of the importance of Bonds in helping to keep prices down. None -- as a matter of fact -- seemed to have any idea of the importance of his individual job in the war. Strangely, none introduced the war into the discussion other than to say that buying Bonds "helped to win the war." In no case was there any sense of urgency either about their jobs or in buying Bonds to aid the men in the front lines.

7) The main thought motivating those with whom I spoke was equality of wages with others in the plant; with other workers in other aircraft plants.

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In addition to speaking with workers of the Martin plant, I interviewed minor executives of the CIO, in Baltimore, who had had contact with workers in other airplane and war plants. Also, I spoke with individuals who worked in other war industries in the Baltimore area. Their reactions on the war and on Bond-buying were much keener than that of Martin plant workers.

1) A woman whose husband worked at the Bethlehem steel plant in Baltimore said that her husband was a member of the plant's ten per cent club ... that they were keeping on with their Bond-buying through the payroll savings plan even though prices are rising and they have five children to feed and care for. They have 25 Bonds and "no matter the sacrifices the war effort is worth it to me." She said that foremen contact all workers at the Bethlehem plant and contact them regularly after they have signed up, to get them to increase their allotments.

2) Herewith some reactions and quotes, following conversation with CIO executives: a) "I never saved any money before I started buying Bonds. Now I haven't any money to spend but I've got plenty of Bonds. It's a good feeling ... War Bonds give American workers another reason to fight harder and work harder. They mean a better future..." Speaker expressed thought of shareholder in democracy idea ... partners with Uncle Sam idea ... said "War Bonds give you a feeling that you are a part of America that you own a hunk of these United States." b) One of these CIO men asked about the rate of "cash-ins" of Bonds and I gave him the figures. It seems that

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the story everywhere is that Bonds have been cashed in at a tremendous rate. The CIO men were pleasantly surprised at the figures I gave them. They said that they could understand why such a small percentage of Bonds was being cashed in: "if you've got it in mind to buy something ... it takes too long to get your money out of Bonds ... so you don't bother and you don't buy that something. And there's the moral reason, too ... nobody wants to think of himself as a cheap slacker who makes out he's buying Bonds up there with the rest and then is cashing them on the side. And, then, there's the idea of the future ... a guy thinks of his Bonds for after the war is over when he'll maybe want to start up a business of his own. A \$25 Bond means a lot more than \$18.75 to a worker..." c) One of the CIO men said that "workers want to buy all the Bonds possible but prices are higher, wages are levelled off, taxes are going up..." This man spoke as a result of his experiences in covering five states which centered on the Maryland area. d) Another CIO executive gave an interesting insight on why many workers are holding onto their "cash" instead of investing every possible dollar in Bonds. Said he: "There was a fellow named Smitty, who worked in Glen Martin's Number two plant. He was a union steward. Smitty saved his money. He didn't spend on anything he didn't have to. When Smitty had saved up \$500 he quit his job. He said that his \$500 was more than his father -- a farmer -- had been able to save up in a lifetime. So, Smitty

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said, he was going home (to North Carolina) and buy himself a farm with his \$500. 'I'm going to retire for the rest of my life. I won't be drafted because I'm going to be a farm worker....'" e) Another CIO representative, who had come to Baltimore from Buffalo (Curtis-Wright plant) only two weeks before, said: "The workers in the Curtis-Wright plant, where I worked as a tool-maker, don't like the payroll savings plan. This plan is run by the financing branch of the company... and it takes anywhere from two to five months for a worker to get his Bond, after he's paid for it. The workers feel that the financing outfit is using the money they've paid in for Bonds as 'loan money' -- money which this financing branch lends back to the worker and for which the financing outfit charges him interest ... about 2% a month." This same CIO man -- who is attempting to organize the Martin plant workers -- said that, perhaps, one of the reasons the Martin workers were not buying more Bonds was due to the fact that their wages were lower than the wages in Baltimore's Eastern Aircraft plant... for the same work. This CIO representative also said that the main reason, though, for Martin workers not buying more Bonds through payroll savings, with a higher percentage of their pay, was lack of any systematic campaign within the plant, lack of any organization within the plant to educate the workers to the meaning of War Bonds, to the meaning and workings of the payroll savings plan. Here he brought the conversation back to the Curtis-Wright plant in Buffalo, citing this plant where wages are essentially the same as at Martin as an example of what he meant. In spite of feeling within the

Curtis-Wright plant against the handling there of the payroll savings plan, the workers were buying Bonds through this plan: "The foreman contacts every new worker, the day he starts work, and asks him to sign up in the payroll savings plan... giving him a pep talk on Bonds. Three or four times a year, the foreman contacts every one of the workers in his group and asks for an increase in the worker's allotment for Bonds.

Following are individual reactions by Martin plant workers:

1) The wife of a Martin plant worker -- interviewed at a trailer camp, her home, near the plant -- said "No ... I'm not buying and my husband is not buying Bonds. I wouldn't mind if he bought Bonds out of his pay at the plant. He's just never done it ... Yes ... they ask you at the plant if you want to buy Bonds out of your pay ..."

2) Husband and wife (husband works at the Martin plant): They were not interested in discussing Bonds. Wouldn't say whether they were buying or not. Wife said "they have a booth at the plant."

3) Martin plant worker from North Carolina ... is buying Bonds "with what I can afford. No ... I'm not buying on the payroll plan. I'm buying them myself. I don't like anybody to take anything 'out of my time.' I like to 'pay it out myself.' I'm buying Bonds and sending them home for my four-year-old son ... and to help win the war."

4) In connection with the above interview it is interesting to note that most of the workers with whom I spoke do not have their wives and families with them -- due to housing conditions and the high cost of living in Essex and other areas near the

plant. "Rooms For Rent" signs mean one-fifth of a room is for rent ... there are five beds in most of these "rooms". Often, these rooms -- in private homes -- are fixed-over attics.

5) A Martin plant worker -- about 40 years old -- said "no payroll savings plan for me. I buy Bonds when I get the money ... when I have the money to spare. I got obligations at home ... the wife. That comes first." Said he had been contacted by the foreman on buying Bonds through payroll savings. Didn't like the plan because -- in addition to above reasons -- "you got to wait from a couple of months to five months before you get your Bonds." As this man got to talking he "warmed" to the subject of War Bonds -- in the abstract -- saying that he's got two brothers in service. And he knows what War Bonds do to help them. At one point in the conversation he said that he had "a few Bonds", at another point in the conversation that he had no Bonds. He said that he "wasn't going to work today ... I'm taking the wife to Baltimore" (that was on Saturday). "When I get well I'm going to buy some War Bonds ... they'll help my brothers, I know." 6) A descendant of a man who arrived in America in 1732 was the only one who seemed to have an understanding of the part his job was playing in helping to win the war ... in the part his War Bonds were playing to help win the war. He said that there was no campaign or drive in the plant to influence him to buy Bonds through either the payroll plan or at the booth.

He'd heard about the payroll plan over the radio (Almost all the Martin workers mentioned hearing about War Bonds over the radio. Due to dislocated housing conditions they depend on the radio for their news as well as their entertainment.). He was buying Bonds with five per cent of his pay. He was paying income taxes and the Victory tax, and would pay more and buy more Bonds "if necessary". Said he: "If we lose the war I lose everything. Money in Bonds helps to win the war ... War Bonds are the best investment I can make ... because if anything is good they are. If we lose the war everything isn't worth anything ... anyway ... I'm going back to the farm after the war. There won't be any airplane jobs like this after the war... War Bonds will give me a stake on the farm after the war ... It's the only way to save money ..." He mentioned, as the reason he was not putting more of his pay into Bonds, higher prices. "It's so hard to save a penny these days ..."

7) A man who'd been working at the Martin plant for eight months said that he had not "started buying Bonds yet. Been sick ..." (almost all of those who were not buying Bonds or were buying very few Bonds mentioned being sick or that their wives or other relatives were sick.) He knew very little about War Bonds and said that nobody had asked him to buy Bonds out of salary, through the payroll plan.

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8) This Martin plant worker had been buying Bonds himself. Said he didn't like the payroll plan because he liked to see his Bond when he paid over his money. He wasn't buying Bonds now and had cashed in all his Bonds ... to pay for his wife's illness. He'd start buying again, when his wife was well and he'd paid all his bills. "Bonds help to win the war ... everybody is interested in buying Bonds ... everyone at home is willing to put into War Bonds and taxes all that the Government feels is necessary to do the job ..." He had no ideas on whether a worker ought to buy Bonds with ten or any per cent of pay ... idea was "what a man can afford ..."

APRIL FINANCING

(In millions)

	Cumulative To May 3	To May 4
Funds from banking sources:		
Treasury bills	\$ 800	\$ 800
7/8% Certificates	2,138	2,138
2% Bonds	2,039	2,039
Total banking	4,977	4,977
Funds from non-banking sources:		
7/8% Certificates	3,077	3,094
2% Bonds	2,757	2,806
2-1/2% Bonds	3,738	3,756
Savings bonds Series E... 1,132)		
Series F... 127)	1,573	1,662
Series G... 403)		
Tax notes	1,697	1,697
Total non-banking	12,842	13,015
Grand total	\$17,819	\$17,992

May 4, 1943

May 4, 1943

Chic Schwarz

Secretary Morgenthau

Would you please work out a way that any releases that are given out in the future be distributed all through the Treasury - places like Internal Revenue, Bureau of Engraving & Printing - so that all the important people in the Treasury get them. I think certain ones ought to be mailed to key people throughout the country. I think one of the ways would be to start with every Presidential appointee, wherever he is in the Treasury get a copy of Treasury releases. Work that up and see how many people would be involved.

I know in the War Bond organization where there are War Bond releases given out from your office very few of them get around in the War Bond organization -- which is another story.

But work up a plan and submit it to me for my approval. At least I want to know how the people in the Treasury know what's going on, and in many cases I find they don't.

See Schwarz's memo 5/4/43 -

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE May 4, 1943

Secretary Morgenthau

Mr. Schwarz *@*

In response to your memorandum this morning, I have made a survey and find that the majority of Presidential appointees in the Treasury Department receive our releases that emanate from Washington. It would not require more than 50 additional name plates to cover the remaining people in the field. With a second addition of 50 names or thereabouts, we could also cover important officers of the Secret Service, Bureau of Narcotics, Alcohol Tax Unit, and Procurement. I therefore request approval of the following suggestion:

The Treasury's press release mailing list should be expanded to include all Presidential appointees in the Treasury Department. In addition to these, copies should be mailed to the supervising agents of the Secret Service and the Bureau of Narcotics, the district supervisors of the Alcohol Tax Unit, and Procurement officers designated by the director of Procurement. State chairmen and state administrators of the War Savings Staff and chairmen and executive managers of the Victory Fund Committees should also receive regular Treasury releases, in addition to the War Bond announcements which are now sent to them.

*OK
H. J.*

MAY 4 1943

My dear Mr. President:

In accordance with your request of April 26, 1943 I am enclosing a proposed reply for your signature to the letter of Senator Murdock dated April 16, 1943.

Senator Murdock's letter is returned herewith.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The President,

The White House.

Enclosure.

By Mess. Manus 4:15 5/4/43

Orig. file to Bartelt

Copy of file in Diary

EMB/grs
4/29/43

My dear Senator:

This is in reply to your letter of April 16, 1943, regarding section 2 of S. 991, relating to the power to alter the gold content of the dollar within the limits prescribed by the Gold Reserve Act.

I am informed by the Secretary of the Treasury that in the Senate Committee Hearings it became apparent that this provision could not be extended without a long and bitter debate in the Senate, and that even if successful in the Senate, the provision would almost certainly have been defeated in the House. The Secretary of the Treasury is in full agreement with your view that it would have been desirable to continue the power to determine the gold content of the dollar, and he is appreciative of the support you gave to the Treasury position during the Hearings.

You may be sure that I welcome the opportunity to have your views.

Sincerely yours,

Honorable Abe Murdock,
United States Senate,
Washington, D. C.

EMB:RB:nlf 5-1-43.

24/43

THE WHITE HOUSE
WASHINGTON

April 26, 1943.

MEMORANDUM FOR THE
SECRETARY OF THE TREASURY:

FOR PREPARATION OF REPLY
FOR MY SIGNATURE.

F.D.R.

RECEIVED
1943 APR 26 10 11 AM
DIRECTOR'S OFFICE
BUREAU OF REVENUE

COPY

UNITED STATES SENATE

April 16, 1943

The President
The White House
Washington, D. C.

My dear Mr. President:

S. 901, which I enclose herewith, provides in Section 1 for the continuation of the stabilization fund until June 30, 1945. Section 2 provides for the continuation of your powers of devaluation or revaluation of the gold dollar until June 30, 1945. In my opinion, there are no powers more necessary to you in the international picture than these. The stabilization fund and the power to further decrease the gold content of the dollar are absolutely necessary weapons in your hands during the continuance of hostilities, and they become of much greater importance immediately upon the convening of any international conference for stabilization of international exchange.

Secretary Morgenthau appeared before the Senate Banking and Currency Committee this morning. I was disappointed in his apparent lack of enthusiasm in support of your dollar devaluation power. He left with members of the committee the impression that he did not object too strenuously to the deletion from the bill of the dollar devaluation powers provided the stabilization fund was continued. This, of course, is exactly what the Republican members of the committee want. The Secretary, in my opinion, fell right into the lap of Senators Taft and Lanahan. Both of these Senators know that if your devaluation of the dollar power is separated from the stabilization fund they stand a much better chance to defeat it than if the two were considered together.

With my meagre ability I emphatically took the position that the stabilization fund and the power of devaluation of the dollar worked hand in glove together; that one supplemented and complemented the other; that to pass one and not the other would be attempting to fly on one wing. I also pointed out that for this country to rigidly have the dollar tied to gold in the face of an international conference on international exchange would be to place the United States Government at a decided disadvantage with all other countries. If there ever was a time when we needed the flexibility that we have under the stabilization fund and under the dollar devaluation power it is now.

I was just advised a few minutes ago by Senator Wagner that Secretary Morgenthau had requested him to report out the bill with the dollar devaluation section eliminated. The Secretary's position seems to be that a debate in the Senate over the devaluation power might impede his present bond sales. For that matter, the whole thing could go over until his bond drive is completed, and then the bill could be reported with both sections in it.

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There is nothing in your whole administration of which you have a right to be prouder than your monetary legislation. As a member of the Senate I consider it the outstanding achievement of the New Deal.

I am reluctant to bother you while you are getting a few days needed rest, but I would be derelict, looking upon this matter as I do, if I didn't call it to your attention before it is too late. If you agree with me you should contact either Senator Wagner or me by telephone at once.

With best wishes, I am

Respectfully yours,

/s/ ABE HURLOCK

P.S. Since dictating the foregoing, the bill referred to with the dollar devaluation power deleted passed with the assurance of Senator Wagner that so far as he was concerned no further effort in this session would be made to continue your power of devaluation. Evidently there is nothing that can be done at this time concerning the subject of the foregoing letter, but I am sending it on for what it is worth.



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

SECRET

May 4, 1943

MEMORANDUM TO THE SECRETARY:

There is submitted herewith the operating report of Lend-Lease purchases for the week ended May 1, 1943.

Appropriation hearings started this morning for the Lend-Lease budget which covers the period May 1, 1943, to June 30, 1944, and involves \$2,425,478,230 insofar as that portion of the budget is concerned which relates to the purchasing to be done through the Treasury Procurement Division.

Clifton E. Mack
Clifton E. Mack
Director of Procurement



(37861)

SECRET

LEND-LEASE
 TREASURY DEPARTMENT, PROCUREMENT DIVISION
 STATEMENT OF ALLOCATIONS, OBLIGATIONS (PURCHASES) AND
 DELIVERIES TO FOREIGN GOVERNMENTS AT U. S. PORTS
 AS OF MAY 1, 1943
 (In Millions of Dollars)

	<u>Total</u>	<u>U. K.</u>	<u>Russia</u>	<u>China</u>	<u>Administrative Expenses</u>	<u>Miscellaneous & Undistributed</u>
Allocations	\$3084.9 (2961.0)	\$1595.7 (1545.7)	\$1117.1 (1097.1)	\$103.4 (103.4)	\$6.1 (6.1)	\$262.6 (208.7)
Purchase Authoriza- tions (Requisitions)	\$2537.1 (2488.2)	\$1413.3 (1393.1)	\$991.5 (965.0)	\$41.6 (42.0)	-	\$90.7 (88.1)
Requisitions Cleared for Purchase	\$2398.3 (2367.9)	\$1366.4 (1347.6)	\$904.0 (898.6)	\$41.4 (41.7)	-	\$86.5 (80.0)
Obligations (Purchases)	\$2322.7 (2288.7)	\$1330.2 (1314.0)	\$870.9 (855.6)	\$41.2 (41.5)	\$5.4 (5.2)	\$75.0 (72.4)
Deliveries to Foreign Governments at U. S. Ports*	\$1026.0 (1011.7)	\$ 749.8 (744.9)	\$247.7 (238.4)	\$17.6 (17.5)	-	\$10.9 (10.9)

*Deliveries to foreign governments at U. S. Ports do not include the tonnage that is either in storage, "in-transit" storage, or in the port area for which actual receipts have not been received from the foreign governments.

Note: Figures in parentheses are those shown on report of April 24, 1943.

SECRET

EXPLANATION OF DIFFERENCE

The reductions in the China column result from transfers of material in storage to the War Department. This difference was previously absorbed in the transferred amount.

EXECUTIVE BOARD

Secretary of the Board
Washington, D. C.

May 4th, 1943.

My dear White:

I enclose copies of a statement of British Gold and Dollar Exchange Assets and of an estimated Balance of Payments for the Sterling Area for the next three months. As you will see they follow closely the form of the notes prepared last January.

No doubt you will be referring to the detailed comments made in my letter of January 9th. You may care to have the following additional notes:-

TABLE OF ASSETS

You will see that we have shown both the gold and dollar balances net, at the same time showing in the note the further amount of gold and dollars held against liabilities which carry with them specific rights on gold and dollars respectively. In the case of our gold holdings, this follows the precedent of the gold borrowed from Belgium and now repaid. In the case of the dollar balances, this seems to us right and proper in view of the fact that a substantial part of these consist of dollars deposited by the U.S. military authorities, or held on behalf of U.S. military personnel.

I gather that you have some doubts about showing the figures net in this way, and are thinking that they should be shown gross. On this I feel strongly that net figures - with the additional amounts shown as in the tables - puts the figures both more fairly and in perspective. We are always faced with the problem of stating our position in terms not only of assets but of liabilities. Our balance sheet position has been deteriorating rapidly, and anything which lays all the emphasis on the assets and obscures the liabilities misrepresents the real position. For these reasons I am convinced that the figures should be so set out that they do not give a false impression of our position.

In the case of Item 3, we have revised our figure of U.S. securities to take account both of a rise in values and of late registrations, etc. This explains the increase shown as compared with the figure given you last January.

Dr. H.D. White,
Director of Monetary Research,
United States Treasury,
Washington, D.C.

...the ... of ...
... it was ...
... anticipated ...

I do not think any of the figures on the receipts
require explanation. You will see, however, that I
have left out any sentence referring to the level of sterling
gold production. Such a sentence would be wholly
misleading since we do not know what output will be in present
changed circumstances, and the proportion of it which we may
be able to acquire is even less certain.

I think this covers all the additional points
which may have arisen since we took up the whole question
last January, but of course if there are any other questions
you would wish to raise, Grant is at your disposition.

Yours sincerely,

F Phillips

Encls.

F. Phillips.

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DISPATCH
...
...
...

The British Government reports that it holds \$1.1 billion in gold against corresponding sterling liabilities. It also holds rights of conversion into gold.

The increase in gold holdings since Jan. 31, 1942, of \$1.1 billion is accounted for by receipt of gold in exchange for securities repatriated by the Government of South Africa. This represents a mere exchange of one capital asset for another.

Official dollar balances..... \$ 121

The British Government reports that in addition it holds dollars amounting to \$78 million against corresponding U.K. registered sterling liabilities to provide dollars on demand of a similar amount.

U.S. Securities..... \$ 173

Of these securities, the British estimate that only \$123 million are readily marketable.

Private dollar balances..... ³¹⁵

(This figure is taken from U.S. Treasury data. The British state that dollar balances in the hands of British banks acting as authorized dealers in foreign exchange increased by \$12 million between January 31, 1942, when they were reduced to an extremely low level owing to the stringency of the dollar position, and March 31, 1943.)

Assets pledged against R.F.C. loan (valuation as at date of loan)..... \$ 500

U.S. securities.....\$205
Direct investments..... 295

Branches of British insurance companies..... \$ 200
(The earnings of these companies are assigned to R.F.C. loan).

Trusts in U.S. held for U.K. beneficiaries..... \$ 290

(These trusts are established under United States law and hence the assets may be unavailable to the British Government. Together with the direct investments pledged or to be pledged against the R.F.C. loan, including branches of British insurance companies whose earnings are assigned to R.F.C. loan, and with Viscose and Brown and Williamson, they account for the estimate of \$900 million submitted to Congress in January 1941. There are in addition some small investments in U.S. enterprises which, because of their size, the British regard as virtually unsalable.)

Note: In connection with the foregoing data, the British state: "British holdings of gold and United States dollars constitute a partial cover for obligations and responsibilities of great magnitude and worldwide character. Gold currently acquired differs from our original stocks in that it can be acquired only by further increasing our overseas indebtedness. The growth of \$432 million during 1942 in our gold and official dollar balances must be looked at against the background of a deterioration of nearly \$3 billion, or over six times as great, in our net overseas capital position in all other respects."

May 5, 1943.

Regraded Unclassified

(In millions of dollars)

Dollar Commitments

Payments to the United States by the United Kingdom:

1. On British Supply Missions commitments (including administrative expenses) - net.....	92
(In addition \$102 will fall due after June 30, 1943 on B.S.M. commitments now outstanding, payment of \$87 million of which, however, is doubtful.)	
2. For shipping, interest, film remittances, etc.....	55
3. For other goods and services, urgent or ineligible for Lend-Lease.....	110
B. Payments to the United States by the rest of the Sterling Area (principally Empire countries).....	75
C. Payments to areas outside the United States requiring gold or dollars.....	34
Total dollar requirements.....	295

Dollar Receipts

A. Receipts from the United States by the United Kingdom:		
1. From merchandise exports.....	\$20	
2. From shipping and interest.....	15	
3. From other items.....	95	130
B. Receipts from the United States by rest of Sterling Area:		
1. From merchandise exports.....	75	
2. Other items.....	85	160
C. Dollar receipts from Areas outside U.S.....		15
Total dollar receipts, excluding newly-mined gold.....		305
Total dollar surplus of Sterling Area (principally British Empire), April 1 to June 30, 1943.....		10
Total dollar requirements.....		\$295

In presenting these figures, the British Treasury made the following statement with respect to the acquisition of gold: "No close estimate of our probable purchases of gold can be made even for the current quarter. The output of gold in the Sterling Area is likely to decline to an extent depending on the demand of manpower and on the availability of mining plants and stores."

May 5, 1943

1/These figures also include the dollar expenditures and receipts of non-British members of the Sterling Area, namely, Egypt, Anglo-Egyptian Sudan, Iraq, British Congo and Ruandi-Urundi, Iceland, the Faroe Islands, and Fighting French territories in Africa and the Middle East, Syria, and Lebanon. The net dollar expenditures and receipts of these areas are small.

RECEIVED
Director of
Research Services
May 5 1943
General Department

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 4, 1943

TO Secretary Morgenthau

FROM Mr. White

Subject: Lend-Leasing of Silver to United Kingdom Treasury

These are the documents in connection with the agreement to lend-lease silver of which I spoke to you. The agreement covers the lend-leasing of 3 million ounces of silver to the United Kingdom Treasury to be returned to the U. S. Treasury after the war.

If you approve of this transaction, the Lend-Lease Administration will inform the Senate Special Silver Committee and then proceed with the actual transfer of the silver.

The documents have been cleared with the General Counsel's Office, the Bureau of Accounts, the Mint, the Treasurer's Office, and with Mr. Bell.

Orig. File went to White

MEMORANDUM FOR THE SECRETARY

As you know, we have been discussing with the Lend-Lease Administration the question of the lend-leasing of silver to Great Britain for coinage and industrial purposes. The Lend-Lease Administration is now prepared to transfer approximately 3,075,000 ounces of silver to Great Britain under the Lend-Lease Act from the stocks of Treasury free silver; and will consider making other such transfers in the future. The United Kingdom Treasury has agreed to return to the United States Treasury an equivalent number of ounces of silver as soon as possible after the end of the existing emergency, as determined by the President of the United States.

The silver in question will be transferred on the following basis. For every fine troy ounce of silver transferred to Great Britain, the Lend-Lease Administration will transfer 71 1/9 cents from Lend-Lease funds to the General Fund of the Treasury. The silver will be returned by Great Britain to the Treasury for the account of the Lend-Lease Administration. The Treasury agrees to purchase any silver so returned from the Lend-Lease Administration at a price of 71 1/9 cents per fine troy ounce unless the laws of the United States at the time of receipt of the silver prevent such purchase.

There are attached the form of letter of understanding which Phillips, British Treasury representative, will write to Lend-Lease and the form of letter which Lend-Lease will submit to you for your approval.

If you approve of this arrangement, Lend-Lease Administration will attempt to clear the matter with the Senate Special Silver Committee, and if the clearance of this Committee is obtained, we will proceed to take the necessary steps to transfer the silver.

Approved: *May 5th*

, 1943.

W. M. Phillips
Secretary of the Treasury.

swB

Attachments.

The Honorable E. R. Stettinius, Jr.
Lend-Lease Administrator.

Sir:

The Government of the United Kingdom, through the British Ministry of Supply Mission, has filed certain requisitions for silver bullion with the Office of Lend-Lease Administration and may wish in the future to file other such requisitions. I understand that, because of the short supply of newly-mined silver available for war uses in the United States, the War Production Board has recommended that the requisition which has been filed for three million and seventy-five thousand ounces of silver to be supplied before June 1943 or as soon thereafter as possible, be filled from the so-called free silver held and owned by the United States Treasury. I also understand that if the shortage of new silver continues subsequent United Kingdom requisitions for silver may have to be filled from the same source.

The Office of Lend-Lease Administration has represented that it is prepared to transfer approximately three million and seventy-five thousand ounces of silver to Great Britain under the Act of March 11, 1941 from the stocks of Treasury free silver, provided the United Kingdom Treasury agrees to return to the United States Treasury an equivalent number of ounces of silver as soon as possible after the end of the existing emergency, as determined by the President of the United States; and that your Office will consider making other such transfers under similar agreements in circumstances in which the criteria of the Lend-Lease Administration for providing aid are satisfied.

I hereby agree, on behalf of the United Kingdom Treasury that the United Kingdom Treasury shall return to the United States Treasury, as soon as possible after the end of the

- 2 -

existing emergency, as determined by the President of the United States, an amount of silver bullion equivalent to the total number of ounces of silver transferred to the Government of the United Kingdom under the Act of March 11, 1941 from the stocks of United States Treasury silver.

Very truly yours,

Sir Frederick Phillips
United Kingdom Treasury
Representative in Washington.

5/4/43

My dear Mr. Secretary:

Reference is made to previous correspondence between your Department and my Office and discussions between representatives of your Department and my Office relative to the lend-leasing of silver to the Government of the United Kingdom for coinage and industrial purposes.

The Office of Lend-Lease Administration is prepared to transfer approximately 3,075,000 ounces of silver to the Government of the United Kingdom under the Act of March 11, 1941 from the stocks of Treasury free silver, provided that the United Kingdom Treasury agrees to return to the United States Treasury an equivalent number of ounces of silver as soon as possible after the end of the existing emergency, as determined by the President of the United States; and this Office will consider making other such transfers under similar agreements in circumstances in which the criteria of the Lend-Lease Administration set forth in my letters to you of October 12, 1942, and December 23, 1942, are satisfied.

I am enclosing a letter from Sir Frederick Phillips, United Kingdom Treasury representative in Washington, agreeing to the above arrangement between the Office of Lend-Lease Administration and the United Kingdom Treasury.

It is my understanding that this silver will be transferred under the Act of March 11, 1941 to the Government of the United Kingdom on the following basis. The silver will be delivered to the Procurement Division of the Treasury Department, for the account and at the expense of the Office of Lend-Lease Administration, at such places where the same is now held and at such times and in such quantities as the Director of the Procurement Division, on behalf of the Office of Lend-Lease Administration, shall from time to time request.

For every fine troy ounce of silver transferred to the Government of the United Kingdom, the Office of Lend-Lease Administration will transfer 71 1/9 cents from Lend-Lease funds to the General Fund of the United States Treasury. The silver will be returned by the United Kingdom Treasury to the United States Treasury, at the United States Assay Office in New York, for the account of the Office of Lend-Lease Administration. The United States Treasury will purchase such silver from the Office of Lend-Lease Administration from time to time as the silver is received from the United Kingdom Treasury, at a price of 71 1/9 cents per fine troy ounce, unless the laws of the United States at the time of receipt of the silver prevent such purchase. The proceeds of such purchases will be received by the Office of Lend-Lease Administration in accordance with Section 6(b) of the Act of March 11, 1941.

If you approve the foregoing, I shall appreciate it if you will sign the attached copy of this letter and return the same to me.

Very sincerely yours,

E. R. Stettinius, Jr.
Lend-Lease Administrator.

Enclosure.

The Honorable,

The Secretary of the Treasury.

JEDuBois:ecr - 5/4/43

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BRITISH AIR COMMISSION

1785 MASSACHUSETTS AVENUE
WASHINGTON, D. C.

TELEPHONE HOBART 9000

PLEASE QUOTE

REFERENCE NO.....

With the compliments of British Air Commission
who enclose Statement No. 83 - Aircraft Despatched
- for week ended April 27, 1943.

May 4, 1943.

The Honourable Henry Morgenthau, Jr.
Secretary of the Treasury
WASHINGTON, D. C.

MOST SECRET

STATEMENT NO. 83

Aircraft Despatched from the United States

Week Ended April 27th, 1943

<u>TYPE</u>	<u>DESTINATION</u>	<u>ASSEMBLY POINT</u>	<u>BY SEA</u>	<u>BY AIR</u>	<u>FLIGHT DELIVERY FOR USE IN CANADA</u>
<u>CONSOLIDATED</u>					
Liberator GR V	U.K.	U.K.		2	
Liberator GR V	Canada enroute	Canada enroute		6	
Liberator GR V	Bahamas	Nassau		1	
Catalina IV	U.K.	U.K.		5	
<hr/>					
<u>DOUGLAS</u>					
Dakota III	U.K.	U.K.		1	
Dakota III	M.E.	M.E.		9	
Dakota III	India	India		7	
<hr/>					
<u>FAIRCHILD</u>					
Cornell PT 26	Canada	Canada			9
<hr/>					
<u>LOCKHEED</u>					
Hudson III A	Canada enroute	Canada enroute		2	
<hr/>					
<u>GLENN MARTIN</u>					
Baltimore IV	M.E.	M.E.		19	
<hr/>					
<u>NORTH AMERICA</u>					
Harvard	S. Africa	Durban	26		
<hr/>					
<u>STINSON</u>					
Reliant	Trinidad	Trinidad		5	
<hr/>					
<u>VULTEE</u>					
Vengeance	Australia	Sydney	16		
<hr/>					
			Total	42	9

British Air Commission
Movements Division
May 1, 1943.

Regraded Unclassified

May 4, 1943.

My dear General Spalding:

The Secretary has received the confidential copy of "Supplementary Request for Supply to the Union of Soviet Socialist Republics by the Government of the United States during the Period July 1, 1943, to June 30, 1944".

Mr. Morgenthau has asked me to thank you for your courtesy in sending this material to him.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

Brigadier General S. P. Spalding,
United States Army,
The President's Soviet Protocol Committee,
Washington, D. C.

GEF/dbs

File in Diary

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THE PRESIDENT'S SOVIET PROTOCOL COMMITTEE
WASHINGTON

May 1, 1943.

The Honorable

The Secretary of the Treasury

Dear Mr. Secretary:

By direction of the Chairman of the President's Soviet Protocol Committee, there is forwarded a copy of "Supplementary Request for Supply to the Union of Soviet Socialist Republics by the Government of the United States during the Period July 1, 1943 to June 30, 1944" (Third Soviet Protocol).

Sincerely yours,

S. P. Spalding
S. P. SPALDING,
Brigadier General, U.S. Army.

1 Inclosure -
Supl. Req.
4-29-43

CONFIDENTIAL

CONFIDENTIAL

**SUPPLEMENTARY REQUEST
FOR SUPPLY TO THE U.S.S.R.
BY THE
GOVERNMENT OF THE UNITED STATES
DURING THE PERIOD
JULY 1, 1943 TO JUNE 30, 1944**

(Submitted April 29, 1943)

CONFIDENTIAL

SUPPLEMENTARY REQUEST
FOR SUPPLY TO THE U.S.S.R.
BY THE
GOVERNMENT OF THE UNITED STATES
DURING THE PERIOD
JULY 1, 1943 TO JUNE 30, 1944

Procurement Agencies:

A - Dept. of Agriculture
N - Navy Department
WD - War Department
WPB - War Production Board
Maritime - Maritime Commission
PAW - Petroleum Administrator for War

(Submitted April 29, 1943)

CONFIDENTIAL

The Government Purchasing Commission
of the Soviet Union in the U. S. A.

3355 16th Street, N.W.
Washington, D. C.

Major General A. I. Belyaev
Chairman

April 29, 1943

Brig. General Sidney P. Spalding, Acting Executive
Munitions Assignment Board
Room 149, Combined Chiefs of Staff Building
1501 Constitution Avenue, N.W.
Washington, D. C.

Dear General Spalding:

In view of recommendations made by various United States government agencies that details be specified with regard to some items of the Third Program recently submitted to your Government by my Government, I am sending to you herewith a list embodying these changes, additions and some of the details requested.

Again I would like to emphasize that all equipment, requisitions for which have been approved by the United States Government during the Second Protocol period, but delivery of which extends beyond the term of this Second Protocol, should be delivered during the period of the Third Protocol in excess of the items specified in the Third Program.

I hope that this supplement will receive the favorable consideration of your Government.

Sincerely yours

/s/

A. I. Belyaev
Major General, U.S.S.R. Army
Chairman

CONFIDENTIAL

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SUPPLEMENTARY REQUEST
FOR SUPPLY TO THE UNION OF SOVIET SOCIALIST REPUBLICS
BY THE GOVERNMENT OF THE UNITED STATES
DURING THE PERIOD JULY 1, 1943 TO JUNE 30, 1944

This supplementary request is made in response to recommendations of the Lend-Lease Administration, Army, Navy and others who have recently considered the Third Program of Supply submitted by the Government of the U.S.S.R., for the purpose of determining the commitments to be made under this Third Program.

GROUP I - ARMAMENTS AND MILITARY EQUIPMENT

- WD Item 1.
Change to:- Spare Engines and Propellers for two-motor planes - 30% per motor or 60% per two-motor plane;
Instead of:- Spare Engines and Spare Propellers - 30% of number of planes.
- Naval Stores.
Add:-
- Mar- Item 10. Schooners, Barges for Oil and Dry Cargo, and
itime Tugs - total of 180 units, as specified in list attached hereto.
- N Item 11. Miscellaneous Equipment for U.S.S.R. Navy and Merchant Marine ships, as specified in lists attached hereto.

GROUP II

- PAW Item 32. Petroleum Products.
Change to read:- Quantity requested - 514,000 long tons, as specified in list attached hereto;
Instead of:- 360,000 long tons originally requested in the Third Program.
- WPB Item 27. Rails with Accessories.
Change to read:- Quantity requested - 500,000 long tons of 75 lbs. per yard, for delivery in equal monthly quantities during the period July 1, 1943 to June 30, 1944.

Also, an additional quantity of 300,000 long tons of rails with necessary accessories are requested for delivery to the U.S.S.R., in equal monthly quantities, during the period July 1, 1944 to November 30, 1944.

The above quantities of rails with accessories are requested instead of the carbon steel items indicated in the original Program of Supply for the Third Protocol Period.

CONFIDENTIAL

Supplementary Request

GROUP III - INDUSTRIAL EQUIPMENT

Add:-

WPB

Item 10. Industrial Plants, in accordance with list attached hereto.

Add to Specification for "Various Industrial Equipment":-
Paragraph 10. Automatic Block Signal System for 2,140 kilometers.

GROUP V - FOOD PRODUCTS

A

Item 4. Delete Item 4, Meat Products, and instead increase quantity requested under Item 3, Canned Meat, to 420,000 tons in place of 220,000 tons originally requested.

Other Products, as specified in list attached hereto - 73,350 tons.
To be supplied against Item 1 of this Group.

CONFIDENTIAL

Mar- NAVAL STORES - ITEM 10 - SCHOONERS, BARGES FOR OIL AND DRY
itime CARGO, AND TUGS

A. For Caspian Sea

- 1. Steel seagoing standard tugs, with draft 10-11 feet, power capacity 900-1,000 H.P. . . . 7 units
- 2. Steel self-propelled seagoing standard barges for oil, with draft not exceeding 12 feet, total cargo capacity 42,000 tons, cargo capacity of about 1,900 tons each . . . 22 units
- 3. Steel seagoing standard barges for dry cargo, with draft not exceeding 11 feet, total cargo capacity of 38,000 tons, cargo capacity of about 1,900 tons each 20 units

Note: All ships mentioned in this section "A" shall be delivered in fabricated products, for assembly on the coast of the Caspian Sea.

B. For Far East

- 1. Steel seagoing standard tugs, with draft 15-16 feet, power capacity 900-1,000 H.P. . . 3 units
- 2. Steel self-propelled seagoing standard barges for oil, with draft 15-16 feet, total cargo capacity of 6,000 tons 3 units
- 3. Steel self-propelled seagoing standard barges for dry cargo, with draft 15-16 feet, total cargo capacity of 10,000 tons . . 5 units
- 4. Wooden self-propelled seagoing standard schooners for dry cargo, with draft 15-16 feet, total cargo capacity of 120,000 tons, cargo capacity of about 1,000 tons each . . 120 units

Note: All ships mentioned in this section "B" shall be delivered fully complete.

Total 180 units

CONFIDENTIAL

N NAVAL STORES - ITEM 11 - ELECTRICAL EQUIPMENT FOR U.S.S.R. NAVY

- 1. Generators with Controllers, 1.5 - 25 KW 500 units
- 2. Generators with Controllers, 25 - 100 KW 250 units
- 3. Motor-Generators, with Controllers, 1 - 10 KW . . . 100 units
- 4. Motor-Generators, with Controllers, 10 - 75 KW . . . 25 units
- 5. Electrical Motors with Controllers, 0.5 - 25 HP. .1000 units
- 6. Electrical Motors with Controllers, 25 - 100 HP. . . 25 units
- 7. Storage Batteries for Submarines 65 units
- 8. Instrument Gages, Tachometers, Lighting Fixtures,
etc. \$1,000,000.

Total 1965 units

CONFIDENTIAL

N NAVAL STORES - ITEM 11 - ELECTRICAL AND MISCELLANEOUS EQUIPMENT FOR MERCHANT MARINE

1.	Diesel-Generators, D.C. 3.5 - 30 KW	340 units
2.	Diesel-Generator Compressors, 15 - 30 KW	60 units
3.	Diesel-Generator Pumps, 1.5 - 3.5 KW	145 units
4.	Steam Boilers, 90-120 pounds per inch 16 sq. meters, for heating, complete with feeding pumps	20 units
5.	Electrical Centrifugal Pumps, 10 - 70 ton/per hour.	210 units
6.	Electrical Piston Pumps, 20 - 300 ton/per hour. . .	235 units
7.	Worm Driven Pumps for Oil, electrically driven. . .	100 units
8.	Hand Operated Compressors, 2 mt ³ per hours.	700 units
9.	Engine Telegraphs - commercial type	430 units
10.	Electrical Steering Engines, Windlasses, and Winches-	300 units
		—
	Total	<u>2540 units</u>

CONFIDENTIAL

PAW

GROUP II - ITEM 32 - PETROLEUM PRODUCTS

a)	Blending Agents for Aviation Gasoline . . .	204,000	long tons
	Delivery: two tankers per month commencing July, 1943.		
b)	100-Octane Aviation Gasoline	300,000	" "
	Delivery: three tankers per month commencing July, 1943.		
c)	Various Grades of Lubricating Oils	5,500	" "
d)	Cerezine Wax	2,000	" "
e)	Additives for Lubricating Oils	1,500	" "
f)	Tetraethyl Lead Liquid	1,000	" "
	Total Requested	<u>514,000</u>	long tons

To effect delivery to the U.S.S.R. of the petroleum products in quantities as specified herein, the Government of the U.S.S.R. requests that the United States Government furnish to the U.S.S.R. 7 or 8 additional tankers, in excess of those which have already been given to the U.S.S.R. during the Second Protocol period.

CONFIDENTIALWPB GROUP III - ITEM 10 - INDUSTRIAL PLANTS

I. Plants for the production of synthetic rubber and alcohol:

- WPB 1) 20,000 tons per year of butadiene (divinyl) from oil products and oil gases.
- WPB 2) 7,000 tons per year of styrene (sterol)
- WPB 3) 25,000 tons per year of synthetic rubber "Buna S"
- WPB 4) 10,000 tons per year of synthetic rubber -Neoprene
- WPB 5) 3,000 tons per year of butyl rubber
- WPB 6) 20,000 tons per year of synthetic alcohol from ethylene

All plants should include complete main and auxiliary equipment.

- WPB II. Plant for production of 47 tons per day of cord and 8 tons per day of chefer.
- PAW III. Plant for production of toluene, 20,000 - 30,000 tons per year.
- PAW IV. Two catalytic cracking units for the production of aviation gasoline - 100,000 tons per year each unit.
- PAW V. 1 catalyst plant for the production of catalyst for Houdry units.
- PAW VI. Sufficient Petreco Desalting Units for the aviation lube oil plant and for those oil refinery plants ordered in 1942 for which Petreco Desalting Units are needed.
- WPB VII. Plant for the production of Phenol.

CONFIDENTIAL

A

GROUP V - FOOD PRODUCTS

OTHER PRODUCTS 73,350 tons

To Include:

a) Concentrated Soups and Cereals	10,000 tons
b) Dehydrated Vegetables	10,000 "
c) Tomato Paste	10,000 "
d) Concentrated Juices	2,000 "
e) Cheese	15,000 "
f) Condensed Milk	12,000 "
g) Vitamins:	
Ascorbic Acid } Riboflavin } Aneurin }	50 "
Fish Liver Oil (Vit."A") } Carotene }	62 M.M. U.S.P. Units (or approximately 100 tons)
h) Yeast:	
Bakery Yeast } Yeast Tablets (Vitaminized) }	1,200 tons
i) Vegetable and Oil Seeds	2,100 tons
j) Field Seeds	10,000 tons
k) Spices, miscellaneous	1,000 tons
	<hr/>
Total	<u>73,350 tons</u>

To: Mr. Liversy

From: Mr. White

Will you please send the following cable to the American Embassy, Chungking, China:

"FOR ADLER FROM THE SECRETARY OF THE TREASURY

Reference your cable of April 22, 1943, TP-110.

For your personal and confidential information and immediate reply, and not to be discussed with the Chinese Government authorities.

1. Please describe in more detail, if possible, the arrangements referred to in Paragraph (c) of your cable and clarify the meaning of the last sentence, "After the war the account would be settled."
2. Has the Board approved the Ministry of Finance's proposal?
3. The Treasury would appreciate having your views on the Ministry of Finance's proposal. If you have already indicated your approval of this proposal, have you thereby gone on record as agreeing that the 30 percent exchange compensation being offered is adequate and reasonable?
4. Does this proposal of the Ministry of Finance mean any fundamental change in the attitude of the Ministry of Finance towards the granting of special rates for special purposes?

EW/cos 5/4/43

NOT TO BE RE-TRANSMITTED

SECRETARY OF THE TREASURY
OFFICE OF THE SECRETARY OF THE TREASURY
MAY 5 AM 11 52
TREASURY DEPARTMENT

BRITISH MOST SECRET
U.S. SECRET

OPTEL NO. 146

Information received up to 7 a.m., 4th May, 1943.

1. NAVAL

The cruiser NURNBERG, escorted by 2 destroyers was sighted yesterday morning by Coastal Command Aircraft 44 miles northeast of KIEL on a southerly course.

2. MILITARY

U.S. troops have occupied MATEUR. Details not yet available. On remainder of front nothing to report except active patrolling and regrouping of forces.

3. AIR OPERATIONS

WESTERN FRONT. 3rd. 12 Venturas and 6 Bostons escorted by Fighters were sent to attack objectives in HOLLAND, including the power station at IJMUIDEN, where bombs were seen to burst on the target. Our Fighters destroyed 3 enemy Fighters in these operations and 2 more during a sweep over BELGIUM and Northern FRANCE. 11 Bombers and 2 Fighters are missing. 3rd/4th. Aircraft despatched: Leaflets - 8, Intruders - 9.

TUNISIA. 1st. 21 escorted Bostons attacked enemy positions southwest of MASSICAULT and 12 Spitfires bombed the railway south of the town. 12 Spitfires met 15 ME 110's and 8 ME 109's approaching TUNIS. Enemy casualties 7, 1, 3.

BURMA. 29th. U.S. Liberators dropped 18 tons on RANGOON docks. 30th. U.S. Mitchells dropped 10 tons on GOKTEIK Viaduct. 2nd. 11 Blenheims bombed oil installations in the INDAW area. 15 escorted enemy bombers attacked DOHAZARI Airfield near CHITTAGONG.

May 5, 1943
10:22 A. M.

HMJr: Hello.

Operator: Mr. Doughton. Go ahead.

HMJr: Hello.

Robert Doughton: Hello, Henry. How're you feeling?

HMJr: Well, I'm alive and kicking.

D: Well, you - you're kicking pretty high as usual, I hope.

HMJr: Well, we've - we've almost got 18 billion dollars in this drive, which makes me feel pretty good.

D: That's fine. That's fine, isn't it?

HMJr: And....

D: What we raise in taxes won't be to pay back, will it?

HMJr: Well, uh....

D: You made a wonderful success of your Bond Drive, and I want to congratulate you.

HMJr: Thank you. They told me you called me this morning.

D: Yes, I called you up. First I'd - I called Mr. Paul and he wasn't in and then I thought I'd speak with you. I just wanted to see how you were pleased with what happened yesterday.

HMJr: Well, I'm kind of bewildered. I just haven't been able to analyze it yet.

D: Well, I saw that - from the morning papers that Mr. Paul had already conferred on his blessing - his blessing on it.

HMJr: Well, I don't think he had because - as far as I - as far as I know, we talked over things and we decided, he and I, we wouldn't talk to any newspaper men.

D: I didn't see it, but Mr. Stamm told me it was in the Times Herald this morning. That - Paul had said essentially, since we - the House took action yesterday, that the Forand-Robertson Bill, or whatever bill was adopted, was acceptable to the Treasury.

HMJr: Well, I - I ques... - what paper was that in?

D: The Times Herald.

HMJr: Well, never believe anything you see in that. But Paul and I both agreed until we could catch our breath we wouldn't talk to any newspaper men, and he's always very careful to carry out those agreements.

D: He is?

HMJr: Now, I think that the - well....

D: I thought to make that....

HMJr: No.....

D:statement that quick in view....

HMJr: No.

D:of the fact that some of us had to vote against that yesterday was....

HMJr: Did you see the cartoon about you and me in the editorial in the Times Herald yesterday?

D: No. (Laughs) I didn't see it. I don't ever - hardly ever read those things, you see.

HMJr: Well, that - that was as nasty as anything that I ever saw. They had a picture there of a building with a pawn-broker's sign over it and one side was a Doughton Annex and the other side was a Morgen-thau Annex.....

D: Yes.

HMJr:and it was just about as dirty as - no, I'm sure Paul didn't say anything - and - because he and I agreed that we wouldn't.

- D: I've got so that I almost feel like that anything said against me in that paper and the New York Times is about the highest compliment that can be paid me.
- HMJr: Yeah, you and me both.
- D: Yeah. So you ought to be - they're so rotten, you know, and so lying - of course, some of the newspapers - yesterday in the - in the yesterday's New York Times said that I - when I was asked some question there by Hoffman, I said "Oh, hell", but I never thought of saying it, you know, and everybody knew I didn't say it.
- HMJr: No, frankly, I was so bewildered that I - and the thing that - I went home last night and I really didn't know until this morning what had happened.
- D: Well, the truth of it is, you know, that the Republicans are so - were taking it so hard, the defeat over the Ruml Plan, that they jumped anything they thought would give them a half victory.
- HMJr: Yeah.
- D: See, they joined right in with a handful of Democrats, you know, to pass the Robertson-Forand Bill that they'd voted against every time in the Committee, and it was doubtful to me that they ever would support it just voluntarily. I never asked them, but they had rough driving even much - much rougher than I ever had.
- HMJr: No.
- D: But, Joe Martin, you know, ordered them to support it, and they went along.
- HMJr: Well, you saw that statement the Treasury gave out to the press supporting your bill.
- D: I did, and I appreciate it very much.
- HMJr: Well, that was instigated by Paul - I mean he called me up from San Francisco and asked me whether I wouldn't like to do that
- D: Yes.

HMJr:and he said it would be very pleasing to you, and I said, "Well, if it will be pleasing to you, let's do it" - and that was his idea and....

D: Well....

HMJr:from that day to this, I haven't said anything to any newspaper men and we work as a team at this job.

D: I couldn't hardly think- if he did I- I thought Paul must have done it rather hurriedly to say that - of course, it may be acceptable. I don't know.

HMJr: No, no, no. Well, I don't even know what's in the damn bill.

D: There's one thing that I - if he's down on the Hill any time today that I would like to know - probably going to, talk to you about it too, one of these days. There's something been very mysterious about that proposition from the first, that I'm going to talk to you about.

HMJr: Well....

D: I think somebody's been fooling you and me both, trying to.

HMJr: Really?

D: I don't know. I just haven't got the . . . I know that you and I can understand each other.

HMJr: Yeah.

D: We don't always agree but we can always understand each other and respect each other.

HMJr: That's right.

D: We always have and always will.

HMJr: Well, would you like Paul to drop in and see you?

D: I wouldn't care if he did.

HMJr: You....

D: I - I - are they - they're going to take that bill up tomorrow, ain't they?

HMJr: Yeah.

D: If he could come down sometime today. We're going over this reciprocal trade report this morning- if he could drop down some time....

HMJr: I'll tell him.

D:this afternoon. Tell him to call me a little while before so we can fix the time I - I'd better see him over at - at the Committee Room in the Capitol.

HMJr: I'll tell him. I'll get word to him.

D: Thank you, Henry.

HMJr: All right.

D: Thank you for calling.

HMJr: Thank you.

D: Goodbye.

May 5, 1943
10:45 a.m.

FINANCING - ORGANIZATION PLANS

Present: Mr. Bell
Mr. Robbins
Mr. Peabody
Mr. Buffington
Mr. Gaston
Mr. Graves
Mr. Gamble
Mr. Odegard
Miss Elliott

H.M.JR: They are just pouring it on me. Sproul wrote me a letter about how we didn't give you (Robbins) a chance, and people went around behind your back, and so forth, and so on, a lot of stuff. Then he went after me on my Portland speech. Now how would Sproul get my Portland speech?

MR. GASTON: It was on the radio. I suppose he must have gotten a transcript.

H.M.JR: But how would he get the Portland speech?

MR. ROBBINS: The Portland speech was circulated in a mimeographed copy. I received a mimeographed copy.

H.M.JR: He goes on - when I talk about getting the thing through unions - he quotes that part about clubs and societies and says, "Don't bankers also send their sons to war?" I mean, it is a highly emotional letter, and, after all, I was talking to eight thousand laboring people and I wouldn't give them the same kind of speech I would when I appeared before the American Bankers.

I think personally - as I say, this letter of Sproul's - as a matter of fact, I didn't sleep last night on account of it. This thing seems to be running awfully deep, that

because I want a State organization I am being political; but just as long as I have ninety percent Republicans in the organization it is all right. I am not being personal.

But just because I want a State organization, I am being political. I think it is just nonsense. I can't combat this kind of thing unless I am physically well - feeling well. I mean, I can't take on Sproul and all of these people unless I am physically well, because it is just too hard work, that is all. But to write me a letter and say that because I want a State organization or am leaning toward a State organization, that is being political I just can't understand it.

Maybe there are a lot of politics in this thing that I don't understand, because I am not a politician. And why somebody - I mean, the best news that happened - of all people, the people I have working for me, why some people didn't read Senator George's speech in advance of my seeing him today is beyond me. I mean, with all the people I have working in the Treasury, and why somebody didn't read Senator George's speech before the Chamber of Commerce to me is just - it would have saved me a lot - let me read you one paragraph in here. He said he enlarged on this thing. "A system of encouraging the purchase of war bonds out of the current earnings is preferable to a scheme of compulsory savings." This is in George's speech before the Chamber of Commerce.

Now, with all the people on publicity and public relations that we have, why somebody couldn't read a thing like that and bring it to my attention is beyond me.

MR. PEABODY: When was the speech made?

H.M.JR: This is the New York Times of April 30. He was in here for an hour and a half this morning, and we took him in there - I had Gamble and Tickton, and took him all through the things. Of course, it made kind of an ass out of me not having had this brought to my attention. When we got all through and done he said to me, "Henry, I just want to let you know that I have come to my decision. I suppose

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you have seen my speech in New York" - and I said, "No, I am sorry I haven't," and he said, "This thing has gone so far that as far as I am concerned compulsory savings is out of the window."

He said, "In order to do compulsory savings and get the results you get, we would have to go to twenty billion dollars, which, of course, is out of the question, because the best we can get out of Congress is five billion."

Now, it happened - but I mean, it sort of made me awful dumb, having him in here this morning and somebody in the Treasury not having brought that to my attention. I can't understand it.

But I was saying that this letter from Sproul has gotten me so mad. It came in late last night. I don't think I ought to make any decision. I am mad, and I am tired, and when I am like that I don't want to make any decisions. I lay in bed this morning from three to four thinking how to answer Sproul. I was going to have him come down Friday, but I don't think I will have him come down. I could, for instance, say to him - I would have just as much sense in my statement as he had to say, "Well, when I went to Carnegie Hall you had the loud-speaking system arranged so nobody could hear me." That would have just as much sense as the things he said in his letter to me. "It was a plot. You didn't want anybody to hear me, so you had the loud-speaker arranged so they couldn't." It would make just as much sense as what he said.

I just think - I mean, let me ask the people something, because I never make a decision when I am not on an even keel. I am not on an even keel now, and the Sproul letter was the last thing to upset me.

I sent word to you (Graves) that I didn't want to see this fellow from Indiana - there is no use my doing this stuff.

Supposing for a week I rest on my ears? What would happen, Bill, as far as pay-roll allotment and all that stuff in the War Bonds - what would happen?

MR. ROBBINS: They are moving along just as they did prior to the April campaign.

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H.M.JR: Will they go ahead and sell? Will that thing be pushed?

MR. ROBBINS: Sure. Harold, everything is moving according--

H.M.JR: Since we gave them the quota?

MR. GRAVES: Oh, yes, we will be as we were before.

MR. ROBBINS: We are as we were before, aren't we, Harold?

MR. GRAVES: Yes.

H.M.JR: The tragic thing here is, we have gone out and gotten eighteen billion dollars; and instead of everybody feeling fine and happy and letting me feel fine and happy - as I did on the trip, and the way I am going to try to tomorrow night if I can get myself in the frame of mind - they have got me feeling as though I had done something wrong, as though I was trying to be political, as though I was trying to fight somebody, and so forth, and so on.

Now the whole time I was on the trip, you (Gaston) know, and you (Peabody) know everything was nice, wasn't it?

MR. PEABODY: Yes.

H.M.JR: I even laughed at San Francisco, didn't I? I kidded Herbert, and I said, Well, I think it is funny," didn't I?

MR. PEABODY: Yes.

H.M.JR: I didn't take it to heart, did I? I mean, I laughed about it.

MR. GASTON: No, you didn't.

H.M.JR: I said, "The best thing of all that happened at San Francisco was when they let me pay for my own breakfast," and I kidded about it. I said, "That makes me feel good."

MR. PEABODY: Wasn't that the morning I bought your breakfast? (Laughter)

H.M.JR: Not that morning.

MR. PEABODY: That was Dallas.

H.M.JR: That was the morning we almost left Herbert behind. But Herbert was there, and when he didn't pay for my breakfast I said, "That really makes me feel good."

Now I come back and there is this sudden animosity and all that. I don't understand it. I can't work in that kind of an atmosphere. If I did work, I would do something I might be sorry for. I can't think clearly because - I mean, this writing me, "Don't the bankers also send their sons to war," and things like that - "Aren't they people," and that kind of stuff--

MR. GASTON: I think this, Mr. Secretary, that the gains of this cooperation that we had in practically all States between the Victory Fund group and the War Savings group outweigh any minor friction that may have developed. I think there was a net gain in cooperation on this campaign. Don't you feel so, Bill?

MR. ROBBINS: Of course I do very strongly, Herbert, and one of the reasons that I have continued to feel that we want one organization rather than two is where I have seen the success of the merged groups.

H.M.JR: I mean to say, there is some kind of an undertone here which I don't understand, and I haven't got strength to send for Sproul and sit down and have a three-hour knock-down drag-out fight with him. I just haven't the strength. I don't think I should do it.

MR. ROBBINS: Mr. Secretary, of course it is well known - how and why I don't know - that the Treasury Department here is not favorably inclined towards the banking fraternity. I mean, that is a fact in the field today. Now maybe this is just a culmination of the recognition of that knowledge by the bankers and manifests itself through the mouth of one individual.

H.M.JR: Well, there are so many things - I go up on the Hill, and I have recommended for three years or four years that we do away with bank holding companies, which I don't believe in. Well, they fill up - here is the joke of it - the people in the War Savings Staff in New York - now I am talking about the War Savings Staff - out of the biggest chain of banks that we have in the East - which is what, the Marine Midland? - and they load me down with that, and it is known, I mean, that I don't believe in it. I say it is a menace. You take away your local interest, your local control - I said all that, and they know it. I am just using that as an example. They know I won't issue any more branch banks in Michigan. We are talking here--

MR. ROBBINS: By the same token, sir, you have never left any impression with me other than you know that the bankers have a very definite and important part in this financial job.

H.M.JR: And I have said to you that it would be the height of stupidity not to use them where all of their incentive should be, to sell to individuals so that the banks would buy less. I have never said anything in the room here that I wouldn't say before the ABA.

The best thing - the first time that the bankers have gotten back in the good graces of the public is by riding the back of War Bonds - I mean, going back a year and a half to two years ago, by getting on that and giving their public service. I gave them the most marvelous thanks before the American Bankers Association a year or a year and a half ago, and I meant it. It put them back again in the position that they were in before the bank crisis, and they know it. I told them so, and they admitted it.

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I have no animosity. I have no feeling of animosity against the banker. I don't want them to run the country. I make no bones about it. I am here representing a hundred and thirty-five million people, and I am not going to turn the control of the finances of this country over to them. Mr. Roosevelt has been reelected three times on that platform. I am here as his agent, and I am not going to turn it back to them, but there is no feeling of animosity on my part. I told Bell that, and Bell knows it - that we have no differences. I don't believe there should be - I don't believe in bank-holding companies. I think it is bad.

I don't believe when a bank like the Bank of America gets behind six hundred branches that they should have any more. But the only kind word I had in San Francisco was from the Bank of America. (Laughter) The only pleasant word I had in San Francisco was from Mr. Kelly, senior vice president of the Bank of America.

MR. ROBBINS: It seems to me you put your finger on the whole crux of our whole organization problem here in this discussion of the banks' attitude towards their participation in war finance and what they think the attitude of the Treasury Department is toward them. I think that really is the nub of our organization problem.

MR. GAMBLE: Don't you think that this implied threat by the leaders is a red herring? Don't you think that the average American banker feels the same way about this program as the average American retailer?

MR. ROBBINS: Sure.

MR. GAMBLE: This is nothing but a question of wanting leadership.

H.M.JR: This is like Mr. Ed O'Neal, whom I know intimately - talking here as though he represented the farmers. Then you go into Iowa and sit down and talk to a farmer in Iowa who is a member of the American Farm Bureau Federation - I am a member of the Farm Bureau Federation - have been for years. I talked for them just

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the way this fellow from California talks for the California Growers.

MR. ODEGARD: This animosity, Mr. Secretary, I am sure is confined to a very small segment--

MR. GAMBLE: You can count them on your two hands.

MR. ODEGARD: ... because our cooperation from the beginning of this program from the banks has been cordial and friendly and all-out. I am just perfectly confident that you could name on the fingers of almost one hand - certainly two hands - the source of all this animosity among the banking fraternity.

MR. BELL: I have seen an awful lot of bankers in the last year come into my office, just individually, to say how do you do. I have yet to see one come in and criticize the Treasury. They have nothing but praise for the way this financing has been handled and the way the banks have been treated in the whole picture.

MR. GAMBLE: My opinion is that they will work on any program you set forth, however you set it forth, and you will have ninety-eight percent with you in any direction you decide to go. You won't have the other two percent unless you do it their way.

MR. BUFFINGTON: On the branch bank question, I don't think if you checked with a hundred corporations that one of them would disagree with you on the holding system. The businessmen of the country are with you a hundred percent.

H.M.JR: I think most of the bankers are, too.

MR. BUFFINGTON: Sure, the people and the bankers.

H.M.JR: But you are asking what the things are. The only public stands I have taken are on bank-holding companies and extending of branches in Michigan and California. Like all of these things - I mean, your position is only tenable when you have the people that

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make the laws with you, and the Congress of the United States knows just where I stand on branch banking, and has done nothing - notwithstanding the high-paid lobby - to try to undermine me. You can take a position on all of these things, but your position can very quickly disappear in thin air if Congress says you are wrong. It is just the same thing - here they had this meeting Friday in Jimmy Byrnes' place, and the thing was absolutely stacked against me, that they were going to have compulsory savings.

The job that the combined effort has done here has finally won out, and Doughton is in my corner one thousand percent. Walter George walks in here this morning and says to me, "Henry, as far as I am concerned you people have grown so in strength I think compulsory savings is out the window." That makes me happy. It means that all the work that we have done here and the position that I have taken against - what I call, for lack of a better name - the left wing of the White House, which is against the President, has finally prevailed. I think it is one of the most important things, because it still means the thing - you heard me in San Francisco at the press conference - it still means that they are going to let the people invest their money at their own free will. We can go forth and talk this stuff about war spirit, but the person has to make up his mind in his own heart, and we know that that is going to prevail.

And the way of American life and American economics - it is a question of freedom of thought. I think it is one of the most important victories that we have had. But, I cannot - I was going to send for Sproul. Here is the memo right here to call up Sproul and have him come down Friday. I just don't have the physical strength to do it, and I don't think it is worth it.

MR. ROBBINS: May I ask a question?

H.M.JR: You can ask three.

MR. ROBBINS: Is there any appreciable segment of the banking fraternity that has an opinion against the E bond type of issue - any feeling?

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H.M.JR: Bell knows, because he handles deposits. You answer that.

MR. BELL: No, I don't think there is any banker that I know of who is against the E bond. The only thing they are against in the E bond is the twenty-five-dollar denomination, which is expensive to handle.

MR. ROBBINS: Not against the demand note feature of it?

MR. BELL: No.

MR. ROBBINS: When we were getting ready for this drive there was considerable talk about the desirability of having a small-denomination, long-term two and a half, and I wondered whether the interests there were left-handed manifestations of their counter opinion against the E.

MR. BELL: The only remark we have had from the bankers at all on the savings bonds is the elimination of the F and G on the ground that that is where your smart money goes. It is expensive for the Treasury to pay two and a half percent for a twelve-year obligation.

H.M.JR: George Albee said he could come down. Wouldn't it be useful to have him here tomorrow morning?

MR. PEABODY: Yes, I think it would, definitely.

H.M.JR: This is dated May 5th, seven fifty-eight. He says he can come down late this afternoon. I think I need something from these two so-called happiness boys. (Laughter) They are. They are a breath of fresh air. (Laughter)

MR. GASTON: I think George should be here.

H.M.JR: Gawd, I need something. (Laughter)

MR. PEABODY: I think Fred Smith would want him here, too.

H.M.JR: I think so. I need something badly. I don't know what it is, but as I say, if I take three hours Friday

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to have a knock-down drag-out fight with Mr. Sproul I could find out - but I don't think I am going to do it. What would happen - supposing we let this thing go to next week. Is anything going to happen?

MR. ROBBINS: Not as far as I can see.

MR. BELL: No, nothing will happen.

MR. GRAVES: We will go on selling as before in the War Savings organization.

MR. BELL: You started that May 1?

MR. GRAVES: That is right.

MR. GASTON: And I think in many States the War Savings will get some help that they haven't had before.

MR. GRAVES: That is right. I think that is true.

H.M.JR: What did you do with that letter from Sproul?

MR. GASTON: I sent it back to Miss Chauncey with a little note to you.

H.M.JR: What effect did it have on you?

MR. GASTON: I think he is cockeyed. I think he is all wrong. I think he is sincere.

H.M.JR: I think he is sincere, but I think he is all wrong.

MR. GASTON: He advances the notion that bankers are specialists in selling securities and that - the inference is pretty plainly stated - the whole operation ought to be turned over to the bankers.

H.M.JR: I think he is sincere.

MR. ROBBINS: Did Mr. Grant make any contribution to your thinking?

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H.M.JR: I was too tired. He is coming back again tomorrow. They are coming back at eleven.

MR. ROBBINS: There is one other thing - we should find ways and means of evaluating to help in our general group thinking - perhaps this market survey that we are thinking of might be used to that end - and that is to find out, if we can, exactly where the credit for whatever degrees of success we have had should lie in this closed drive period, find out who did the work, who did the organizing, and who did the actual contact work in a tangible, recorded way. It might help us all to understand better.

I think, actually, Mr. Secretary, that the bankers are under the impression that they did a very fine job for the Treasury Department in the drive just closed. Perhaps they are taking unto themselves more credit than they are entitled to, but I think if we could get a real record of it we might, all of us, stop wondering and start looking at the facts and really be better informed.

Does that appeal to you at all, George?

MR. BUFFINGTON: Yes it does, if you can get it.

MR. PEABODY: Some of that information will come out, but, Peter, don't you think it would be a mistake to inject that particular phase into this thing as originally conceived?

MR. ODEGARD: You can't do it. What they are planning to do is to ask people if they were solicited, and by whom. You get a sample there in that way that will give you some indication, and that is all.

MR. PEABODY: But this is directed at the end person, Bill, you see, the person who bought something.

MR. ROBBINS: It isn't a natural to include there, but the question is very important in the minds of an awful lot of people.

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H.M.JR: Something happened in Atlanta which was good. Something happened in Boston which wasn't so good. Now, if you can tell me why people bought in Atlanta and why they didn't buy in Boston, I would like to know.

MR. ROBBINS: I can tell you why they didn't buy in Boston. That is because they weren't asked. They weren't organized.

MR. ODEGARD: The Irish population has something to do with that also, Bill.

MR. BELL: They weren't organized.

MR. ROBBINS: They weren't, and they said from the very first that they weren't organized.

MR. BUFFINGTON: Mr. McLarin contends that the commercial banks did a great part of the job in that district. He has talked about that several times, the fine support they gave him.

H.M.JR: As I say, I am at peace with the banks of America. I have no war. There is no complaint here. We got through this last bill which helped on the FDIC deposit.

MR. BELL: Very much.

H.M.JR: Except that little thing over at Agriculture - that is the only thing the ABA had. Wasn't that fairly well straightened out?

MR. BELL: I don't know whether to their satisfaction, but nevertheless we got them the contact, and there were changes in the regulations.

H.M.JR: That is the only thing, isn't it?

MR. BELL: That is the only thing, but they couldn't lay that to you. They laid it to the Administration.

H.M.JR: With the exception of that, Hemingway and this other man, it is the only thing, isn't it?

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MR. BELL: As far as I know.

MR. ODEGARD: They are sensitive, too, Mr. Secretary, on the fact that banking has not been classified as an essential industry and they are having difficulty holding their personnel.

MR. BELL: As bad as the Treasury.

MR. ODEGARD: They say they ought to be classified as essential.

MR. GAMBLE: The banks do a good job twelve months of the year and when the drives are on, and we know it.

H.M.JR: I always remember what a little banker up in Amherst told me a year ago about what it meant to him. He said that ever since the banking crisis he couldn't get the foreign population to come into his bank, because they didn't trust him, and he had seen more new faces in his little community in a mill town in Massachusetts than he had in ten years because they - the new faces - came in to do business with him and it gave him a chance to get acquainted again, a thing he hadn't had in ten years. And that is happening all over America.

MR. GAMBLE: Every day.

H.M.JR: And it gives him a chance to get them back as customers and get them back to get the money out of their socks. There is no banker who would say that this isn't good for him.

MR. BELL: They all say it is the best public relations they have ever had - no doubt about that.

H.M.JR: Now, when it gets back it is a fight as to who is going to run the show. That is what it gets down to.

MR. GAMBLE: That is the nub of it.

MR. GASTON: The bankers are represented on every State organization and practically every local organization, aren't they, Harold?

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MR. GRAVES: Sure.

MR. GASTON: And in a great many cases the men who were appointed on Victory Fund Committees were already on the War Savings Staff.

MR. GRAVES: That is right.

MR. GASTON: And in this case Joel Ferris, who was picked by Day to be the leader for the State of Washington on this Second War Loan Drive, was--

MR. GRAVES: Our State chairman.

MR. GASTON: ... our State chairman of War Savings in the State of Washington and vice president of the First National Bank of Seattle.

MR. GRAVES: You will find hundreds of cases of that kind.

H.M.JR: Now, George, you said you had a two-minute plan.

MR. BELL: I don't understand this - what is the charge of Allan Sproul? - because I haven't seen any bankers who wanted any particular credit over any other group of citizens that worked in this campaign.

MR. GAMBLE: I think that is largely Mr. Sproul's desire for leadership. I think when the Secretary of the Treasury starts calling the signals his teams will go in any direction, and the banker plays as hard on one team as he plays on the other. There isn't anybody who can convince me of the contrary.

MR. BUFFINGTON: That is borne out in St. Louis where Walter Head has apparently done an excellent job - an insurance man.

I have a very brief memorandum. Do you want me to read it?

H.M.JR: George said he had a plan. We will take that, and then we will quit.

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(The Secretary held a telephone conversation with Mr. Albee.)

H.M.JR: He can only come down for tonight. He said we could read it back to him.

MR. BUFFINGTON: (Reading plan, copy attached.) "The desirability of providing a single organization for the direction of the sale of all Government securities for financing the war effort was recognized in the creation of the United States Treasury War Finance Committee. In order to achieve a complete welding of the activities of the War Savings Staff and the Victory Fund Committee, the following is recommended:

"I. The sale of bonds for war financing (including currently offered securities during drive periods as well as securities on continuous sale) be carried out by setting up three main divisions of the Treasury War Finance Committee.

"1. Payroll Savings Division: To operate under the leadership responsible for its growth and development.

"2. Special Names Division: To canvass more important corporations, financial institutions, Governmental bodies, and larger individual investors, by experienced securities salesmen and commercial bankers.

"3. General Sales Division: For widespread solicitation of the public during drive periods by volunteer personnel organized and trained for personal solicitation.

"II. In order to accomplish complete consolidation with the greatest efficiency, the War Savings Staff and the Victory Fund Committee be dissolved immediately, and the best qualified personnel from both organizations throughout the country be reinstated in the Treasury War Finance organization under the Secretary's terms.

"III. In the interests of economy and efficiency, the Treasury War Finance Committee is to continue to operate through War Finance Committees in the twelve Federal Reserve Banks, Treasury Fiscal Agents, retaining State lines wherever desirable and practicable.

"IV. The presidents of each of the twelve Federal Reserve Banks are to continue to serve as chairmen of Treasury War Finance Committees in their respective districts, but shall appoint within each bank an officer responsible for the formulation and execution of plans for the sale of Government securities through the three main divisions mentioned above."

That appointee might be a commercial banker, an investment banker, an insurance man, a State administrator, chairman, or any person.

"V. The Secretary requests the Federal Reserve Board to allow him to appoint an ex officio member of the Board to act as a personal representative on all matters relating to the war financing program."

That man would see to it that the interest and ideals and plans of the Secretary were carried out in the twelve Federal Reserve Districts.

H.M.JR: Well, I wanted to give you a chance to say it, because coming down this morning you said you had it. I am going to excuse myself on the discussion of it, and I am going to - I might just as well - we won't discuss anything until next Tuesday or Wednesday. And will the thing just - will we go ahead? I mean, will there be somebody selling?

MR. GRAVES: Yes, indeed.

MR. BELL: Sure.

H.M.JR: Now that the compulsory savings goes - it has been laid to rest for a while, which I think is terribly important - there is nothing very pressing. I don't have to appear before the Senate tomorrow, so I will work on my speech with you (Gaston) and Fred around nine or nine-fifteen tomorrow. We will start in tomorrow when I am fresh, and I will give my speech tomorrow night. Then that is that.

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MR. BELL: Do you know when you might have to appear before the Senate Committee?

H.M.JR: No, but they want you up there tomorrow morning in case they want to ask anything on public debt. They may not want you in the first instance. They are going to start off by having somebody explain it. Sometime during the discussion they may want to ask you about public debt.

He said he didn't think it was necessary to have anybody come up and explain war bonds, but if it was necessary - especially next week when we have the new pay-roll savings plan - he might invite us to come up before the Finance Committee and explain it.

MR. ROBBINS: Would that suggest that it might be a good thing for future relationships up there to offer - go through the gesture of offering to give them a real report?

H.M.JR: I have, and he was very much inclined - Paul sort of didn't want it, but he was very much inclined to have us come up next week before this new pay-roll thing goes out; and he wanted to know if when they had the final figures Monday we would come up and explain to the committee just what happened. I think it would be a good thing to do, because I think we have a swell story.

Go up before the Finance Committee; and then if they like it we can go before Doughton's committee and do the same thing. I think it is distinctly worth while.

So if you will bear with me a little bit until I get a little bit more vitality, a little more health, when I am nice and calm and judicial, I think I can settle this thing in a day or two.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 5, 1943

TO Secretary Morgenthau
FROM George Buffington

Subject: Consolidation of War Savings Staff and Victory Fund Committee into a Single Organization — Treasury War Finance Committee

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2 - Secretary Morgenthau - May 5, 1943

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V. The Secretary requests the Federal Reserve Board to allow him to appoint an ex officio member of the Board to act as a personal representative on all matters relating to the war financing program.

Memorandum for the Secretary's file

May 5, 1943

The Secretary and I had a meeting this morning with Senator George. The first part of the meeting was devoted to an explanation to the Senator by Ted Gamble and Lindow of the status of the bond campaign. Senator George expressed himself as being very gratified with the results of the bond drives to date.

We then went into Secretary Morgenthau's office and discussed the tax situation. This conference covered the following items:

1. Senator George definitely fixed the first meeting of the Senate Finance Committee for 10:30 a.m. tomorrow morning. He said that he was against any appearances by witnesses other than the Treasury witnesses and joint staff witnesses. In other words, he did not want to open the door to public witnesses because then he would have to hear Ruml testify and he did not know how many others. He hoped to conclude the Senate Committee's consideration of the bill very quickly.
2. We then discussed the subject of the Secretary's attendance the first day. The Secretary volunteered to attend but Senator George said it was not necessary. He invited the Secretary, if the Secretary so desired, to make a preliminary general statement, but after some discussion it was agreed that the Secretary would not appear since this was not a general tax bill.
3. Senator George said he would like to have me make a general statement in advance of any detailed statement by Jerry Morgan. My statement would generally inform the Committee as to the contents of the Forand-Robertson bill. Particularly, Senator George wanted information as to the mechanics of the collection at the source system in the bill. He also said that certain revenue estimates would be necessary but time would be given for their submission if we did not already have them ready.

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4. We had a discussion then of the question whether the consideration of the bill by the Committee should depart from subjects considered by the House. I recalled to the Senator that I had urged him on the telephone the night before (a copy of my telephone conversation is attached hereto) that the Senate Committee limit itself to pay-as-you-go matters. The Senator agreed with this statement of the night before that the bill should be so limited except for very minor matters which the House would not object to having the Senate originate. I then suggested the desire of the Commissioner to have two Assistant Commissioners as covered in a Joint Resolution recently submitted by the Commissioner and the Senator said this would be all right.

5. We then discussed the subject of compulsory saving, which, of course, was what both the Secretary and I had in mind when we discussed whether any additional matters should be taken up by the Senate in the pay-as-you-go legislation. Senator George said he had changed his opinion about compulsory saving and was now in favor of voluntary saving. He based his opinion on the fact (1) that we had gone so far with the voluntary saving program, (2) that it had been successful, and (3) that no amount could politically be obtained in Congress at this time sufficient to make up for losses in the voluntary campaign. The Senator did say that in the main tax bill additional impositions might well take the form of partial compulsory lending and that also attention should be given to corporate compulsory lending.

In this latter connection, the Senator referred to his speech before the Chamber of Commerce, which I had in my pocket and produced. The Senator then pointed to a sentence in his speech which indicated his attitude toward the compulsory saving situation. The sentence referred to reads as follows:

"A system of encouraging the purchase of war bonds out of current earnings is preferable to a scheme of compulsory saving."

- 3 -

The Senator said that in his actual speech he had somewhat elaborated on this prepared statement.

After Senator George left, I remained in the Secretary's office and he called Chairman Doughton. Chairman Doughton asked the Secretary what his reaction was to the bill and the Secretary replied that he was "baffled." Not much more was said along this line, but the Chairman raised the point about a statement attributed to me after the voting yesterday which gave my "blessing" to the Robertson plan. He said he had not read the statement but it was in the Times-Herald. The Secretary told Mr. Doughton that he and I agreed not to make any statement and I had supported the bill continuously. Indeed, the Secretary told the Chairman that I had suggested over the long distance telephone to him in San Francisco that the Treasury issue the statement made in support of the bill. Doughton appeared satisfied except that he vaguely intimated that something was going on that he and the Secretary did not understand. The Secretary arranged for me to call on Doughton this afternoon. Later in the morning I checked the item in the Times-Herald which did not purport to give any blessing by me of the Robertson plan. On the contrary, it read as follows:

"Although the Treasury never formally indorsed the measure, Treasury Counsel Randolph Paul told the House Ways and Means Committee he considered it an acceptable proposal. He figured it would forgive some \$7,500,000,000 of the \$10,000,000,000 estimated 1942 tax revenue."

Over the telephone I called the Chairman's attention to my constant support of his bill, including a conversation in Greer's presence with Jerry Voorhis, and various conversations with Representatives Anderson, Lyndon Johnson, Poulson, McMurray and others.

In the afternoon I called on the Chairman and had a very friendly chat with him in which we shook hands several times and the Chairman seemed entirely satisfied. I told

- 4 -

the Chairman in the morning conversation and again in the evening conversation that I expected to continue my support of his bill in the Senate but that I must say before the Senate, as I had said before the House, that I preferred the Robertson plan to the Ruml plan.

A handwritten signature in dark ink, appearing to be 'H.A.', is written below the typed text.

Mr. Paul's conversation with Senator George at 5:45, May 4, 1943

P: The House just acted on the bill, I suppose you have heard the news.

G: I was over there when the announced the vote on Carlson's amendment and heard the motion to recommit with instructions, but I had to leave.

P: The final vote was very high - 313 - 95. The reason I called was I just wondered if you had any idea when you would get to it in the Senate Finance Committee.

G: We've got to work very fast because the Trade Agreement Act probably will come up in the House Thursday or Friday and it will come right over to us because it will take only one day. The date on which that expires is some date in June and we've got both the tax measure and that matter, or will have. I thought we would start Thursday morning. I don't see why we should have public hearings. I will do all I can not to have any public hearings beyond the appearance of official witnesses on Thursday to give us certain information that everybody will ask about. What I think you will need to do is to be prepared to give us any estimates and tell us precisely what this bill does. I imagine most of the members have a general knowledge of it.

P: Would you like a short statement prepared for the information of the Committee?

G: Yes, giving us precisely the situation, and we are going to want a statement on the collection at the source method. I don't know how simple it is - whether it is simplified or complex and difficult.

P: We improved it a great deal.

G: I haven't studied it at all - I haven't even read that feature. It's going to be a matter of some inquiry.

P: Did you say you will not have public hearings?

- 2 -

- G: It will be public on Thursday and Friday but largely official witnesses. I don't think we will be calling general witnesses and don't think we will invite them to come.
- P: I think that will be fine because the Bureau of Internal Revenue has a tough problem to get it going by July 1. We ordered quite a lot of paper taking a chance that something would pass.
- G: If we get it out of Committee and through the Senate we've still got the conference. Yes, I agree with you and I don't feel like side-tracking the tax bill for the Trade Agreement Act but the Trade Agreement Act is going to expire very soon.
- P: You can count on us to expedite it. If we put this one question through and don't get off on too many red herrings we will be all right.
- G: Our Committee will deal only with the matter with which the House has dealt. We wouldn't get into a highly controversial field on what the House passed.
- P: We will be prepared to be up Thursday.
- G: Thursday at 10 o'clock.
- P: I am much obliged for your wanting to help us.
- G: Just give us an explanatory statement of what the bill does do and we will want certain estimates that could be sent down the following morning.
- P: We will have preliminary estimates unless you raise some refinement that we don't anticipate.
- G: I think the House worked every phase of it.
- P: They pretty nearly worked us over.

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1943 MAY 5 AM 7 58

WILMINGTON DEL MAY 4 1943

HENRY MORGENTHAU JR

DEAR MR SECRETARY WOULD IT DO ANY GOOD FOR ME TO COME
DOWN LATE THIS AFTERNOON WEDNESDAY CAN DO THAT EASILY.

GEORGE ALBEE.

751A MAY 5.

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May 5, 1943
11:15 A. M.

HMJr: Hello.

George
Albee: Good morning, sir.

HMJr: How is the supply of oxygen in Delaware?

A: (Laughs) I miss it.

HMJr: You miss it?

A: I miss all of the good clean air in more ways than one.

HMJr: Yeah. Well, everybody's been telling me that you couldn't come down, you were too busy up there.

A: Well, I can get down late this afternoon.

HMJr: Well, I think it would be wonderful.

A: All right, sir. Could I - do you suppose I could catch the train back tonight, so that I could report here for work tomorrow?

HMJr: Oh, no, no, no, no, no, that - I can't work on that - no - I - I'm not going to work on the speech until 9 o'clock tomorrow morning.

A: Oh, well, I have to be here tomorrow, Mr. Secretary.

HMJr: Well, then that wouldn't do me much good, George.

A: Oh, I'm terribly sorry. I thought perhaps if I....

HMJr: No.

A:came down this evening, they'd never know about it.

HMJr: The President of Bolivia is coming in and....

A: Oh, dear!

HMJr:and this afternoon and I - I'd be no good this afternoon.

A: Well, if after the re-writing were done tomorrow, sir, one of the boys would get me on the telephone up here....

HMJr: Yes, that could be done.

A:and I could stand by for any last minute polishing that was necessary.

HMJr: All right, somebody will read the speech to you after it's re-written.

A: Swell. Well, I'm going to miss seeing all of you again.

HMJr: All right. Well, we'll be in touch with you tomorrow.

A: I hope you won't forget me.

HMJr: I have - I won't.

A: Because if this - if they should by any chance get too stern about this, why, I'll just move out of here. I'll come down to Washington.

HMJr: How is the sale of explosives?

A: (Laughs) I hope it's all right.

HMJr: O. K. (Laughs)

A: Thank you, sir.

HMJr: All right, George.

A: Good morning.

May 5, 1943

Harold Graves

Secretary Morgenthau

If that Administrator from Indiana can be stopped from coming in, I think I had better postpone seeing him until next week.

When you get this message, please telephone me.

Taken care of-

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 5, 1943.

TO The Secretary

FROM Harold Graves

I have the attached telegram from Mr. Pulliam, War Savings Chairman for Indiana, which I believe you will be interested to read.

I shall of course defer calling Pulliam in until you instruct me further.

1943 MAY 5 PM 12 30 ²⁰⁷

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HAROLD N GRAVES, ASST TO THE SECTY

TREASURY DEPT

THIS CONFIRM POSTPONEMENT OF APPOINTMENT BUT EARNESTLY
RECOMMEND THAT THE SECRETARY MAKE DECISION PROMPTLY TO AVOID
CONFUSION REGARDING RESPONSIBILITY OF BOTH ORGANIZATIONS FOR
MAY DRIVE/THERE SHOULD BE ONLY ONE ORGANIZATION INTO WHICH
THE VICTORY FUND COMMITTEE CAN BE MERGED/FEDERAL RESERVE
SHOULD HANDLE PURCHASES BY BANKS BUT RESPONSIBILITY FOR SALE
OF ALL OTHER GOVERNMENT SECURITIES SHOULD BE GIVEN WAR
SAVINGS ORGANIZATION ON STATE RATHER THAN RESERVE DISTRICT
BASIS/VICTORY FUND LEADERSHIP HAS AND WILL EMPHASIZE VOLUME
BUT WAR SAVINGS PLAN WILL REACH MASSES FOR INCREASED NUMBER
INDIVIDUAL SALES AND THIS INCREASINGLY IMPORTANT IN FUTURE
DRIVES/THIS PLAN WORKED PERFECTLY IN INDIANA PRIOR TO
ORGANIZATION OF VICTORY FUND AND CAN BE MADE TO WORK IN
EVERY STATE IF THE SECRETARY WILL ANNOUNCE THAT THIS IS THE
TREASURYS PLAN AND THEN PERSONALLY SUPPORT IT/I HAVE
ASSURANCES BOTH FEDERAL RESERVE AND VICTORY FUND OFFICIALS
OUR DISTRICT WILL COOPERATE IN ANY PRACTICAL PLAN OFFERED BY
THE SECRETARY/HE IS THE SECRETARY AND THEREFORE THE LEADER
AND THIS PLAN WOULD NOT ONLY BE WELCOMED BUT WOULD BE
FOLLOWED/YOU CAN REACH ME UNTIL SATURDAY CARE ROY SWANK
LAGRANGE GEORGIA

EUGENE C PULLIAM.

RADIO CORPORATION OF AMERICA
RCA BUILDING
30 ROCKEFELLER PLAZA
NEW YORK



DAVID SARNOFF
PRESIDENT

May 5
1943

Mr. Henry Morganthau, Jr.
The Secretary of the Treasury
Washington, D. C.

Dear Mr. Morganthau:

Thank you for your thoughtful note regarding the Easter Sunday Concert of the NBC Symphony Orchestra under Maestro Arturo Toscanini at Carnegie Hall.

There can hardly be a more inspiring form of human endeavor than the presentation of great music in the service of a great cause. For this reason, all who had any participation in the Easter Concert felt rewarded in the fullest measure for their efforts.

Sincerely yours,

A handwritten signature in cursive script, which appears to read "David Sarnoff".

MAY 1 1943

Dear Mr. Sarnoff:

I want you to know how greatly I appreciate your cooperation in making the Easter Sunday Concert at Carnegie Hall a success. It is very gratifying, both because of the resulting sales of Second War Loan Bonds and the enthusiasm with which the program was planned and received.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. David Sarnoff
President
Radio Corporation of America
New York, New York

VFC/mon

Copies in Diary
Initialed copy to
Callehan

May 5, 1943.

Dear Henry:

I thank you for your letter of April 29 enclosing Mr. Likert's report on the fear of non-redemption of War Bonds, with which you enclosed a copy of your article in PM. It seems obvious that we must give increasing attention to this matter. So far it has been dealt with orally by workers in the field and I think in most cases rather effectively. Most people when they raise the subject are able to understand that as a purely practical matter no Congress or administration is likely to take the responsibility of repudiating a security that is held by such a large number of people and such a high proportion of voters.

I am very glad to have Mr. Likert's suggestions, as well as your own, as to publicity tactics for dealing with the question.

Sincerely,

(Signed) Henry

Secretary of the Treasury.

The Vice President
The Capitol
Washington, D. C.

File in Diary
Initialed copy to
Gaston

OFFICE OF THE VICE PRESIDENT
WASHINGTON

April 29, 1943

Hon. Henry Morgenthau, Jr.
Secretary of the Treasury
Washington, D. C.

Dear Henry:

Enclosed I am sending you a report from Rensis Likert on the fear of non-redemption of war bonds and also an article I prepared for PM several months ago.

On page 2 of Likert's report a workman is quoted as saying, "The Government is going to owe about 300 billion dollars by the time the war is over. Only about 30 billion of that will be owed for War Bonds and it's a damned cinch that the Government will pay off those rich that got the 270 billion coming before they pay off all the little potatoes that have a few War Bonds. Most of the guys figure that the Government will just not pay it. I don't think those bonds will be worth the paper they're printed on."

Frankly, I think we can carry the interest load after the war provided interest rates are kept down and we have full employment and full national income. The PM article has my reasoning in it and I don't know the best way to get this kind of story to the people of the United States. I have no doubt you have been doing a good deal more thinking about this than I have.

Sincerely yours,

H A Wallace

H. A. Wallace

Enclosure

UNITED STATES DEPARTMENT OF AGRICULTURE
BUREAU OF AGRICULTURAL ECONOMICS
WASHINGTON, D. C.



April 23, 1943

CONFIDENTIAL - NOT FOR PUBLICATION

The Honorable
The Vice President

Attention: Miss Huss

Dear Mr. Vice President:

Here is a copy of another of our reports which I
thought you would like to see:

Fear of Non-Redemption of War Bonds

Report No. 40.

Respectfully yours,

A handwritten signature in cursive script that reads "Rensis Likert".

Rensis Likert
Head, Division of Program Surveys

Enclosure

Which Do We Want: Economy of Scarcity or Plenty?

billion. We had a net Federal debt of nearly 16 billion and State and local government debts of nearly 14 billion, with interest charges amounting to 1X billion. These interest charges, totaling 6 1/2 billion, were the equivalent of 7 1/2 per cent of a national income of 83 billion dollars.

At present interest rates the annual carrying charge on a 200-billion-dollar Federal debt would be 5 billion dollars, the carrying charge on a 100-billion-dollar long-term private debt would be 4 billion dollars, and the carrying charge on a 20-billion-dollar state and local debt would be 600 million dollars, making a total interest charge of 9 billion 600 million dollars. This would be equivalent to a little over 7 per cent of a 130-billion-dollar national income (our prospective income for 1945) and would be approximately the same percentage of our national income as we devoted to paying interest on debt in 1929.

The real problem is to maintain full employment in peacetime production as we are now doing in war production.

As peacetime production expands and war production is contracted, the annual deficit will go down, and we can then begin to have substantial relief from the wartime burdens of taxation. But if 10 million people should be thrown out of work, the result would be a reduction of national income by perhaps 30 billion dollars, and a proportionate reduction in both private and corporation income tax payments. The one criterion by which we should judge all fiscal, monetary, and taxation policies is whether they bring about an increased balanced production of useful goods.

Two simple facts for all of us to bear in mind are these: first, that the more successfully private enterprise maintains full employment, the less government spending is required; and, second, that certain types of government economy, if they bring on widespread unemployment, can actually

drive us deeper into debt instead of pulling us out.

We need not go hungry or unemployed if we follow sound policies, if experts in money and taxation match the technical competence of those who work on the farms and in the factories. As a matter of fact, the way to pay for the war is to utilize fully our greatly expanded farm and factory facilities, and to continue to expand the productivity of agriculture and industry to the limit. If we do this, it is quite possible, within a few years after the war ends, in spite of the war-created debts, for the people both in the United States and in most other parts of the world to have a higher standard of living than they have ever had before.

-SO IF WE GO ON PRODUCING AFTER THE WAR AT THE SAME RATE AS NOW-

313/95
20%



FOR BETTER LIVING

POST WAR
120 3/4
BILLION
DOLLARS
AFTER
INTEREST



-WHICH MEANS ALL ALBE-BODIED WORKERS IN PRODUCTIVE JOBS-

... WE CAN NOT ONLY PAY INTEREST ON OUR WAR DEBT, BUT WILL HAVE LEFT OVER FOR BETTER LIVING. 120 3/4 BILLION DOLLARS OR 44 BILLION MORE THAN WE HAD IN 1929

By Eleanor Roosevelt: We Must Think In World Terms



Eleanor Roosevelt

I cannot see any reason for going hungry since I believe that there will be enough nations able to produce food for the feeding of the world at the end of the war. I do think it will be necessary for us to look upon the problems of the future, economic, political, cultural and spiritual, from the point of view of the world as a whole. I think it is highly important that we should not allow ourselves to think only of what we may gain from the after the war situation, whatever it may be, but that we should take a long range point of view and try to develop policies which will be beneficial to the world rather than to one nation in the world.

By Sec. Wickard: Supplies Must Be Divided Wisely

Claude R. Wickard, Secretary of Agriculture, is not an agricultural theorist, but a real dirt farmer. His 350 acre Indiana farm grows wheat, corn and alfalfa as well as Hampshire hogs and Aberdeen Angus cattle. His job as Food Administrator is part of the American campaign to "win the war and win the peace" by producing more from our farms.

In answer to your question relating to our wartime food supply I believe, as I said in a radio talk Dec. 12, "If we produce and conserve food to the limit of our ability we can meet our military requirements, help feed our allies, build up necessary reserves and still have enough food to give good diets to people here at home."

As I added in a talk on Dec. 27, "Many families won't get all of every kind of food they want to buy but that doesn't mean will poorly fed. The success or failure of our wartime food program depends on how well we divide our supplies. If we divide them better, we as a nation can be better fed than in recent years; if we divide them badly we are going to be in lots of trouble."



Claude R. Wickard

By James G. Patton: Small Farmers Must Be Helped

James G. Patton, President of the National Farmers Union, has long been a champion of the small farmer as against the large-scale commercial farmer whose lobby in Washington is one of the nation's most powerful. Mr. Patton has supported the Farm Security Administration and has frequently warned against the "high-price-through scarcity" school of thought of reactionary farm organizations.

You ask "must we all go hungry to pay for the war?" The answer is no. But it is likely that many millions of consumers may go hungry.

If so, it will be partly their own fault. It will be the fault also of spokesmen for commercialized agriculture who in the last session of Congress ignored our warning of oncoming food shortages and turned down our proposals that \$350,000,000 be appropriated to expand food production by assisting hundreds of thousands of low-income under-employed farm families. It will be the fault of the economy-howlers to both Houses who are now preparing to concentrate on the 5 per cent that is for our non-military, non-debt services in the new hundred billion dollar budget.

Food Shortage

Food needs in this global war are much greater than has been estimated. Eisenhower in North Africa is finding that food is a weapon of kindness in holding what has been won and in winning more populations and armies. The flow of food to him has been pitifully small, partly due, of course, to shipping difficulties. But, should we win the military phase of the war in 1943 and liberate Europe, between four and five billion dollars worth of food would be needed to feed the starving populations and stabilize the situation so that a rational peace can be begun. That is roughly a quarter of our present food output.

Present quotas for 1943 food production do not allow for additional food for North Africa and do not begin to meet the present

MORE

PM Daily

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Monday, January 18, 1948

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—From 'Last Train From Berlin'

UNITED STATES DEPARTMENT OF AGRICULTURE
Bureau of Agricultural Economics

CONFIDENTIAL - NOT FOR PUBLICATION

FEAR OF NON-REDEMPTION
OF WAR BONDS



For Administrative Use Only

Study 65
Report No. 40

Program Surveys Division
April 16, 1943

SUMMARY

I

Fear that War Bonds may not be fully redeemed has intensified sharply within the last six months. Although only 7 percent of urban respondents spontaneously discussed this possibility during a general discussion of bonds in September, 1942, the number had reached 21 percent by March, 1943.

II

This fear is found particularly:

In the Mid-West and Far West
Among younger people
Among the higher income groups

III

It is especially acute among larger purchasers who are now buying under social pressure. Unless it is soon alleviated, it may be expected seriously to reduce purchases among these buyers.

IV

It has already begun to deter bond-buying among people who determine the size of their purchases relatively free from social pressure.

V

To deal with this fear, it is recommended that War Bond publicity be specifically designed to counteract its influence. Extremely indirect approaches are required, however, to avoid stimulating further fear. (Specific recommendations for such publicity are presented on page 9.) It is suggested that careful pre-testing of such publicity be employed to assure that the desired effect will actually be achieved.

INTRODUCTION *

Late in March, the Division of Program Surveys made a national study of participation in the War Savings Program among urban dwellers. Although no questions were asked directly concerning the redemption of bonds, the interviewing situation was free enough to allow spontaneous comments to be made about this topic. This report describes those aspects of the material which bear upon the fear that War Bonds may not be redeemed.

A total of 590 full interviews was obtained from 16 sample points across the nation. The following towns and cities comprised the sampling points for this investigation: New York, New York; Chicago, Illinois; Los Angeles, California; Baltimore, Maryland; Boston, Massachusetts; Seattle, Washington; New Haven, Connecticut; Knoxville, Tennessee; Durham, North Carolina; Waterloo, Iowa; Orlando, Florida; Geneva, New York; Martinsburg, West Virginia; St. Charles, Missouri; Cloquet, Minnesota; and Napa, California.

Other aspects of the larger investigation are discussed in other reports which may be obtained upon request from the Division of Program Surveys.

* This study was conducted for the Treasury Department.

Fear That War Bonds May Not be
Fully Redeemed Is Influencing
An Ever Larger Number of People

In March, one person out of every twenty spontaneously told the interviewer that he feared that bonds might not be redeemed, although no direct questions about the redemption of bonds were asked. An additional 16 percent asserted that "other people" have this fear.

Considering these two groups together, one person out of every five discussed spontaneously the possibility that bonds may not be fully repaid, whereas, in a similar survey last September, only one person in fourteen did so.

Table 1. Fear of Non-Redemption of Bonds

	September 1942	March 1943
Respondent himself fears that bonds may not be redeemed	2%	5%
Respondent says "other people" fear that bonds may not be redeemed	5	16
No fear of non-redemption spontaneously expressed	$\frac{93}{100}\%$ *	$\frac{79}{100}\%$
		N-590

* Percentages in this column refer to the urban portion of the September study. This represents about 70 percent of the weighted sample of 535 interviews.

Quotations from InterviewsReveal the Way in Which PeopleExpress Their Misgivings

"When a man buys bonds, he is giving them an awful lot of money to do with as they please. I have heard a lot of talk that they won't be any good after the war - you won't get your money back."

"People aren't buying bonds 'cause it's too long to wait, and they are afraid they won't get the money back. They wonder if the bonds will be any good after the war. I sometimes wonder too. I don't see how the Government is going to pay it all back after it's all shot up."

"Some don't believe there'll be any money in the Government after the war. You can't cash them in at the post office and banks now because you have to wait too long. They'd rather have the money where they know they can get it."

"Bonds won't be worth a damn. Oh, I've gone along with the rest of them and bought a few bonds. Don't know what good they'll ever be though. Even if I come back from the army some day, I don't think I'll get anything out of 'em."

"Some of us down at the yard were talking about bonds at lunch just the other day. Got one guy expected to ever get any of that money. It's like one of 'em said, 'The bonds is just the Government's way of reducing our wages'. I guess they figure the working stiff is eating too much. Another guy said that the Government is going to owe about 300 billion dollars by the time the war is over. He said that only about 30 billion of that will be owed for War Bonds, and it's a damned cinch that the Government will pay off those rich that got the 270 billion coming before they pay off all the little potatoes that have a few War Bonds. Most of the guys figure that the Government will just not pay it. I don't think those bonds will be worth the paper they're printed on."

This Fear Exerts itsInfluence Even Among PeopleWho do not Express it Openly

The possibility that bonds may not be fully redeemed has occurred to many of those who are now buying substantial amounts of bonds and who do not express it openly. That these people have not entirely overlooked the possibility is indicated by the 10 percent of the respondents who feel called upon to justify their purchases on the grounds that "if bonds are no good after the war, nothing else will be".

Still others show it through the high value they place on the security afforded by property or a home. They feel that if the financial structure collapses they could still have a home. "Even if everything goes bust and money isn't worth anything you can have a place to live, if you own your home."

Especially among younger people it is a part of a general uncertainty about the future, expressed frequently in the phrase "we don't know what things will be like tomorrow".

There is a relatively small group of people, however, who view this danger as one of the necessary risks of winning the war. For these people the necessity of winning the war is so important that they are willing to give up their bond money if it is required. A typical comment from this group is: "We've got to win this war, and if they can't pay back my bond money that's better than having Hitler over here."

Fear of Non-Redemption is

High in Mid-West and Far West,

Low in South Atlantic States

Analysis of presence of fear according to geographical areas shows that it is particularly prevalent in the Mid-Western states, especially in the City of Chicago, and on the West Coast. The South Atlantic states seem to display relatively little fear. These areas of greater incidence of fear are the same ones which have shown more dissatisfaction with the Government's domestic policy, including such matters as rationing, selective service, price control, and the like.

In these areas one encounters, not infrequently, a belief that the war on the home front is a "phony" war. People who have this feeling assert that shortages are not real and that rationing is unnecessary. Among these people there seems to be a lack of confidence in the trustworthiness of the Government on several matters so that it is an easy step to transfer the feeling to the repayment of war bonds.

Table 2. Fear that War Bonds May Not be Redeemed as Related to Geographical Region*

Region	Indicates		Total	Number
	Fear	No Fear		
Mid-West	29%	71%	100%	183
West Coast	29	71	100%	86
New England	22	78	100%	100
Middle Atlantic	16	84	100%	149
South Atlantic	10	90	100%	92
				590

* For purposes of regional analysis two types of expression of fear are combined: (1) those who express the fear directly as their own belief, and (2) those who assert that others have this fear.

Fear of Non-Redemption

is Found More Frequently

Among Younger People

Expressions of fear that bonds may not be redeemed comes most frequently from people under 30 years of age and least often from those over 45. Several reasons contribute to this difference. On the average, younger people are better educated and more actively in contact with other people in situations where such matters are discussed and where rumors spread.

Regardless of the reasons for this concentration of fear among younger people, however, it is important, for any campaign designed to combat the fear, to know that it is found disproportionately among this group of people.

Table 3. Fear of Non-Redemption of Bonds as Related to Age

Fear	Age Groups		
	20-29	30-44	45-70
Indicates fear	28%	22%	16%
Indicates no fear	72 100%	78 100%	84 100%
	N-125	N-221	N-242

People Earning Larger Incomes
Are More Likely to Express this Fear
Than Those With Smaller Incomes

Those who earn more than \$35 a week more frequently indicate misgivings about the redemption of bonds than do those making smaller amounts. Several factors contribute to this difference. People with larger incomes are more sophisticated about financial matters, especially about matters dealing with the national economy. They have invested larger amounts of money in War Bonds and have more to lose if bonds are not repaid. In addition, they tend to be more vocal in expressing their opinions about matters of this sort.

Table 4. Fear of Non-Redemption of Bonds
 as Related to Weekly Income

Fear	Weekly Income	
	\$35 or Less	\$35 or More
Indicates fear	16%	24%
Indicates no fear	$\frac{84}{100\%}$	$\frac{76}{100\%}$
	N=230	N=325

There is Evidence That Fear of
Non-Redemption Has Begun to
Deter Bond-Buying

To determine the influence of fear of non-redemption upon bond purchases, it is not sufficient simply to find out the statistical relationship between the two items. It will be found in such analysis that people with lower incomes do not buy many bonds and also that they have little fear of non-redemption. The fact that they are not buying more bonds is related to their incomes and has little to do with their views about the possibility of repayment. In order to understand the effects of the fear of non-redemption, therefore, it is necessary to exclude those with very small incomes.

A second factor requiring consideration is the influence of social pressure on bond sales. People who are buying bonds under social pressure may be expected, on the whole, to experience greater fear before cutting their purchases than will those who do not submit to this pressure.

In Table 5, two groups are distinguished. Group I contains those who assert that they decided for themselves on the basis of their own needs and ability how much of their income they are to put into bonds. Group II is composed of those who say that they are buying the amount of bonds that they were asked to buy.

It is clear that in the first group (those not submitting to social pressure) fear of non-redemption is associated with smaller purchases and is highest among those not buying bonds at all. Among this group fear has begun to deter purchases.

Table 5. Fear that Bonds Will not be Redeemed as Related to Percentage of Income Spent for Bonds for Two Groups of Buyers *

<u>Group I. "We Decided How Much to Buy"</u>				
	<u>Owns no Bonds</u>	<u>Buying 1-5%</u>	<u>Buying 6-10%</u>	<u>Buying More than 10%</u>
Indicates Fear	29%	26%	22%	16%
<u>Group II. "We are Buying What They Asked"</u>				
	<u>Buying 1-5%</u>	<u>Buying 6-10%</u>	<u>Buying More than 10%</u>	
Indicates Fear	10%	18%	39%	

* Since a disproportionately larger number of those earning less than \$35 a week indicate no fear, this table includes only those earning a weekly income larger than \$35.

Among those who have submitted to social pressure (Table 5) a trend just opposite to that observed in group I is found. The larger the purchases the greater is the fear of non-redemption. Those who are buying larger amounts under pressure are more vulnerable to fear since they have more to lose and since they have not decided to buy these large sums on the basis of their own conviction of its soundness.

It would seem extremely likely that unless this fear is reduced many of those now buying large amounts under social pressure will soon react against it and reduce their purchases.

Special Publicity Designed

to Counteract This Fear

is Recommended

The evidence presented here indicates that fear of non-redemption threatens to become a serious deterrent to bond-buying. It is certainly undermining morale. War Bond publicity, specifically designed to counteract the influence of this fear, would seem, therefore, to be desirable.

In dealing with a fear such as this, however, extreme caution is required lest attempts to counteract it boomerang into further stimulation. Still, various indirect approaches aimed at heightening confidence should help appreciably.

Since the danger of kick-back is a real one, it is suggested that such publicity be carefully pre-tested before it is released on a large scale. Further study of the nature of this fear should also assist in efforts to overcome it.

Certain observations and recommendations may be made on the basis of studies now completed.

1. Material aimed at stressing the stability and soundness of the United States Government should heighten confidence. Such slogans as "Founded 1776", "The Richest Nation in the World" and "Your Government Has Emerged Stronger After Every Storm" could be used effectively.
2. Descriptions of a prosperous America manufacturing all of the new inventions and trading with other nations after the war would serve the two-fold purpose of strengthening confidence in the Government and of reducing personal anxieties about post-war unemployment.
3. More emphasis upon the difference between War Bonds and the Liberty Bonds should alleviate some of the fears now present. All people should know that War Bonds cannot depreciate in value since they are not sold on an open market. Axis propaganda has pointed out the parallel between War Bonds and Liberty Bonds. This propaganda can be rendered ineffective by pointing out the differences between the two types of bonds.

4. Since fear of non-redemption seems to be found predominantly among people who are hostile to the Domestic War Policies, any measures to heighten genuine war involvement and confidence in the sincere administration of the war on the home front will also reduce this fear.

INTERVIEW SCHEDULE

1. Are you better off or worse off financially than you were a year ago?
2. The way things are today, do you think it is better to save your money or spend it?
3. Why do you think that is best?
4. (If spend) What sort of things would you buy?
5. (If save) What form of savings would you prefer?
6. What do you think about War Bonds?
7. What do you think makes some people feel they don't want to buy War Bonds?
8. We are interested in talking to people about how they got started buying bonds. Do you happen to own any bonds?
If no, omit 9-13
9. How did you get started buying bonds?
10. Do you have a regular system for buying bonds?
11. About what percent of your pay do you put into bonds?
12. How did you decide what percent to buy?
13. Do you buy through the payroll deduction plan?
14. You know the Government is putting on a campaign to sell bonds. In your opinion, what is the most important thing for the Government to tell people to get them to buy more bonds?
15. When a person buys War Bonds how does he help himself?
16. How does he help his country?
17. Have you made any special plans for using the money from your bonds?

May 5, 1943

MEMORANDUM FOR THE SECRETARY

From: Mr. Blough

In a recent letter received from Professor J. Douglas Brown of Princeton University, he expresses the view "that a good stiff program of compulsory savings would help materially not only in the reduction of the gap between purchasing power and available goods and services, but also in preventing tensions in industrial relations in war industries and a loss of incentive due to insecurity."

Since Professor Brown has kept in close touch with labor problems, I think you may be interested in his letter and am accordingly attaching it.

RB

Attachment

PRINCETON UNIVERSITY
INDUSTRIAL RELATIONS SECTION
(Department of Economics and Social Institutions)

J. DOUGLAS BROWN, Director
HELEN BAKER, Assistant Director
HAZEL C. BENJAMIN, Librarian

Princeton, New Jersey

April 19, 1943.

Mr. Roy Blough,
Director of Tax Research,
Treasury Department,
Washington, D. C.

Dear Roy:

I am so much concerned about the present lack of balance between consumer purchasing power and available goods to be purchased that I am taking the liberty of writing you again in regard to compulsory savings. As you know, this is a well-worn line of thought for me, starting first with the notion of dismissal compensation, and moving to compulsory savings a year or so ago. I have enclosed a copy of my brief comment on dismissal compensation at the November, 1940, meeting of the Academy of Political Science, and more recently my letter to Secretary Morgenthau February 17, 1942. I am all the more convinced now that compulsory savings is not merely a device to reduce the danger of inflation, but one vitally needed to prevent extreme tensions in our wage collective bargaining situation.

A still further consideration is the post-war situation of insecurity which is faced by a great many war workers. This is bound to reflect in their morale and incentive during the war. Men who are uncertain of their future do not press as hard to get out current production but tend consciously or unconsciously to make their job last. A man running a 100-yard dash race does not run quite so hard, especially toward the end of the course, if he sees a yawning precipice just beyond the finish line.

To indicate the problems already affecting the mind of workers, I am enclosing a confidential survey of the Office of Public Opinion Research of Princeton University. I would like to call your attention particularly to the last few pages of the survey checked in red which indicate the expectations of workers as to whether they will have enough money saved up by the end of the war to tide them over to a new job.

I hope very much that you can call this survey to the attention of the Secretary. If you would like to have me come over to discuss the matter with you, I would be very glad to do so.

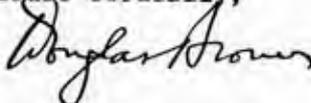
R-7

Mr. Roy Blough - page 2 - April 19, 1943.

My present judgment is that a good, stiff program of compulsory savings would help materially not only in the reduction of the gap between purchasing power and available goods and services, but also in preventing tensions in industrial relations in war industries and a loss of incentive due to insecurity.

With best wishes,

Yours cordially,



P.S. Tuesday to Friday am at the War Department, Republic 6-700, Extension 4204.

B/no

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

MAY - 5 1943

TO Secretary Morgenthau

FROM Randolph Paul

The proceedings on the tax claims against Mrs. Eleanor Elverson Patenotre may be of interest to you. On March 1, 1943, the Commissioner, with your approval, set aside a closing agreement entered into with her in 1932 for the year 1930 on the ground that it was obtained by fraud. A lien for approximately \$2,800,000 has been filed against cash and securities having a value of approximately \$2,600,000 owned by Mrs. Patenotre and deposited with J. P. Morgan & Co., Inc.

It appears that early in 1930 Mrs. Patenotre was the owner of 51% of the stock of the Philadelphia Enquirer, having acquired it by inheritance in 1929; that she made a record transfer of the stock to her son, Raymond Patenotre, a French citizen (reputedly close to the present Laval government) who, within a few days after the transfer, entered into a sale of the shares for \$10,500,000, consummated in Montreal; and that \$5,250,000 of the price was paid in cash and the balance in notes. It was represented to the Bureau to induce the closing agreement that Mrs. Patenotre had given the stock to her son prior to its sale and had never received any of the proceeds but evidence has been uncovered indicating that Mrs. Patenotre, even before the making of the representations, received the proceeds of the cash paid. There is reason to believe that she obtained the benefit of the notes through holding companies and that the sale was pursuant to oral arrangements made by Mrs. Patenotre with the purchaser before the purported transfer of the shares to her son. Her attorney is, and on the closing agreement was, Ellsworth C. Alvord, Esq., who resigned as Special Assistant to the Secretary of the Treasury on October 16, 1930.

An examination of documents in the possession of Harry P. Faulkner, a financial adviser to Mrs. Patenotre, was commenced by a Special Agent but terminated by Faulkner before completion on the advice of Mr. Alvord. A hearing is to be held in the Federal Court in New York on May 7, 1943, testing the right to

- 2 -

examine Faulkner and his records for the years from 1929 through 1942. These proceedings have special significance because questions have arisen under the applicable statutory provisions which may also affect tax collection procedure generally and because of the particular character of this case which involves annulment of a closing agreement nearly eleven years old with tax claims amounting to more than \$2,800,000. In view of the importance of the matter, and to assist in obtaining the best results, we have expended considerable time in close cooperation with the Department of Justice which, through its Tax Division and the United States Attorney, is primarily handling the court proceedings. I am maintaining direct contact with the case and will advise you further with respect to it.

A handwritten signature in black ink, appearing to be the initials 'AST' followed by a flourish.

Treasury Department
Division of Monetary Research

Date.....May 5,.....1943

To: Secretary Morgenthau

From: Mr. White

Subject: Visit of President
Peñaranda of Bolivia.

President Peñaranda arrives today for a five-day official visit in Washington. If you have occasion to meet him, you may wish to read the attached memorandum on the current situation in Bolivia.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 5, 1943.

TO Mr. White
FROM Mr. deBeers

Subject: Current situation in Bolivia.

I. Current United States-Bolivian Negotiations

1. Re-negotiation of the tin contract, which covers about half of Bolivia's 40,000 ton output, will commence on President Peñaranda's arrival. The original price in November 1940 was 48.5¢ a pound (later raised to 52¢); in June 1942 it was raised to 60¢ a pound, f.o.b. Chile. Presumably the labor clause and mining wages will now be re-examined, as well as the price.

2. A Stabilization Agreement was considered in June, 1942. Signature was delayed pending action by the Bolivian Congress, but no action has yet been reported.

3. A reciprocal trade agreement was negotiated nearly a year ago. Peñaranda may want to sign the agreement now, but the State Department wishes to wait until renewal of the Trade Agreements Act. The agreement would reduce the U.S. tungsten duty and bind tin and antimony on the free list.

II. United States-Bolivian Cooperation

1. The Development Program involves \$15.5 million in Export-Import credits (none yet utilized), \$2.1 million in advances by Rubber Reserve, and \$1 million for health and sanitation by the Coordinator of Inter-American Affairs. The Export-Import Bank has also extended other loans of \$1.9 million, under which disbursements have totalled \$1.8 million.

2. Besides tin, Metals Reserve has purchase contracts for tungsten (May 1941), copper (April 1942), and antimony (early 1943), and Rubber Reserve is buying Bolivian rubber.

3. The United States sent a Military Mission to Bolivia and has signed an \$11 million Lend-Lease Agreement, under which small shipments have been made.

4. The Bohan Mission of ten U.S. experts was in Bolivia five months in early 1942; most development plans are based on its report. Mining engineers and other technicians have also been sent to Bolivia. Last fall Bolivia requested a U.S. fiscal expert, but Treasury has not yet met this request.

III. Bolivia's Financial and Economic Situation

1. Bolivia's prices are rising rapidly--some 30 percent a year. This is due principally to the large demand for Bolivian exports, which have increased much more than imports, thus leaving increased purchasing power in the hands of Bolivians. In addition there has been an inflationary creation of credits by the Bolivian banking system.

2. Tin miners in Bolivia work for very low wages, usually under unhealthful working and living conditions. Labor troubles broke out in a strike last December, which was stopped by martial law. A United States-Bolivian Mission, established as a result of the discussion at a B.E.W. meeting which you attended, made investigations which confirm the existence of deplorable labor and social conditions.

3. Bolivia's economic future depends chiefly on her rich but untapped oil resources and on greater food production. The tin industry, now booming, is faced with rapid exhaustion of reserves. To develop the country a joint U.S.-Bolivian corporation has just been set up, for which the United States will contribute \$18.6 of the first \$29.1 million.

4. In February 1943 Bolivia raised the value of its currency from 2.2¢ to 2.4¢ (46 to 42 bolivianos per dollar). The chief purpose was to lower the boliviano cost of imports. The boliviano had fallen from 32¢ in 1931 to 2.2¢ by June, 1941.

5. Bolivia's gold and foreign exchange holdings are increasing. They were \$20 million on December 31, 1942, \$17 million at the end of 1941, and \$11 million at the end of 1940.

6. Exports rose from \$39 million in 1939 to \$81 million in 1942, producing the largest export surplus in two decades. Tin constitutes about three-fourths of total exports. Most exports now go to the United States, although we took less than 10 percent in 1939; our share in imports rose from 25-30 percent before the war to 42 percent in 1941.

7. Apparently there were large budgetary surpluses in 1941-1942, aside from capital outlays for Standard Oil properties and the Development Corporation. Government revenues (largely taxes on mining) reached all-time highs; expenditures, lagging somewhat, are also at record levels.

8. Bolivia defaulted on its foreign debt (largely in dollars) in 1931 and has made little effort to resume payments. Some repatriations have been made in the open market during recent years at very low prices.

MAY 5 1943

My dear Mr. Leffingwell:

Thank you for your letter of April 22, 1943, enclosing a memorandum dealing with the British Treasury proposal for an International Clearing Union.

Your interest in presenting your views on the British proposal is appreciated. They are being carefully studied by the members of the Treasury staff who are working on this question. As you know, all of the plans now under consideration for meeting these problems are entirely preliminary and tentative. We are hopeful, nevertheless, that from the discussions and studies now in progress, practical plans may be evolved which will make possible international cooperation for the stabilization of exchange rates.

Though you have undoubtedly read the text of the Treasury's preliminary draft proposal for the United and Associated Nations Stabilization Fund, I am enclosing a copy which you may wish to have available for reference.

Sincerely yours,

(Signed) H. Morgenthau, Jr.
Secretary of the Treasury.

Mr. R. C. Leffingwell,
23 Wall Street,
New York, New York.

Photo file in Diary

File to Thompson

Enclosure.

April 19, 1943

Keynes's International Clearing Union

The value of a nation's currency at home and abroad tends to vary with the quantity of that currency issued, and the velocity with which it circulates. These in turn are controlled by taxation and expenditure, and the balance or unbalance between them, and by the level of interest rates. The control of these matters rests with each nation itself. No nation can be expected to surrender control of its budget, of its taxes and spendings, or its level of interest, or of its currency issue, or of its domestic price level, to any foreign nation or group of nations. A sound currency is one that is not being inflated by abuse of the printing press. Yet the Keynes plan ignores all this. It undertakes to stabilize the currency of any and every nation in foreign exchange regardless of the amount printed.

The value of a nation's currency in foreign exchange depends, secondly, on its balance of trade and payments. Though bank loans and credits and gold shipments may for a time serve to maintain equilibrium in foreign exchange of a sound currency when the balance of payments is temporarily out of equilibrium, these are merely temporary expedients and not permanent. Disequilibrium has to be corrected by more substantial measures such as increasing exports and reducing imports of goods and services, and inducing imports of permanent capital by showing capital a reasonable prospect of profit and of political monetary and economic security.

No nation can print money without limit without impairing its value. No nation can habitually maintain an adverse balance of international payments without impairing the value of its currency.

in foreign exchange. It is not possible, nor is it desirable, to guarantee inflated currencies, or the currencies of nations which are chronic debtors on international account, at the expense of nations which maintain balanced budgets and balanced trade.

The Plan ignores the fact that weak exchanges are due primarily to unbalanced budgets and the abuse by government of the printing press, or to unbalanced international payments. The Plan treats a disordered exchange as a disease in itself rather than as an effect of domestic inflation or unbalanced international payments. The Plan proposes to cure the symptom, to wit, the disordered exchange, which reflects bad internal conditions and unbalanced trade relations of a nation, by giving the disordered nation the power to draw on the credit balances of those nations whose currency policies are orderly and whose foreign balances are in credit.

In order to insure that a creditor nation, such as the United States, shall have little to say in the matter, the Plan declares (Preface 3) that management of the Credit Union must be genuinely international with the preponderant power of veto not with any country or group, and that the rights and privileges of smaller countries must be safeguarded. In consequence it would seem that creditor nations would be helplessly at the mercy of the more numerous debtor nations, and that the creditor's resources in gold and foreign exchange would be continuously drained off for the benefit of debtor nations. Indeed it would seem also that the position of a debtor nation under the plan could best be improved by rapid unbalancing of its budget and brisk use of its printing press; and that those countries that pursued the worst policies budget-wise and trade-wise would soon possess themselves of the resources in gold and foreign exchange of the countries that were foolish enough to pursue sound

policies. Indeed so great is the preoccupation of the author of the plan to impair the position of creditor countries, and of those who pursue sound internal policies that he devotes his entire Article III to the question "What Liabilities Ought the Plan to Place on Creditor Countries?"

The author says (I 5) the idea underlying the Credit Union is to generalize the essential principle of banking; and that as no credits can be removed outside the clearing system but only transferred within it, the Union can never be in any difficulty. However it has never been a general principle of banking, whether in a closed or open system, that a bank should be run by its debtors or that depositors should not be allowed to withdraw their deposits. It is easy to see why a bank which would not have to pay out its deposits could not get into any difficulty. It is not so easy to see however how a bank which had no obligation to pay out its deposits would get any deposits paid into it.

It is an odd feature of the Plan (II 5) that quotas which determine each nation's share in the management and in the credit facilities of the Union are suggested to be based on the sum of its exports and imports. This means that a nation such as Great Britain, which habitually has an immense volume of trade and habitually has an adverse balance of trade, would have a great share in the management and at the same time the greatest right to borrow from the Union. If we apply the banking analogy the Plan suggests this would mean that a depositor whose account showed the greatest turn-over, i.e., the greatest aggregate of checks drawn and checks deposited, though his balance was in debit, would be entitled to add its debits and credits together and take the sum of them and so measure its vote in the management, and the amount he was entitled to borrow by the sum of his debits and

credits.

The Plan provides (II 3b) that if a nation's debit balance reaches half its quota the Governing Board of the Union may require it to reduce the value of its currency, control outward capital movements and surrender gold or other liquid reserves.

The Plan provides (II 9) that if a nation's credit balance exceeds one-half its quota the Governing Board may discuss (and shall have the ultimate decision upon) measures for inflation or deflation of that nation's currency and credit, to reduce its tariffs and to make international loans. Evidently the Governing Board would have complete control of the economic life of any nation whose credit balance was in excess of half its quota.

The Plan (III B) provides that the Clearing Union shall give the creditor nation a choice between voluntarily curtailing its exports or accumulating credit balances in bancors with the Clearing Union.

In IV 14 it is stated that "Great Britain could offset favorable balances arising out of her exports to Europe against unfavorable balances due to the United States or South America or elsewhere. How, indeed, can any country hope to start up trade with Europe during the relief and reconstruction period on any other terms?" This means the United States is to finance British exports to impoverished countries unable to pay for them.

In V 19 it is said that though "the Clearing Union may have difficulty in disciplining a misbehaving country", this can be urged with much greater force against a multiplicity of separate bi-lateral agreements. This overlooks the fact that in case of separate bi-lateral agreements, the creditor country may require good conduct of the debtor as a condition of granting credit. However, in the following

section 20, it is stated that exchange dealing would be carried on as freely as under the gold standard without its being necessary to ask anyone to accept onerous conditions. It seems any debtor may borrow regardless of his credit-worthiness or of his willingness to put his house in order.

The following section 22 states that many States are likely to wish to impose on their own nationals control of the capital movements. This is an old project of Keynes's. He goes on to say in the same section that in no case is control of capital movements to be by the Union but only by the member States. An entire article (VII) is devoted to the control of capital movements, yet creditor countries are to be forced or pressed to grant credits and make international loans. It does not appear why anyone should make a loan to a country which controlled capital outflow. Depositors will not deposit money in a bank from which they cannot withdraw it. People will not make long-time investments in a country which prevents or jeopardizes the withdrawal of such capital.

Section 25 contemplates that the United Kingdom and the United States might agree together not to accept reserve balances of other countries in excess of normal working balances except in the case of banks definitely belonging to a sterling-area or a dollar-area group. This is to prevent a flight from sterling to the dollar or vice versa.

Article VI 27 says that each currency would have a defined exchange value in terms of bancor and therefore in terms of gold. Apparently this would be expected to be true no matter how much bancor was printed. Section 27 goes on to say that the fact that a member State is entitled to obtain credit in terms of bancor by paying gold into its account would insure a market for our gold

and for that of the gold-producing countries. However this would be a market at a pegged price for paper money of account without any effective control of the amount of paper money printed. Section 29 declares it essential that no member bank be entitled to demand gold; that thus between gold and bancor there would be only a one-way convertibility. That is to say, bancor would be inconvertible money of account.

Article IX 39 states "the Union might become the pivot of the future economic government of the world". It goes on by way of illustration to mention as within the possible field of activity of the Clearing Union: post-war relief, rehabilitation and reconstruction; the duty of preserving the peace and maintaining international order; enforcing a financial blockade; financing stocks of commodities and ever-normal granaries; financing a Board for International Investment; maintaining the stability of prices and controlling the trade cycle; exercising expansionist or contractionist influence on the system as a whole or on particular sections. In section 40 it is pointed out that no particular member States have to engage their own resources; but they only have to agree in general to let them be engaged by the Union; and that where financial contributions are required for some purpose of general advantage, it is a great facility not to have to ask for specific contributions from any named country. "We have here a genuine organ of truly international government." In other words the creditor nation has nothing to do with it. It just agrees to let its resources be exploited by this Credit Union for the benefit of mankind. One wonders what group of gods or supermen are to manage this sublime agency for the re-distribution of wealth.

To finance this war the United States is not only in-

flating its currency and domestic debt. It is also paying gold and incurring foreign debt for the pay and maintenance of its overseas forces. It already owed before we were at war tens of billions on capital account representing flight money and other foreign investments here. It would seem therefore that the United States will have enough to do to maintain the integrity of the dollar without placing its gold and exchange reserves, and its economic life at the disposal of the Governing Board of the International Credit Union.

Stability of the foreign exchanges and lower tariffs will be of vital importance to the recovery of the world after the war. The former can only be achieved by each nation establishing a proper balance between its taxes and expenditures; the latter by just reducing tariffs and embargoes. No nation will leave these matters to the decision of any international Governing Board. No nation will submit to have its liquid resources drained off to support the currencies of other nations which do not pursue sound-internal monetary policies.

We cannot make sound currencies first and sound conditions after. When victory comes the three great victor powers, Great Britain, Russia and the United States, must unite to maintain peace and law and order throughout the world, to feed the famishing, to supply raw materials to those countries that need them and will use them. For these purposes government loans or gifts, not currency credits, will be needed. These great powers must then control their own currency issues by sound internal policies, and must feel their way to the establishment of an orderly but not too rigid equilibrium between their currencies in foreign exchange on the model of the pre-war equilization fund between England and the United States. Then

also gradually these three should invite the adherence to these currency equilization arrangements of other countries, as those other countries put their houses in order, with the help of the three great powers, and fit themselves for participation in the sound money family of nations. Sound money is a by-product of sound internal policies of each nation. It is not a gift which the gods of a super-central bank can present to spendthrift nations at the expense of the thrifty.

R. C. L.

SECRET
14 MAY 6 AM 11 41
TREASURY DEPARTMENT
AMJW

NOT TO BE RE-TRANSMITTED

COPY NO. 23

BRITISH MOST SECRET
U.S. SECRET

OPTEL NO. 147

Information received up to 7 a.m., 5th May, 1943.

1. NAVAL

Three ships in an outward Atlantic convoy were sunk this morning South of CAPE FAREWELL.

2. MILITARY

TUNISIA. 3rd. United States troops entered MATSUR at 1100 hours and continued their advance Northeast, Northwest of the town. 200 prisoners were taken further South. They advanced to within 10 miles of TABOURBA. In the coastal sector, French troops are now within 15 miles of BIZERTEA.

BURMA. Our troops have made some further slight withdrawals in the MAYU Peninsula.

3. AIR OPERATIONS

WESTERN FRONT. 4th. 65 United States Fortresses dropped 145 tons of H.E. at the Ford and General Motors Assembly plants at ANTWERP. Bombing is reported as "good". Enemy casualties by Fortresses (provisional) and Fighters - 8, 5, 12. 3 Fighters missing. Mosquitoes bombed the power station at the HAGUE, and escorted Venturas attacked ABBEVILLE railway centre. 4th/5th. Aircraft despatched:- DORTMUND - 596 (30 missing, 4 crashed in United Kingdom and 1 in the sea), RHINE - 8, Leaflets - 28, "Intruders" and Railway Objectives - 10. Preliminary reports indicate perfect weather over DORTMUND with "Marker" bombs well placed and bombing concentrated.

TUNISIA. 2nd. Escorted Light and Fighter Bombers attacked objectives in the battle area and shipping in the Gulf of TUNIS. Enemy casualties - 3 destroyed. Ours - 4, 0, 2. 3rd. 55 escorted United States Fortresses sent to attack BIZERTEA ran into bad weather. 14 attacked the objective. 5 Fortresses missing and 5 more crashed. 3rd/4th. Naval Albacores torpedoed and set on fire a 1,000 ton ship in the SICILIAN Channel.

BURMA. 2nd. 23 United States Mitchells attacked transport targets in the SANDALAY Area.