

DIARY

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May 24, 1943  
11:00 A. M.

HMJr: Good morning. I like being in New York.....

Daniel Bell: You do?

HMJr: ....and talking to you fellows on the phone.

B: (Laughs)

HMJr: I don't have as much fun though as Mrs. McHugh does, though.

B: Oh, that was.....

HMJr: She and Miss.....

B: What - what fun is she having?

HMJr: ....Macdonald, they're out every night.

B: Oh, really?

HMJr: They're practically worn out.

B: Night clubs, I suppose.

HMJr: I don't know. They don't tell me.

B: (Laughs) Well....

HMJr: They always say that I told them to see New York, and they're carrying out my orders and New York's a big place.

B: And I suppose the only time you have any string on them is between nine and four-thirty, anyhow.

HMJr: That's about all.

B: Yeah. Well, that ought to be right. I've got Gaston, Sullivan and White.

HMJr: Yeah. I was just talking with Schwarz and he says we got a good play on that story on War Bonds - financing.

B: I haven't seen it. Sullivan and Gaston say, "Yes," you did.

HMJr: It was on the radio, and it seemed to have worked out very nicely.

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B: What was that, the pamphlet?

HMJr: Yeah. Fred Smith will be down today....

B: I see.

HMJr: ....in Washington.

B: Uh huh. Anything for him to do?

HMJr: Well, he's got plenty to do for the first day.

B: That's what I mean. You've told him what you want him - nothing for us to give him or anything?

HMJr: No, he's got enough for the one day, but what I do want is the first time he has a breathing spell, I want somebody to take him to school on expenditure tax.

B: All right.

HMJr: Who'll be a good person to do that?

B: ?

HMJr: What?

B: Well, Roy Blough or Harry White's office. Either one, I suppose.

HMJr: Well, settle it.....

B: There're - there are a number of memoranda around on it, prepared by all the officers. He might read them all.

HMJr: Well, if you could sort of get it together for him....

B: Yeah.

HMJr: ....then I'd like him to begin to study that.

B: All right. I'll do that. What else?

HMJr: I'll come down either late tonight or tomorrow morning, depending upon the weather.

B: I see. Well, the weather looks a little overcast here. It looks like we might have a shower. I don't know what the ceiling is.

HMJr: Does anybody want to ask me anything?

B: Wait until I see. How is Mrs. Morgenthau? They all want to know.

HMJr: She's making steady progress.

B: That's fine.

HMJr: They say that the worst will be over after today.

B: I suppose she still feels the effect of the anaesthetic.

HMJr: No.

B: That hangs on for a week.

HMJr: No.

B: Really?

HMJr: Oh, no.

B: Gotten over it, huh?

HMJr: Well, that was over after the first day.

B: Well, that's fine.

HMJr: They don't - the anaesthesia they use is so different. They've got some kind of gas that they use.

B: Yeah.

HMJr: You don't feel it.

B: I guess they have nothing. Everything is kind of quiet here. I haven't heard from Paul.....

HMJr: Just one minute. I - just one minute.

B: Yeah.

HMJr: (Talks aside) Hello.

B: Yes.

HMJr: Hello.

B: Yes.

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HMJr: It was - Harry Durning was outside.

B: Uh huh. Paul is on the Hill, so I.....

HMJr: I talked to him this morning.

B: Oh, you did?

HMJr: Yeah.

B: I see. I don't know whether.....

HMJr: It was - it was very unsatisfactory.

B: Well, I.....

HMJr: I don't know whether I could do any good if I was down there or not.

B: In the papers, it looks as though - that everybody is mad up there.

HMJr: Yeah.

B: Wait a minute. Harry said something here. (Talks aside: What is it?) Oh, Harry said I might report to you that - that matter on which there was some disagreement between us and the Army.

HMJr: Yeah.

B: Well, we're having our way.

HMJr: (Laughs)

B: That's a good way to put it. (Laughs)

HMJr: Just wonderful. Now, I have something for you.

B: All right.

HMJr: I have -- and Miss Chauncy can give you the original -- I have a letter -- if you make a note of this -- from Marriner, asking could they have a copy of those notes, do you see?

B: Yes. I got that.

HMJr: Well, I think the best way would be to tell him that -- that meeting that took place in the chart

(Cont'd.)

HMJr: room -- let's just destroy them, because that's worrying them. You see?

B: I think that's better. I think we all agree to that.

HMJr: What?

B: I think we all agree to that. We discussed it some Saturday and we think that if anything is done along that line, the copy destruction is better than giving them a copy.

HMJr: Well, I'd be willing to have you give the orders, or I can give them in the morning.

B: Yeah.

HMJr: That's number one. Number two, in the letter.....

B: Well, that - that doesn't have to be decided, I mean, now.

HMJr: Well, I'll tell you - I - I want to work up an excuse for you to see him.

B: For me to see Marriner?

HMJr: Yeah.

B: All right.

HMJr: If you think - I have two letters from him and the other one is, he wants to discuss - have an opportunity to talk to you again before you announce the appointment of the National Director of Sales.

B: Yeah.

HMJr: Well, what I wanted was -- if - if the rest of the people there thought well of it -- for you to have an excuse to see Marriner and see if you could find out a little bit how they feel, whether they've weakened any, you see?

B: Uh huh.

HMJr: Which would - so that I'd know a little bit better how to handle myself.

B: Yeah.

HMJr: Now in my memorandum - in my conversation with Ronald Ransom, you know, I said, "I'm - I'm through arguing."

B: Yes.

HMJr: And I take it that they - they know that. You see?

B: Sure.

HMJr: And I thought if you could have any excuse and sort of - kind of try to pull him out a little bit, it might be helpful.

B: Yeah. The only thing that I have had from Eccles is what I told you Saturday night.....

HMJr: Yeah.

B: ....that he had asked Allan Sproul not to break off negotiations with you because they want it kept open for further discussions down here.

HMJr: Well, talk it over with the gang and whatever you all decide is all right. If you think it's a sign of weakness, I wouldn't do it. See?

B: Yeah. Wait a minute. Herbert's got - (talks aside) - Herb suggests that you might want to consider really editing the transcript of that record and destroying that part of it that's unpleasant and leaving the rest of it in the files....

HMJr: Uh.....

B: ....and letting Marriner go over the edited part.

HMJr: After it's been edited.

B: Yeah.

HMJr: I think Herbert, as usual, is right.

B: Yeah. I think maybe that's a good suggestion.

HMJr: I'd leave out the George Harrison business.

B: Yeah. I think that's what's hurting him. Then - then they might still want a copy of it, and after that I wouldn't think there'd be any harm.....

HMJr: No.

B: ....in giving them a copy.

HMJr: Well, let me - you remember - I don't know whether you'll remember, but I had a conversation with the French Ambassador in which I called the French Nation nothing but a bunch of chiselers.....

B: Yeah.

HMJr: ....and he got so excited, and then I threw the stenographic notebook into the fire in July and burned it.

B: I see.

HMJr: Everything was lovely after that. I think this thing ought to be straightened out before I see them Wednesday.

B: All right.

HMJr: See?

B: Yeah.

HMJr: So that that isn't a bone of contention.

B: Well, I'll - I'll try and see Marriner today.

HMJr: And you also might talk to him - what has he got in mind about Gamble?

B: Yeah. Well, I thought there that you'd probably wanted it discussed with the Federal presidents as to how they would get along with Gamble. I don't know whether any of them have had any run-ins with Gamble. There's a suspicion that they have, and that - it's a question that maybe they wouldn't get along with him.

HMJr: Well, I don't know, but - but I - I thought you might say to Marriner, "Well, the Secretary isn't here. He's referred those two letters to me with power to act." You see?

B: Yeah.

HMJr: How's that?

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B: Okay. Well, I'll see him sometime today.....

HMJr: All right.

B: ....if I can get to him.

HMJr: But.....

B: By the way, his secret meeting the other day was -- he told me -- was going downtown to do some shopping.

HMJr: (Laughs)

B: He said they couldn't get him. They didn't know where he had gone, and they didn't -- apparently he had gone from home or something and they didn't know where he was. He told me that when he was talking to me Saturday.

HMJr: I sent for Gamble to come up to New York....

B: I see.

HMJr: ....to see the New York War Bond people, and see whether he could find out if there was anything going on that -- without letting on that, you know, that I was here or anything.

B: I see. Well, he -- he isn't going to see Allan?

HMJr: No.

B: Yeah.

HMJr: No, no. He's just going to see the State War Bonds people. They asked to see me, you know.

B: Yeah.

HMJr: And I thought that if he saw them he might, just by chance, find out something.

B: All right.

HMJr: So that's about all I've done.

B: Okay.

HMJr: Now wait a minute. Let's see -- I guess that's about all. But Mrs. Morgenthau is making wonderful progress.

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B: Well, that's grand. We're all glad to hear that.

HMJr: Thank you.

B: Good. All right. See you later.

HMJr: If I could have Miss Carre, please.

B: All right.

Operator: Hello.

May 24, 1943

MEMORANDUM FOR THE SECRETARY'S FILES:

On last Thursday's meeting of the conference committee, it looked very much as if some compromise on a straight across the board proposition, fixing the forgiveness on a percentage of tax basis, would soon be reached in spite of the President's letter. Mr. Greer felt at that time that a 60% compromise would be reached, and I think within a few percentage points, this was the view of most of those attending the session. At the beginning of the session, I gave the attached statement (Exhibit A) to Senator George, Congressman Doughton and Cooper.

On Friday, the mood of the conference changed a great deal. Senator Vandenberg made a statement that any measure adopted by the conference committee should be such as to secure the support of the President and the Treasury. He said that he was not talking in terms of a veto, but in terms of active, cooperative support. He said that it would be very calamitous for the country if any measure were adopted which was followed by a blast from the White House or the Treasury calling attention to class discrimination and the favoring of the wealthy. This turned the discussion into talk of what the President would accept and several members of the conference, including Senator Clark and members Disney, Knutson, and Jenkins, favored an attempt to discover what the President would support. The letter of the President was read at this conference and several statements were made, notably by Vandenberg, Knutson, and Jenkins, that it was inspired by the Treasury. Another group, led by Mr. Doughton, thought the conference committee should make up its own mind irrespective of the Executive.

Following this session, I came back to the Treasury and discussed the situation with Dan Bell, telling him that I feared that Senator George would attempt to get together with the President and secure some agreement with him without

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full understanding on the President's part of the real issue. At this time I talked with you on the telephone from your office. Dan Bell and Herb Gaston were present and you authorized me to take up the matter with Justice Byrnes.

I saw Justice Byrnes about 1:00 and told him and Ben Cohen the situation. We both explained to him in detail the distinction between employing the device of forgiving a percentage of taxes and the House bill, making the point that the latter accomplished a more equitable distribution of forgiveness.

I then returned to the Treasury and Mr. Blough and I went over the situation with Mr. Bell, who, in the meantime, had communicated with Grace Tully with the suggestion that he and I see the President just before the Cabinet meeting. The President was behind schedule and Dan concluded that he would mention it to the President at Cabinet meeting. This he did.

At this conversation with the President, Mr. Bell explained the situation to the President and also told him that there was a strong movement to postpone any tax bill until September. This seemed to shock the President as it would necessitate greater borrowing and leave the inflation front in jeopardy. Dan also told the President that Senator George might seek an interview, and the President decided that it might be better to him to see Senator George first without making up his mind and then call us in afterward.

I then attended the Friday afternoon session of the committee, and nothing more was there accomplished. The session was interrupted by a phone call on the part of Senator George who went out of the room for some time. After he returned, he took Senator Walsh out with him and remained for a period. Later, he took Chairman Doughton out and remained for a period. It was obvious that something had happened, which I later determined to be that he had communicated with Justice Byrnes and told him the deadlock situation.

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Apparently, following the last-mentioned telephone call and about 5:15, Justice Byrnes saw the President and explained to the President the distinctions between the across the board plan (percentage of tax forgiveness) and the House bill. The President decided that he was in favor with the principle of the House bill with reasonable variations. This decision Byrnes communicated to George about 5:15 p. m. on Friday.

At the beginning of the session on Saturday morning all experts were excluded from the room. We waited around until about 1:00 p. m. and the meeting broke up until Monday morning at 10:00. The Democratic members of both houses had a long session afterwards, continuing right on after the other meeting. What went on at the meeting is summarized in a telephone conversation between Mr. Cooper and myself, copy of which is attached hereto. (Exhibit B) From this telephone conversation it is obvious that the Senate is holding out for about 75% straight across the board, and is taking a fairly firm stand.

After this telephone conversation, I communicated with Ben Cohen, Russell and Pritchard at Byrnes office. Mr. Surrey and Mr. Blough attended this conference. After a time, I returned to the office to call Cooper, whereupon I had a conversation with him urging him to stick out against straight across the board forgiveness. This he said he would do as far as 60% is concerned, although he had mistakenly agreed to commit himself on 50% on the basis of a very brief conference with me before the morning session. I did not tell him that the 50% would be agreeable as he seemed to think.

After talking with Cooper, I returned to Byrnes office where I had a further talk with Justice Byrnes, Ben Cohen, Pritchard and Russell. At this conference I found Pritchard and Russell urging upon Justice Byrnes that the President should issue a statement as to what he would sign (the House bill), his previous letter having covered the subject of what he would not sign (the Senate bill). This argument was based on a suggestion made by Mr. Surrey with the thought that it would take a good deal of heat off the President

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if he definitely announced that he would sign a bill voted for by a large majority of one of the legislative bodies. Justice Byrnes did not commit himself on this suggestion. He was very tired and appeared generally to think that the President should not issue any more statements. I was then inclined to agree with Pritchard, Russell and Surrey and urged upon Byrnes the arguments in favor of a statement.

On Sunday I had a late breakfast at Congressman Lyndon Johnson's house following a telephone conversation with Johnson late Saturday afternoon. Johnson said there was nothing in the theory that the Republicans would drop the whole Ruml matter in the event of a deadlock. He thought that the Ruml-Carlson bill would be re-submitted to the House and might pass this fourth time. I mentioned to him the idea of a statement by the President that he would sign the House bill, but Johnson opposed such a statement. James Rowe of Justice attended this breakfast with me, and I mentioned to him an idea by Ben Cohen of the evening before (mentioned to you over the telephone this morning) that the Treasury issue a statement that it would recommend acceptance of the House bill. Rowe thought there should be no such statement by the Treasury as the matter had come to be an issue between the President and Congress.

The Committee met again at 10:00 on Monday in a short session, following a meeting of the House conferees at 9:00 this morning. Apparently no progress was made, the Senate conferees holding for a 75% across the board forgiveness with 100% forgiveness of the tax up to \$50.00. There is to be another meeting of the Democratic members of the conference at 4:30. What happened this morning is told in a memorandum of a telephone conversation with Jere Cooper at 12:05 today. (Exhibit C)

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Monday afternoon, immediately after lunch at the office, I went home. Shortly after arriving home I had a telephone conversation with Mr. Cooper who reported the progress of the situation. Later in the afternoon I learned that Justice Byrnes was seeing the President that afternoon. I had a conversation with Mr. Cohen which confirmed this information and then called Justice Byrnes. Justice Byrnes was on another phone at the time and did not call me back as his secretary had agreed. I thereupon called him about 5 o'clock and talked with him in which conversation he gave me the impression that he thought the situation was getting very uncomfortable for him. He asked when the Secretary would return and said that he thought the Secretary should get into the situation in the morning upon his return to the city. (I had told him the Secretary was coming down on the night train.)

I reported the situation to the Secretary about 7:30 in which conversation, incidentally, he cleared the TFR-500 signature matter. I then arranged with the Secretary to have breakfast with him which I did on Tuesday morning. I told him of my Byrnes conversation and he decided that he would do nothing except call Senator George and Mr. Doughton and register with them his return to town. I do not know whether he got Mr. Doughton. I had reported to the Secretary the evening before that Mr. Doughton and Mr. Cooper were meeting in Justice Byrnes' office at 9 o'clock Tuesday morning. I received no call from Justice Byrnes about this meeting and to this moment have never discussed it with him. The Secretary did, however, have a telephone conversation with Senator George in my presence in which he told Senator George he was back in town and ready to do anything he could.

The meeting between Justice Byrnes and Mr. Doughton was reported to me over the telephone this morning by Mr. Cooper. A copy of this telephone conversation is attached hereto. (Exhibit D) Apparently Justice Byrnes was requested by Mr. Doughton to go to 70 or 75 percent and to recommend this to the President. Justice Byrnes apparently refused to go higher than 62 1/2 percent.

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At the meeting of the Democratic conferees Tuesday morning, Senator Vandenberg offered a 75 percent forgiveness plan across the board with a \$100 credit at the bottom which was voted favorably by the Senate conferees but turned down by the House conferees 4 - 3, the 4 adverse votes being Democratic. Jere Cooper offered the Doughton plan which carried among the House conferees 4 - 3, the Democrats voting for the plan and the Republicans against it. The Senate then voted down the plan 6 - 0. Then Mr. Cooper offered the House bill which had the same vote among the House conferees. This was rejected by the Senate conferees 6 - 0. The one Senate vote previously and the non-voting Senator in this vote was Byrd. Doughton then offered a 60 percent plan with a \$50 credit at the bottom. The vote on this matter was 3 - 3, Disney being absent and Cooper having no proxy for this vote. It was unnecessary to get Disney's proxy as the Senate conferees voted down the motion 6 - 1. Byrd again voted in favor of the plan in order to get a bill. A telephone conversation reporting this voting is attached hereto. (Exhibit E)

The Democratic members met at 2:30 Tuesday afternoon. I had no information as to what happened at this conference. However, at the full conference meeting at 3:30 (which was apparently somewhat postponed) the conferees accepted the Vandenberg 75 percent proposal with 100 percent abatement of taxes up to \$50. This was accomplished by persuading Doughton to vote in the House conferees with the three Republicans. Cooper, Dingell and Disney (the last mentioned by proxy to Cooper) voted against the proposal. Apparently the Senate conferees were unanimous.



Exhibit A.

May 21, 1943

In considering the effect of any doubling up in payments on account of 1942 tax liabilities, two points are of particular interest.

1. The doubling up will affect only taxpayers who had taxable income in 1942. Persons who had no taxable income in 1942 would not be affected by the doubling up and would not pay any higher rates of tax, regardless of how high their incomes might be after 1942. In the same way and in varying degrees, persons whose incomes were higher after 1942 would be relatively little affected by doubling up. Accordingly, the spreading of part of 1942 taxes over subsequent years should not be considered a substitute for increases in tax rates in those years. Otherwise, on many incomes, taxation for the next few years would be insufficient for a wartime fiscal program and the burden would be distributed capriciously.

2. The period of time over which uncanceled 1942 tax was spread should not be determined solely with reference to the large incomes. Nearly one-half of the taxpayers in 1942 had less than \$100 tax liability and three-fourths had less than \$200. The spreading of a fraction of these small taxes over a period of years would not only result in unnecessary administrative details, but might cause more hardship through possible declines of income than the quick liquidation of the liability. The largest incomes would, of course, require longer periods, but these could be provided for through extension of time by the Commissioner or by statutory provision with reasonable interest rates.

Exhibit B.

Mr. Paul's conversation with Jere Cooper 3 p.m. May 22, 1943.

P: Can you tell me in a general way what happened?

C: We just got back from the conference.

P: Didn't George reveal what he heard from Byrnes?

C: You haven't talked to me, of course.

P: Of course not. We have to protect each other and you haven't talked to me. I told you this morning that I thought the President was with us. I understand that George and Byrnes had a conversation yesterday and I understand the President is for the Ways and Means or the House bill or any reasonable variation of them. I wondered if George conveyed that to the group.

C: Yes, in a general way, that's right. I will try to give you the whole story and then you can give me all you know. After you went out this morning there was more or less a general discussion and Senator Walsh read a statement that he had prepared about what had happened up to now and he emphasized the point that the House conferees had not pushed the House bill and went on to say about the Senate's position, etc. and then Mr. Doughton came in and said the conference wasn't by any means over and he had been expecting one of the minority House conferees to advance that as it was on their motion that it was adopted in the House and talked on a little generally along that line. I took up there and said there had never been any thought any time for House conferees not to stand by the House action and advance the House bill. As soon as we met we took up the Senate amendment and we have been discussing that and variations of it. The result was I asked Knutson right out if he expected to move that the House bill be adopted. He said he didn't want to make the motion. I moved that the House conferees insist on the House bill and it resulted in the four Democrats - Doughton, Disney, Dingell and myself - voting for the motion and the three Republicans voting against it. They put the question to the Senate and nobody voted for it at all. Byrd didn't vote either way. The other 6 voted against it and that's what happened on that. We went on and discussed the matter pro and con and finally

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Vandenberg called on George to know if he had received any information from the President. George said he had not talked to the President and had not received any direct information from him, but had talked to a high ranking official and understood from him the President was in favor of the graduation of any amount that was forgiven and that was his position on it, and that he still stood by what he stated in his letter to the two chairmen and still of the opinion that there should be graduation of any amount....

P: In other words, he is for the House bill.

C: Any amount that could be agreed upon for forgiveness. Then Walsh made a motion... First, Vandenberg brought up the question of some complete forgiveness in the low brackets.

P: I knew he did that.

C: (Missed here what Vandenberg's proposal was). After he talked to you fellows he thought there ought to be forgiveness of tax and then proposed that all taxpayers whose tax did not exceed \$50 be cancelled and above the \$50 he favored 80% forgiveness and there was some discussion along that line. Finally Walsh made a motion that Vandenberg's idea of complete forgiveness of taxpayers whose income did not exceed \$50 be cancelled and for all others that the same amount as contemplated under the Robertson plan of 76% be cancelled. I raised the question about that and he said that his motion yesterday was for 75% and this is just one point, 76%. He said, I realize that but I am making that motion because the House bill adopted 76%.

P: That was 76% aggregate.

C: Finally, the House conferees voted it down. Dingell didn't understand it and voted for it. I got on him for it and told him to watch me hereafter. The other 6 voted against it. That's the trouble about John - he don't get it and he talks too much and doesn't know where he is going.

P: John's a nice fellow but erratic.

C: I told him, from now on you stick right to me. I said I think we are close enough friends and he said that's right.

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We were there until one o'clock and we came out then and adjourned until 10 o'clock Monday. The Democratic conferees on both sides, Senate and House, went back in George's office, all except Disney, he had an appointment downtown. So it was George, Walsh, Byrd and Clark, and Doughton, Dingell and myself, and we were there for something like an hour. And so then George told us all about his conversation with Byrnes and called Byrnes by name and he said he had talked to Byrnes and submitted the proposition to him and it looked like we were up against the question of the amount of forgiveness and the way it was to be forgiven. Byrnes told him that the President still stood by his letter and wouldn't approve a bill for complete forgiveness. As to the question of the variation he didn't have final definite word but would try to talk to him and talk to George later. As a result he said he would talk to him later and said the President still felt that graduation should apply.

- P: By graduation you mean like something in the House bill or the Ways and Means bill - you don't get 50 or 75% across the board on the tax - That's what I get too. As I understand it that distinction was explained very carefully to the President and his position is the right way. I don't know what he would do with straight across 50%. If he signed it, he certainly would blast it.
- C: I can bring you all down to date. George made it clear that the information from Byrnes was that the President was opposed to straight across the board and thought there should be some differential. Doughton said he had talked to Byrnes twice about it. First time he told him was when he told George and Byrnes told him he would call him back again and he did just before he went to conference this morning and said the President still stood where he had and thought there ought to be a differential, but, of course, he couldn't say definitely until he knew what we were about to agree on how he would finally stand on it. Anyhow, after those discussions were out of the way then George said his personal opinion was to put in something to make all those in the lower brackets like Vandenberg suggested with \$50 or less to pay and then straight across the board for the rest and thought the President might accept that. He thought that was the President's opinion. I didn't take that as what the President said.
- P: What you could do there is to take a low amount and have not only that but have a maximum limitation of 19 percentage points.

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- C: You mean forgive all taxpayers whose tax does not exceed \$50?
- P: Forgive them 100% and forgive everybody 50% but not more than 19 percentage points, as in the House bill.
- C: Well, after we discussed those things, Walsh, Clark said they were absolutely fixed and set in their opinion it had to be straight across the board and not less than 75%. Byrd said he favored 50% and straight across the board. George said he favored the 75% straight across the board. Then they called on us for an expression and Doughton said 50% was as much as he would favor and he thought if we could agree to limit the graduation he thought the Senators ought to agree to 50%. He was pretty strong in his statement on that. Then they called on me. I said I don't like the straight across the board but I couldn't sign any conference report that forgave over 50% of liability. Dingell said he felt that way about it. Byrd got in and said we ought to get a bill - it was rather serious for the country. While he favored 50%, in order to get the bill he would be willing to go a little further maybe. Finally, Doughton whispered something to Dingell. He asked him if he would agree to 50% straight across the board and I understood Dingell to agree and then he went over and whispered to Clark to ask if he would agree to 50% and Clark said he would not agree and Walsh said he would not agree at all. Finally, it broke up without any agreement or understanding. The Democratic members of both the Senate and House conferees are to meet in George's office at 9 o'clock Monday morning, but nothing is to be said about that. So that's the situation up to now.
- P: The old man is absolutely opposed to the House bill, isn't he?
- C: Oh yes, he and Disney are opposed and all three of the Republicans voted against it.
- P: They voted for it in the House.
- C: The only reason they voted for it was to get it to the Senate thinking the Senate would improve it, and that now the Senate had improved it and now they are for the Senate bill. Dingell voted against the Robertson bill on final passage - Disney did - and I am the only Democratic conferee that voted for the bill. The three Republicans have completely abandoned it for the Senate bill. There is no chance for that.

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- P: No chance for the House bill. I should think the Republicans would be glad to take it up.
- C: No, they voted against it. There is no chance for the House bill, apparently no chance at all. It looks to me like, this is my best guess, that the Senators are going to hold out for the 75% straight across the board and I don't think the House conferees will go to that. I don't think Doughton, Disney or Dingell or myself...
- P: I certainly hope you won't.
- C: I have no intention and I don't intend to sign a conference report if that's what it is. There is this situation that ought to be borne in mind. I think the three Republican House conferees are under definite instructions from Joe Martin not to agree to anything but the Senate bill.
- P: I don't think so, from what Knutson told me, but you may be right.
- C: Knutson told Disney - this is confidential too - Disney told me and Doughton that Knutson told him yesterday afternoon if you can get the Ways and Means Committee bill it will pass the House. There will be 40 or 50 Republicans voting for it - but we will never get the Senate conferees to take that...
- P: If the Senate conferees are not going to take the House bill or the Ways and Means bill, or any reasonable variation, I think you ought to let the thing deadlock...
- C: That's my view of it.
- P: Because either the 75 or 50 is going to bugger up the tax bill - you are not going to get any tax bill that is decent and certainly the President isn't going to sign it and you are not going to accomplish anything. I would almost rather see the Ruml plan voted by the House and they would have the full responsibility of increased taxes the people are going to have to pay.
- C: I don't think the Senate conferees are going to accept anything else.
- P: Are they so sure of themselves?

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- C: Oh yes, they are backed by a two to one vote in the Senate and they said in the Democratic conference awhile ago they cannot pass a bill in the Senate with even 50% forgiveness straight across the board. They say the lowest thing they can pass in the Senate is 75% straight across the board. I don't believe the Senate conferees are going to ever agree to the Ways and Means Committee bill or to the House bill. And it doesn't look at all like there is any chance to get them to ever agree to 50% straight across the board. It looks to me like the way the thing is now it is going to have to break up without any agreement.
- P: Unless Doughton gets Dingell to weaken on the 60%. You don't think they will go for that?
- C: The Senators said they won't but apparently Byrd is the only one that would. Clark and Walsh said they would not. I imagine George would altho he didn't express himself.
- P: If George and Byrd would and the Republicans voted for it you would have it.
- C: I don't think the Republicans will vote for it. Vandenberg is holding out for 80% across the board. Walsh, Clark and George for 75% and Byrd wants 50% straight across the board and I think Byrd would go to 60%.
- P: He might.
- C: And I think Doughton and I believe Disney and Dingell would go to 60. What do you think about 60?
- P: I think it absolutely bitches the tax bill for the very reason I have expressed. You've got to turn around after giving the 60% - a man with an \$8 million income you are going to give him more than 500,000 forgiveness and you take away the 60% you give the man in the lower brackets and you don't take it away from the higher ones. It's going to come home to roost.
- C: Byrd said that Vandenberg was confident that the Senate

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conferees realize there is more danger in the Ruml plan than they had anticipated.

- P: Taft told me he was for the House bill now. He called me the day of the last House vote and said, I am for the House bill and I don't think there is anything in between that and the 100%.
- C: Well, that's the situation. Suppose Doughton, Dingell and Disney all three agree to go for 60%, that puts it right up to me now.
- P: 60% straight across the board? I don't think I would go for that. I will think that over and call you.
- C: I will be here for an hour or two yet.
- P: My impression is that is just the kind of thing the President doesn't want.
- C: That's certainly what I don't want, but you see the spot I am in. I stated this morning that 50% was as high as I would go.
- P: Even 50% is against the whole principle for which we know now the President stands. I can't feel that you have any protection against a blast then. If the President tries to capitalize this thing I am not sure he won't veto it. He certainly won't let it become law without giving it a kick in the ass. He may let 50 go by but I don't think he will be enough overjoyed...
- C: I may find myself in a spot any time now. When the Democratic conferees broke up over there, Dingell and I walked out and Dingell got in his car, but Doughton stayed back to talk to George and I don't know what may result from that, but he may ask me later this afternoon and put it right up to me as to whether I will go along on the 60% straight across the board. You better call me back inside of an hour and let me know.

Exhibit C.

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Mr. Paul called Cong. Jere Cooper 12:05, May 24, 1943

Paul: You know what I want. Anything happen?

Cooper: No. Of course confidentially, see. The Democratic conferees, both the Senate and House members, met at 9:00 in Senator George's office. We talked until the full conference at 10:00, but we didn't get anywhere. Just about along the same line as I told you Saturday and then the full conference met at 10:00. We discussed things generally and the Senate resubmitted their proposal of forgiving 75% for everybody of the lesser of two years of 1942 or 1943, and then for taxpayers whose tax does not exceed \$50.00 forgive them 100%. We did not accept it so we agreed to adjourn till 10:00 in the morning.

Paul: Are there any plans afoot as to what will happen before then?

Cooper: Doughton called a meeting of the House conferees. We just got through. Three Republicans and Democrats. We talked for about 1 hour. I finally just asked the three Republicans: "Just want you to frankly state whether you three Republicans are going to continue to insist on the Carlson plan in conference and that you will not agree to stand with us for the House bill". They said that was true. They said they were going to continue to insist on the Carlson plan and would not join us in supporting the House bill. We broke up. At 4:30 this P. M. the same group that met at 9:00 is going to meet in the Committee Room in the Capitol for one final effort to see if the Democrats on both sides can get together.

Paul: Think anything will come of it?

Cooper: I don't know. I walked with Doughton from the Senate and he said he had a side talk with Clark and he talked more favorably. Doughton didn't give any

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indication to me of what he thought. I haven't thought at all that the Senate conferees would ever agree to anything less than what they offered this morning.

Paul: That was 75%?

Cooper: Straight forgiveness for everybody of the smaller 1942 or 1943, and then if the taxpayer's tax does not exceed \$50.00, forgive 100%.

Paul: Does that leave out the second windfall?

Cooper: That hasn't been discussed at all. What's the Score?

Paul: I still feel just the same as Saturday.

Cooper: And you think we could not agree on 60% straight across the board?

Paul: I don't see how we could agree consistent with the President's letter on anything straight across the board, but certainly we don't have to answer anything below 60.

Cooper: My guess is Doughton may insist yet that we agree 60-65 straight across the Board with this \$50.00 gadget. The effect of the gadget is simply this: to restore the 1941 exemptions, because the \$50.00 would mean that for single taxpayers if they have \$788 they would be let out. It substantially means you just restore your 1941 exemptions and that does not do the job as I see it.

Paul: I agree with you.

Cooper: The thing for me to do is still stand pat? All right. I have insisted that I wouldn't under any circumstances agree to more than 50%.

Paul: Stick to it, old boy.

Exhibit D

*[Handwritten scribbles]*

*[Handwritten scribbles]*

*[Handwritten scribbles]*

Mr. Paul's conversation with Jere Cooper, 10:13 a.m., May 25, 1943

P: I was in the Secretary's and wanted to come back to my office to take your call.

C: Understand, I haven't talked to you. I just got out of the conference with Byrnes. Doughton went over to the Senate side to the conference there and I came on to my office to talk to you. I have to go over right away. We discussed everything about an hour. Byrnes said that rather than not have a bill at all we better go to 60, and in any event not more than 62 1/2 at top outside and not budge an inch over that. Doughton wanted to go to 70 rather than miss a bill, but Byrnes didn't think the President would take that at all and thought it should be 60 or 62 1/2 at top limit. So that's it.

P: Then I take it that Byrnes will recommend that to the President.

C: Yes, I think so.

P: Do you think the Senate will agree?

C: I doubt it, I don't much think so.

P: I hope not. I think the Secretary is going to see the President later today. Now that your conference is over probably I ought to stay down here and get something going at this end. Do you think it is important for me to be up there waiting outside.

C: I don't think so, the rest of your boys are there. What do you think I ought to do.

P: I don't think you ought to agree to it.

C: I don't want to, but old man Doughton is about to have a fit and I think I will have to agree to that. It looks that way.

P: I don't think the President ought to agree, but Byrnes has undoubtedly a good deal of influence. Whether we can counteract that I don't know. What is Doughton going to do, submit

this to the committee?

- C: What we had in mind is, when I get over there I will move again to adopt the Ways and Means Committee bill. They will vote that down. Then I will move to adopt the Robertson bill and they will vote that down. Then we will recess and the Senate and House Democrats can have another conference either this morning or early this afternoon.
- P: I will have to talk to the Secretary and call you back.
- C: I will be over there.
- P: I can't break into that meeting. Can you step out and call me - you will probably put it over until after lunch.
- C: I will try if I can, but I don't know whether I can or not.
- P: I want to see what the Secretary is going to do about the Byrnes proposition.
- C: Well, now, you haven't talked to me. I will try my best to get in touch with you. I think I am going to have to go along with the old man on that. That's the way it looks.
- P: I can see your position.
- C: He just told me "I will resign as Chairman and let you go on and take it." See, those things.
- P: The best I can say is for you to call me back whenever you can get a chance and I will do what I can in the meantime.
- C: If I get an opportunity I will do that.

Exhibit E

Mr. Paul's conversation with Jere Cooper, 11:40 a.m., May 25, 1943.

C: All right, Randolph.

P: I don't see anything for you to do.

C: This happened since I talked to you. I went over to the conference and we finally met. Some were late. Vandenberg submitted the same proposition again of forgiving 100% up to \$50 tax and 75% to everybody. Rather it's the other way around - 75% forgiveness for everybody whose taxes does not exceed \$50. On the Senate windfall provision he didn't specify anything definite but said to rewrite it and carry the 25% unforgiven balance over two years. All the Senate conferees voted for it and the three Republican House conferees voted for it and the four Democrats voted against it. That's the same thing he offered before. That put it up to us, so I moved that we adopt the Ways and Means Committee bill - the three Republican House conferees voted against it and the four Democrats for it. All the Senate conferees, except Byrd, voted against it. Byrd voted for it on the theory he wanted to get a bill. They voted that down, and I moved we adopt the House bill, the Robertson plan, and it resulted in the same vote. All of that was turned down.

P: The same vote by the Senators? This time Byrd was for it?

C: No, Byrd didn't vote, but all the rest voted against it and the three Republican House conferees against it and the four Democrats voted for it. Then after some discussion Doughton brought up the 60% forgiveness and put that to a vote - to forgive 60% to everybody and the taxpayers whose tax did not exceed \$100, 100% forgiveness and carry the 40% abatement over two years. The three Republican House conferees voted against it and Doughton, Dingell and I voted for it. Disney wasn't present and while I voted him on the others I didn't vote him on this because he told me when he left that he didn't want to go above 50. I

- 2 -

could have reached him by phone, but if the Senate voted against it there was no point in going to that trouble. All the Senators voted against it but Byrd and he voted for it. After that there was considerable discussion that we break up and that everybody had gone as far as they could. The Senators said they couldn't go below 75 and we said we couldn't go above 60. So that leaves the 15% difference. They finally agreed to have one more meeting at 3:30 this afternoon in the Ways and Means Committee Room at the Capitol.

P: What's your judgment on that?

C: I don't believe there is any chance.

P: You don't think they will come down?

C: I don't think they will.

P: Is Disney out home?

C: Yes, he had to go on account of the flood. I've got to give it some time myself. We adjourned to meet at 3:30. The Senate Democrats - George, Walsh, Clark and Byrd - agreed to come over at 2:30 to meet with the Democratic House conferees. We will get in a huddle at 2:30 to see if we can get any further and the full conference will meet at 3:30.

P: You think that will be the last meeting?

C: Yes.

P: I certainly am obliged to you in keeping me posted. What about Byrnes' proposition - they won't come down to that?

C: I don't think they will come down any further and Byrnes told them the President would veto it. Byrnes thought 62 1/2 would be the limit.

P: Byrnes didn't say he could deliver that 62 1/2, did he?

C: No, he said he could try. But that was the limit; if it comes to that, will go that far but no further.

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## United States Senate

COMMITTEE ON FINANCE

May 24, 1943

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

My dear Mr. Secretary:

I very much appreciate your generous note of May 19th commending my speech against the Ruml-Carlson amendment.

I do hope that the Conference Committee will agree on some bill which does not violate the principle involved in forgiveness of taxes.

With kind personal regards, I am,

Sincerely yours,

*Robert M. La Follette, Jr.*

rml.ec

TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

DATE May 24, 1943

TO: Secretary Morgenthau  
FROM: Mr. Waldman

Among the workers at 10 shipyards in Wilmington and Baltimore, the greatest majority of the men I spoke with -- about 60 -- either agreed with or spontaneously used the statement: "Roll back the prices to May, 1942 or give us a wage increase." (I conducted these interviews on May 18, 19 and 20.)

The 24 workers from four shipyards of the Bethlehem Steel Company, who seemed to have more grievances than the workers at the other shipyards, added to this statement... "No contract, no work -- if we don't get a new agreement with Bethlehem by June 23rd nobody is going to find us trespassing on their property."

Among 9 out of 10 of the men and women with whom I spoke, the first point discussed was "higher prices."

1. DELAWARE BAY SHIPBUILDING COMPANY, LEESBURG, NEW JERSEY (NAVY)

There are about 400 workers in this isolated plant and almost all of them are drawn from farms in the vicinity. The main point of discussion here had to do with the fact that "the management is hostile to workers and the sanitary conditions at the plant are very bad." As an example of the latter, there is no modern plumbing -- there is an outdoor pit -- with embedded metal containers and a log slung across the top of it for "toilets". No removal of waste is made for weeks at a time and the resultant condition is a menace to health.

Also, the men said, there are no facilities at all for them to wash and clean up. "It isn't only that we haven't got rest rooms or wash basins, there isn't even anywhere decent that we can sit down and eat our lunch."

These men also commented on the fact that wages at the Delaware Bay Shipbuilding Company are not on a par with other yards in the area and, more than that, skilled labor such as carpenters often is put to work on pick and shovel jobs. "That's a hell of a way to boost production," one man said.

2. THE AMERICAN CAR AND FOUNDRY COMPANY, WILMINGTON, DELAWARE  
(NAVY AND MARITIME)

Aside from the comment on "high prices" the 8 men with whom I spoke at this yard agreed that "we don't have much to kick about."

"Lately, the management has tried to meet us half way," said one man. Others added such remarks as "every precaution is taken for us and everything is fine. We haven't got a complaint": "The foremen are fine at American Car and Foundry": "And the Payroll Savings Plan works fine. Two weeks after your money is paid in you get your Bonds and there are no mistakes on your payments." (A number of the men here mentioned that this was a recent development.)

There are about 100 women among the 1,100 workers in this yard and one of the men commented on these women workers: "A lot of these women are damn fine mechanics and they seem to adapt themselves and learn quicker than men."

Until recently there was much resentment among the workers at this yard on the question of vacations. This, however, has now been settled to the satisfaction of the workers.

The most urgent question and worry now in the minds of these men and women seems to be "what's going to happen to us after the war when they don't need so many ships?"

As at almost every yard I visited the men with whom I spoke commented on the lack of eating facilities, lockers and washing facilities. Also, as at almost every yard I visited, the workers said that for a long time they have been asking for more and decent toilets. "The management has been telling us for six months they'll do something. Sure... they've started work on some toilets for us, but it doesn't look like they'll ever get finished. In the meanwhile, there's this privvy on the place which is a menace."

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### 3. DRAVO CORPORATION, WILMINGTON, DELAWARE (NAVY)

The 8 men from this yard with whom I spoke said that "the management is out to clip us of every penny it can... Sure, it does it legally, by sticking to the letter and not the spirit of the agreement."

Among the most important points stressed by these men is that the 8,000 workers in this yard not only are over-charged in the restaurant in the yard but that many of them have suffered food poisoning as a result of eating there. In addition, they complain that this restaurant will serve nothing to the night shift workers but coffee and milk.

These men also charged that the yard is not getting the production it should -- because of "poor planning on either the part of Navy or Dravo or both." The men said that there are not enough tools on the job for them. As another reason for laggard production, they said

that "500 men have been sent down by the Carolina Training School, in Charlotte, North Carolina, and hired by the plant as skilled workers, and these men don't know anything -- we have to break them in and teach them from the ground up."

These men seem to think that not only is this school a racket but that the company is tied up with it somehow. They said that this school charges men \$185 for a three week's course and a job at the end of the course.

"This is damn queer," said one of the men, "because the Dravo Corporation, or should I say the Navy, pays men 82 cents an hour on the job here to learn exactly the same things for which this school charges \$185."

These men charged also that this school issues a prospectus which promises "splendid housing conditions" at low cost to its pupils when they get a job. "The fact is that there is a terrible housing shortage in Wilmington. Lots of the men are sleeping in 'hot beds' -- which means that when one man gets out of bed and goes to work another man gets in that bed."

From what these men said, the housing situation has a great bearing on the problem of absenteeism at the plant. Many of the workers become discontented, and try to do everything possible to get themselves fired so that they can be free to get another job where they can be with their families.

Another factor which is hurting production, these men said is inequality of pay for the same work. "We don't like it and lots of the men feel so strongly about it that it isn't doing our work any good. We have tried to get the management to do something about this and we spoke with the Navy inspector about it and the Navy inspector says

he'll back us up but the management still says that the Navy won't agree."

Another of the score of complaints that these men issued against the management concern "wet-weather layoffs". "When it rains," one man said, "they tell all us welders to quit and go home -- even when there is work to be done that's under cover. And that doesn't help production, either!"

As in almost every discussion, the conversation returned repeatedly to higher prices, the cost of living and the OPA, of which the unanimous comment was -- "It's a joke!" Said one man, "Labor has kept its part of the stabilization agreement but the Administration hasn't. Sure ... we understand that all the bills have to be paid but we want equality of sacrifice -- from workers and management ... and equally!"

"We don't like the way the Payroll Savings Plan works at Dravo," one man commented -- and another joined in: "You've got to wait four to five months in order to get your Bonds, after you pay for them. And, another thing, when the Bonds are issued, they are dated months after they are paid for. In the beginning, it was easy to sign men up in the Payroll Savings Plan -- but no more."

In the discussion of higher food prices, these men -- and the men at the other yards, too -- spoke bitterly of the farmer in connection with the lack of white potatoes. "The Administration starts off by stabilizing wages, on a patriotic basis, and then the management takes advantage of us. And now the farmers are holding on to their potatoes even if they rot -- just so they can squeeze out more money. I think that the Government should have authority over

farmers if it's going to have authority over wages."

"We've had more reason to strike now than ever during peacetime," said another man. "But, we're going to do everything possible to win the war, regardless of the kicking around we get. But, after the war, we're going to do some kicking around!"

4. BETHLEHEM-HARLAN, WILMINGTON, DELAWARE (NAVY)

This is one of the very small Bethlehem yards, with only 400 workers, and now is engaged in turning out parts for ships. Until recently this yard had been engaged in building invasion boats for the Navy, with a working force of 3,000 men. "We lost that job," said one of the men with whom I spoke, "Because the management put many more men than were needed on the job and the Navy didn't like it."

Labor management relations are now good ...they have improved vastly in the past few months.

"We like the Payroll Savings Plan and we get good delivery on our Bonds," said this man.

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5. PUSEY-JONES, WILMINGTON, DELAWARE (MARITIME)

Aside from "higher prices for food," and the fact that they don't get enough meat ration points, the men with whom I spoke, from the Pusey and Jones Shipyard commented that relations with the management were good and that the Payroll Savings Plan was working out to their satisfaction on the delivery of Bonds.

Once again I was told that "labor has lived up to its part of the stabilization agreement in Chicago but the Government has not. Prices have not been kept in line."

It was the sentiment of the 5 men with whom I spoke that "the cost of living has gone up 300% around here and the working men at Pusey and Jones want either an increase in wages or a roll back of the cost of living to May, 1942. We've got to eat to build ships. And we would rather have prices rolled back than our wages boosted -- because, if we get a raise, they'll just up the prices beyond our wage boost."

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6. THE MARYLAND DRYDOCK COMPANY, BALTIMORE, MARYLAND  
(NAVY AND MARITIME)

As was true at every shipyard, the men all were extremely conscious of the fact that their union was negotiating a new agreement ... and that the old agreement was up on June 23rd.

The 7 men with whom I spoke also commented on production. They said that production at the Maryland Drydock Company was not up to what it should be. They said that labor-management relations on production were fair but that one of the reasons that production was not as good as it should be was due to the fact that they had too many men on the job. They said that there were 9,000 men at the yard and that if the men who were not fitted for their jobs were weeded out and the working force cut down to 7,000 they would have better production.

"Another matter which is slowing up production is dissatisfaction among the men with wage advancements. The only way you can get wage advancements to the higher rates of pay is through the grievance committee."

"The men at this yard are worried about what's going to happen after the war -- especially the older men. Most of these older men, because of their experience, and their ability to break in new

workers have been made supervisors -- which means that they are not protected in their jobs under the terms of the contract for which they fought before they were made supervisors. Naturally, a lot of these older men have hesitated about accepting supervisory jobs because of this. But, still, the union has advised them to take these jobs, because the union feels that those men -- as supervisors -- are able to give added help to the war effort."

Regarding War Bonds, the men with whom I spoke said that over half of the men in the yards are not buying Bonds and won't buy Bonds through the Payroll Savings Plan -- because, they say, they can't afford it. Once again the higher cost of living was mentioned and also the fact that the housing situation in Baltimore is so bad that many men are not able to bring up their families and thus have to support two establishments. The men with whom I spoke also commented on the fact that their union has asked the management to give all new employees a Bond application card when the employee first comes into the plant, but that the management has refused to do this. These workers feel that the management is not cooperating on Payroll Savings as much as it can and should. However, they did say that they get their Bonds within a reasonable length of time after they are paid for.

Along with the lack of housing, these men agreed that all of the workers in the yard resented very much the increased cost of living.

There is a restaurant for the men in the yard but, at this time, the management wants to discontinue it and, instead, sell containers of hot coffee, soup and sandwiches to the men, within the plant. The men are objecting very strongly to this because, they say, under this

projected plan, the men would have nowhere to sit down. The restaurant already has stopped serving during the breakfast period because the management seems to think that the men use the restaurant for loafing. The men object to this and say that it is not right for the management to punish the many because of the acts of a very few. (The Union has said that it would back up the management in punishing this guilty minority.) One of the reasons that the men feel so strongly about their restaurant situation is that there is a new, brick, two-story restaurant within the yard exclusively for office workers and executives.

As at the Dravo Plant in Wilmington, according to the workers, the Maryland Drydock Company is extreme in classifying workers as "absentees". One man said: "Even if a man has pneumonia -- and you can get pneumonia working twelve hours a day for seven days a week -- they won't accept a doctor's excuse. Instead they call him an absentee and use his 'absenteeism' as a reason for not giving him a raise in pay." Another worker said: "Most of us here think that the whole problem of 'absenteeism' is the company's fault. Up until about six months ago the management would lay you off for a week if you were not at your job for several days in a row -- no matter what the reason. The men resent this and now a number of them may be overstepping the bounds because they feel that the management won't dare to give them such lay-offs due to the alarming proportions of 'absenteeism' at the plant."

Another reason for absenteeism, one of the workers said, is the transportation problem. The street car stop is half a mile away from the shipyard. In the winter that is pretty bad. It isn't only the walk but, in order to get to the plant, you've got to climb

over box cars and railroad tracks. Many employees are women and a number of them have fallen and injured themselves in crossing over those box cars. When the weather is bad this is a contributing factor to absenteeism.

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7. BETHLEHEM, SPARROWS POINT, MARYLAND (MARITIME)

As at the great majority of the Bethlehem Shipyards, the men with whom I spoke commented bitterly on the treatment they are getting from management. As at the Bethlehem, Hoboken, and Bethlehem, Brooklyn yards, the men at the Sparrows Point Yard spoke at great length on the fact that their work is done under conditions of extremely poor ventilation. As a matter of fact, these men said that the lack of "air blowers" on the job (there are only 150 air blowers available for 8,000 men) is a major reason for absenteeism. "When you know that you're going to have to work in the same hold with a gang of paint sprayers and that you won't have any air blower to take the fumes out of the hold, it's mighty easy to stay away from work that day -- at least, that's the way a lot of men seem to feel."

"It isn't only a matter of paint fumes -- you see, just as likely as not, they will put four gangs of workers, welders, painters, etc., into one hold at once. That hold is about 30 feet deep, 20 feet long and about 20 feet wide ... shaped like a slice of pie. It's just a crowded jam and the fumes make you sick when you haven't got any blowers to carry them off. All that makes for absenteeism and hurts production. The work would go a lot faster if there was some organization and planning on allotting the jobs in the holds to

the various gangs of workers. And it isn't getting any better in this hot weather..."

Also, on the point of production, the men seem to think that the management is not very much interested in any ideas the men might have for speeding up production: "If one of us men in the yards has a good idea and the management finally puts it into effect, almost always, just about a week or two after this is done, the idea is dropped."

Eating facilities also came in for strong comment: "The restaurant in the yard is absolutely lousy. It's the only place where we can eat. The meat is rank and all the food is bad. It's expensive -- a hot beef sandwich costs you 35 cents, and a lunch plate of meat with two vegetables costs you 55 cents... The Maritime Commission investigated conditions about six months ago and urged that improvement be made but nothing has been done... The men in the yard have gotten to feel so strongly about the food that unless something is done about it they're going to turn the damn lunch wagon over."

These men mentioned, in connection with their food and other problems, that "The big shots haven't got any eating problem or other problems that we've got because they have a special dining room and other special facilities -- like plenty of toilets and suction fans." (Once again, as at most of the Bethlehem yards I have contacted, the toilet problem was a very large issue. The men said there were only 20 seats for 3,500 workers at the Sparrows Point plant. They said that due to this and due to a lack of sanitary precautions many men have either gotten lice or various kidney ailments. The matter of inadequate washing facilities also was brought up. It was stressed

that one locker room for 400 men has not got even a single wash bowl. Once again these men connected their problems and grievances with the problem of absenteeism.)

At this point one of the men said: "Maybe you won't think that drinking water is so important on the job. But it is. You sweat an awful lot when you work in a shipyard and you need drinking water, and when it gets hot you need ice water. The drinking water out at Sparrows Point is full of rust -- it is so full of iron that you can't drink it. And, four months ago, we asked the management for ice water on the boats. We still haven't got it, and that means that, in order to get ice water, you got to leave the boat on which you are working and walk about four blocks. That takes a lot of time away which otherwise might be speeding up production."

Another point which these men brought up as hurting production has to do with transportation. The men said that because the management would not go on record as operating seven days a week -- in spite of the fact that it has been so operating and is so operating -- the Baltimore Transit Company will not run its cars down to the shipyard on Sunday. Instead, the cars stop about a mile and a half away from the yard. "Whether it's right or wrong, I don't know," one of the men said, "but a lot of the workers at the yard feel that this is the management's fault and a lot of the men stay home on Sundays instead of working. That's another reason for absenteeism and lowered production."

As at every Bethlehem plant I visited the men were bitter about the management's "relief plan" for which every worker has to pay from \$1.50 to \$2.00 a month and from which, they say, they get very little if any benefit.

"Safety" also was brought up by the men with whom I spoke.

"There are only three safety men for all the 8,000 employees at the yard. Before a safety man does anything about an unsafe condition, an accident has to happen first."

The men's attitude on "higher prices" was that "we're going to wait and see whether the prices are rolled back by 10% by June 1. What we want, and what we think is fair, is for prices to be rolled back to the May, 1942 level. You can tell Secretary Morgenthau for me that, not only will it fix things for us, but it will give us a better chance to increase our Bond buying. If they stabilize food prices the way wages have been stabilized, we could increase our Bond allotments by at least 25%..."

"Speaking of War Bonds, we like the voluntary system and we don't want the compulsory system."

A number of the men added such comments as: "I'm buying as many Bonds as I can without putting hardship on my family." "We like Payroll Savings but we don't like the way the plan operates at Sparrows Point. It's too slow. At the start it took from six to eight weeks before you got your Bonds, and even now it takes them 3½ to 4 weeks before you get your Bonds." "A lot of the men have reduced their allotments in the Payroll Savings Plan because of these reasons."

"And there's another point I want to bring up about War Bonds," one of these men said. "A lot of us are on piece work, and that means that our wages are very irregular. Instead of signing up for a fixed amount every week -- which often means that some weeks we get about a dollar or so after our Bond deduction has been made -- we would

like to sign up for a percentage of our pay. In that way there wouldn't be hardship on a man and his family if a man didn't get a full week's work and, also, there would be a darn sight more of us buying more Bonds with more money."

"We're buying War Bonds to help our Country and for savings. If we didn't feel so strong about our Country, we would quit the Payroll Savings Plan tomorrow -- because of the way the management handles this thing... It all adds up to loyalty to the Government and to loyalty to myself as a man and as a citizen... When I see a soldier in the street I can feel that I'm contributing to that."

"But," added one of the group, "don't let the management bring in any more high pressure artists like that guy Marino. All he did was to shove Bonds down the throats of the men. He caused more harm than good. The men just dropped back when he left -- and they are still sore about it."

At this yard, and at the other yards I visited on this trip, I found a greater disposition than previously on the part of the men to be not at all disturbed at the thought of cashing in War Bonds. Especially among the men at the American Car and Foundry Company, in Wilmington, the men seemed to think that it was quite important to get their Bonds up to the 60-day mark so that they could cash them in.

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8. BETHLEHEM, KEY HIGHWAY, Baltimore, Maryland  
(MARITIME)

The men with whom I spoke at this yard said that not only are the men in this plant (9,675) dissatisfied with their treatment by management but they are dissatisfied with their treatment by the

Government. "There is no cooperation by management with labor -- and the Government has not helped us by keeping food prices in line."

"The ventilation and air conditioning problem is bad, and getting worse. Management just is taking advantage of labor's promise not to strike."

"The management will not reclassify men in their jobs and thereby give them the wage increases they deserve except under such drastic action such as a slow down."

"You won't get anywhere with the men in the yard on War Bonds unless the management changes its opposition attitude toward labor. During the drive a year ago for War Bonds, the management would not tell the workers the total amount in dollars of War Bonds being bought by the men. The management now refuses the help of the union in Bond Drives."

"I was in the Army myself," said one of the men with whom I spoke, "and I soldiered with a lot of the men who are in hospitals around here -- wounded. I tried to get the management to let these wounded soldiers come here and speak to us. I know it would help Bond buying. But the management has refused."

"We can and we will tell you lots of things about this job, but what it all adds up to is that we feel that management is against us. We feel, too, that the Navy inspectors and representatives of the Maritime Commission are working for the Bethlehem Steel Company more than they are working for the Government. Our contract expires on June 23rd, and unless we have a new contract with Bethlehem Steel by that date we won't be trespassing on their property."

"I'd like to bring up the problem of health conditions," one of the men said. "There's a new blacksmith shop which was built by the Navy. All the windows are locked shut in that building. In that building there are four furnaces and 12 forges. The heat is terrific. There's no air in the place. If the windows are not open by Monday we won't work in that shop."

Another man said: "There are seven men sick in my shop, due to a lack of ventilation. But the assistant supervisor won't do anything about it. He said that if the men lay off they'll be penalized "to the best of the management's ability". Some men in my shop are spitting blood."

Another man said: "In spite of the management's talk about the problem of absenteeism, they still penalize a man who misses a day by laying him off another day."

Another of the group said: "I want to tell you about the way the management feels about improving sanitary conditions for the men. First of all, there are not enough toilets, wash rooms or locker rooms. Speak with the management about that and they will tell you 'the war may be over anytime within a year and we don't feel justified in spending the money'."

"Not only that," said one of the men. "The management doesn't seem to care if the work is not going too fast on a war job for the Government. And they will put 500 men on such a job when there is need for only 100. That way they stand to make more money. But it is different on a contract job, where the faster a job is done, and the fewer men used, the more money they make. On such a contract job they really speed the men up and, if they need 400 men, they'll

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put 100 on the job and drive them harder. Also, just as likely as not, they will pull some men off a Government-War job and put these men to work on a private job ... still charging these men up to the Government."

Once again, the problem of eating facilities was brought up. "There is a truck restaurant in the yard, that's all. The food is bad and the help is unsanitary. All they've got to eat is lunch meat ... nothing with any vitamins ... and the meat many times is moldy. Also, you're apt to find hair in your coffee and cockroaches and worms in your soup."

"But," added one of the others, "there is a good lunch room in the yard for the management."

85% of the men are buying Bonds on the Payroll Savings Plan, and they now are getting their Bonds within two weeks after the Bonds are paid for. The only complaint, regarding the way the Payroll Savings Plan is handled at the Key Highway Shipyard, had to do with the fact that the management will not accept any deduction for a Bond except in even dollars. The men said that, as an example, the management would not accept a deduction of \$6.25 -- which makes a Bond come out "even".

9. BETHLEHEM-FAIRFIELD, BALTIMORE, MARYLAND (MARITIME)  
(This is the yard which surpassed the Kaiser record for Liberty Ships)

"For a time," said one of the group of men with whom I spoke, "labor-management relations at this yard were quite good. But, when the war situation started improving, labor-management relations started worsening and they still are going down hill."

"The management is stalling around on everything of benefit to the workers, taking advantage of labor's pledge not to strike. As a matter of fact, the management seems to be trying to force us into a strike before the contract negotiations are finished. I guess that the management feels that if it can do this it will be able to exert public opinion against us and use all that against us in the contract negotiations."

One of the men said: "This yard leads the East Coast in production, and a lot of the credit for this is due to the Victory Production Committee -- which is a labor-management committee. Lately, the management seems to be trying to discourage this committee, in spite of the fact that our production in April was three ships off schedule. As an example, right after we realized we were falling behind schedule, there was a meeting of the Victory Production Committee. At this meeting we discussed only one third of the points that needed discussion in order to bring our production up again. We should have met the next day in order to get all the problems cleared up, but management postponed the meeting for a week. The reason for this, I think, is that the management is trying to do everything to de-emphasize the participation of labor in the production effort of the yard."

"There is instance after instance of management's hostility to labor. Men are laid off for the most flimsy reasons, and workers are beaten up by the police force at the yard for no reason at all."

Once again I heard the thought expressed that the Bethlehem Steel Company idea is that the war is practically over and they don't want to do anything more on labor-management cooperation.

"As an example of the management's rejection of labor's suggestions for increasing production, the management has so far blocked and stopped a production drive called 'Ships for Invasion'. This production drive would enlist the extra efforts of every worker in the yard, calls for production rallies twice a week at lunch time and for the formation of all the workers in the yard into production teams. Not only would this plan speed up production but it would raise the morale of the workers and educate them on the war effort of this Country." (Attached is a copy of this "Ships for Invasion" plan.)

"As a result of all this," said one of the men, "production on the job is now in a bad state."

"Management's refusal to cooperate with labor also extends to War Bond drives," added one of the men. "The initiative for previous Bond drives had to come from the union and the union was the one which proposed that the Payroll Savings Plan be set up in the yard. As an example of management's attitude on War Bonds, the union suggested that centrally-located Bond booths be put up in the yard and that Bond rallies be held, but the management as yet has made no answer to these suggestions. Only recently has the management agreed to have prominent people at launchings in the yard, to aid Bond sales. It all adds up to the fact that the management does not want to be bothered."

"And it still takes an average of about six weeks before you get your Bond through the Payroll Savings Plan. This is not as bad as it was when we had to wait six months for our Bonds, but still it is bad enough and this is one of the reasons that many men are leery about signing up again."

"And how about new taxes and the mix-up on the pay-as-you-go plan?" one of the men asked. "That also is affecting Bond sales."

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10. LANCASTER IRON WORKS, PERRYVILLE, MARYLAND (MARITIME)

This is a small yard employing about 320 men and is quite isolated. I spoke with only one man from this yard and, therefore, was not able to get as rounded a reaction as I would have liked.

"There is no trouble at all with management," said this man who was a union representative as well as one of the workers in this yard. "The men are satisfied. They get a higher rate of pay than other men in this area...outside of very minor problems, the men are satisfied with their working conditions."

"The greatest majority of the men are refusing to buy Bonds through the Payroll Savings Plan at the yard. They say that they can get their Bonds more efficiently outside."

This was a strange comment in view of the fact that this man said that the Payroll Savings Plan at this yard works perfectly and the men get their Bonds immediately after the Bonds are paid for.

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11. NEW YORK SHIPBUILDING YARD, CAMDEN, NEW JERSEY (NAVY)

In setting up the itinerary of this trip, at the national office of the I. U. M. S. W. A., in Camden, New Jersey, I met one of the workers (and union leaders) of the New York Shipbuilding Company, with whom I had spoken on an earlier trip. This man said that, since I had been there, a representative of the Treasury Department had visited the Union and was trying to arrange with the

management to have the management become an issuing agent for Bonds. This shipyard worker said that everything seems to be progressing satisfactorily and, he promised, "when the company becomes an issuing agent and delivery of Bonds is speeded up the men will increase their Payroll Savings Deduction from an average of approximately 8% to an average of more than 15%." This man added that "relations are better than ever at the New York Shipbuilding Yard... The management-labor committee which works on ideas to speed production is doing a great job... Men with the best ideas for aiding production win War Bonds and a trip down the ways as the ships are launched..."

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## REPORT ON THE PRODUCTION DRIVE

In reporting on a production drive, it is essential at this time to review the purposes of the Labor-Management Committee.

When the War Production Board established such Committees, they did so with the realization that all of America must unite in the fight against the Axis - if we are to be victorious.

During the early months of the Victory Production Committee, the unity between Labor and Management resulted in producing a record above the level that we had hoped to reach.

But after a successful production drive the policy of Management towards this Committee changed, not only at Bethlehem-Fairfield, but also throughout the other Bethlehem Yards. This policy reflected itself in moves to resist the efforts of Labor to further and develop cooperation on production.

Today, our Country and her Allies have swept the Nazis from North Africa. Within the next several weeks - the new stage of the war will and must be unfurled - with the United Nations striking from all fronts in a grand invasion of Europe.

Ships carrying cargoes of ammunition and equipment will play a very important factor in this invasion. The loss of practically three ships last month in our construction efforts means that three less full cargoes of supplies will reach our men at the Front, in a crucial battle that may mean the difference between Victory and defeat.

We, members of Labor on the Victory Production Committee propose that Management place its partisan interests to one side, and cooperate to the fullest extent in staging a Production Drive that will carry us to higher production levels and fulfill our responsibility to our Country in its time of need.

We propose: a Production Drive to build ships for the invasion of Europe - this drive to be aptly entitled "Ships for Invasion".

The initial stages of this drive shall be from May 19 to July 4 - (which is the critical period of the War - and ships and more ships will be needed for invasion.)

That the Production Goal for this period be set by the Victory Production Committee after a full discussion of the problems facing the Yard that will impede our progress.

That the discussion include the number of ships scheduled to be delivered and constructed.

That copy or copies of the Progress Report of the number of feet welded, tons erected and rivets driven be furnished to Labor.

That a program be mapped out for Labor-Management Cooperation to solve these production difficulties.

We further propose:

1 - That the drive be opened on May 20th, with an open letter to be distributed to every worker in the Yard, setting the goal and their necessary contribution to Victory.

2 - That at the same time Posters be erected in the Yard dramatizing "Ships for Invasion" with direct relation to the Production Goal that must be reached by July 4th.

3 - That bi-weekly lunch time production rallies be conducted by the Union to raise the morale of the workers, to speed up production, and to educate them on the War Effort of their Country.

May 25th - Outline the Production Drive  
"Ships for Invasion".  
J. M. Willis - P. Fluvanis  
Awards for best suggestion of month.

May 28th - America's Stake in the War  
Report on the Drive  
White and Negro Workers

May 31st - Soldiers of Production and the  
Armed Forces  
War Hero  
Local Speaker

June 4th - Women's Day - show their contribution  
to the War Effort  
Women speakers - Men speakers

To further develop the education of the men and women and to spur them on to greater efforts - we propose -

1 - That we obtain from the U.S.R.C. whenever possible the progress and the actions of our ships in line of duty.

2 - That Pamphlets on the War - published by the OWI be distributed as is being done in other plants.

3 - Regular statements of the day issued by the Victory Production Committee - on the Bulletin Boards - every two days.

During this Drive Period of "Ships for Invasion" - a suggestion drive should be developed so as to gather the participation and the ideas of the workers.

The date for the drive should be from June 7 to June 21, with additional rewards made such as choosing a sponsor for a vessel.

Most important in conducting any drive is the development of sportsmanlike competition of groups of workers. This method has been successfully used in Britain and the Soviet Union to raise production levels.

The key to our country's efforts and the freedom loving people of the World is the United Nations. In the spirit of such unity we figure the following set-up.

1 - Divide the Yard into teams which will compete with each other to reach the production goals set.

Teams proposed -

Yard 1 - Churchill Commandos

Yard 2 - Chang Kai Shek Squadron

Yard 3 - F. D. R. Battalion

Yard 4 - Stalin Brigadiers

Outfitting Piers - Production Yanks

Fabricating Shop - Colin Kelly Division

2 - Quotas for each yard from May 15 to July 4 will be set for each team and placed on a percentage basis.

3 - On the large bulletin board show visual comparison of teams as they fulfill their quotas.

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4 - Get message of greetings from personalities involved as encouragement to drive.

5 - Develop Production Commando Award for meritorious production records established by the workers.

To build further the morale of workers - a new worker's launching schedule should be developed. Picture of worker's launchings should be given to labor so that we may build up the importance of these launchings.

To win this war as quickly as possible is the main purpose for this drive in building "Ships for Invasion".

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION CONFIDENTIAL

DATE May 24, 1943

TO Secretary Morgenthau

Prepared by: Mr. Daggit, Mr. Murphy and Miss Michener  
*2/11/43* *W.M.* *Q.M.*Subject: The Business Situation,  
Week ending May 22, 1943.Summary

Inflation control: Despite recent modification of WLB policies paving the way for further wage increases, labor dissatisfaction with this agency has become more pronounced and serious strikes are in progress in several areas. At the same time, criticism of CPA continues to mount, with labor groups assailing the agency for failure to roll back prices to a reasonable level, and retailers appealing for relief from ceilings already put into effect.

Living costs: The BLS index of living costs just released for the month ended March 15 shows a further rise of 1.5 percent with an advance of 2.8 percent in retail food prices leading the rise. The long-awaited revision, now completed, makes virtually no change in the figures since the first of the year, when the revision begins, despite repeated claims that the index has failed to reflect fully the actual rise in living costs.

Commodity prices: Commodity prices advanced last week, and the BLS index of 28 basic commodities was up 0.3 percent. The all-commodity index rose slightly to a new peak in the week ending May 15. During the year since the General Maximum Price Regulation was issued, this index has shown an increase of 5.4 percent, due almost entirely to the rise in prices of farm products and foods.

Retail sales: Department store sales widened their gain over last year's levels to 16 percent in the second week of May. Some resurgence of scare buying may have followed Donald Nelson's recent statement that rationing of clothing and textiles is imminent unless all facilities of the textile industry are used to the limit.

Gasoline shortage: The gasoline shortage in the Eastern States, which has been aggravated by the break in the Texas-Illinois pipeline, threatens to interfere with farm operations owing to lack of fuel for tractors and other purposes.

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### Anti-inflation controls under fire

In spite of recent re-vamping of policies designed to quiet criticism, both the WLB and the OPA continue to be subjected to a barrage of complaints that may force further retreats in the struggle to clamp down on wage and price increases. Although the recent directive restoring greater latitude to the WLB in adjusting wage demands is expected to pave the way for numerous wage increases, labor unrest continues. Press reports this morning state that 40,000 workers are now on strike in the rubber industry, in protest against a Labor Board wage ruling. A series of strikes last week in the Detroit area was attributed in part to discontent over the WLB, while scattered strikes in the coal mines served as a reminder that the coal wage controversy is still unsettled.

Meanwhile, the OPA is under heavy fire from many quarters. Virtually at the same time that the United Automobile Workers Union was assailing the "do nothing" policies of the OPA in a public advertisement, representatives of small business were accusing the agency of "economic murder." Likewise, while the AFL was charging that the OPA has failed to make a "sincere and effective attempt to roll prices back to a reasonable level," the National Association of Retail Grocers was appealing to President Roosevelt for relief from community food price ceilings put into effect by OPA at the beginning of last week. Countering criticism of business groups, OPA asserted last week that wholesalers and retailers of foods enjoy the most favorable economic position on record. In supporting its contention, OPA pointed out among other facts that business failures are currently at the lowest point in half a century.

### Cost-of-living index revised

The long-awaited revision of the BLS cost-of-living index, issued last week, merely made certain changes in the construction of the index, and did not answer charges by labor groups and others that the index has failed to reflect the full extent of the rise in living costs. The revision did not affect the level of the index for previous months, and it is likely that the "modernization" of the index will affect measurements of living costs significantly only over a longer period of time. No mention was made of any change in the method used to collect the data.

In the month ending March 15, the first month reported since the revision was made, living costs advanced 1.5 percent, with the largest increases in retail food prices,

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which were up 2.8 percent, and in clothing prices. (See Chart 1.) Sharp price increases in fresh vegetables and fruits were responsible for the rise in the cost of food. To prevent a further rise in prices of fresh vegetables, temporary price ceilings were imposed on a number of the more important vegetables near the end of February, and it is of interest that last week the Acting Administrator of OPA stated that dollar-and-cents retail ceilings would be placed on certain "most-consumed" vegetables and fruits early in June.

#### Details of changes in BLS index

The changes made in the construction of the cost-of-living index are expected by the Bureau to improve its accuracy in reflecting war-time changes in living costs. The following changes were made:

- (1) Seven foods were added to the index.
- (2) The relative importance of 27 foods has been reduced, in line with anticipated 1943 supplies available to civilian consumers under rationing restrictions.
- (3) The weights given to 25 other foods in relatively more plentiful supply were increased.
- (4) Adjustments were made for changes in the volume of food sold through chains and independent stores and supermarkets.
- (5) Five additional cities, in which food prices have been available for some time, have been incorporated in the all-cities index.
- (6) The relative importance of the cities included in the index were changed to take account of the changes in population because of war activities.

Criticism that the BLS cost-of-living index fails to reflect rising prices adequately will doubtless continue, notwithstanding that the revisions have improved the index. Some of the criticisms may be justified, for the index will continue to have certain weaknesses. Deterioration of quality, for example, cannot be fully recorded. Shortages of certain items quoted in the index may force the purchase of higher-priced goods. Finally, black market prices are probably not measured by the index, although the Bureau has indicated that the indexes are based on "actual selling prices, regardless of OPA ceilings."

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Commodity prices move higher

Commodity prices are again rising, apparently due to increasing demand combined with evidences of indecision over price control policies. Prices in the wholesale markets moved higher last week, a movement attributed by market commentators to strong demand and to unfavorable crop prospects produced by the extensive floods in the Middle West, but also probably in part because of pressure being exerted on the price control program from labor, the farm bloc, and food distributors. The BLS index of 28 basic commodities showed the largest upward change since the first week in March, although the rise was only 0.3 percent. The prices of practically all of the uncontrolled commodities rose somewhat, while large Government textile orders pushed up wool top prices over 3 percent. (See Chart 2.)

After leveling out in April, the BLS all-commodity index has again shown a rising tendency, and in the week ending May 15 advanced slightly to a new peak since 1925. (See Chart 3.) At 103.8, the index was 38.4 percent above the pre-war level of August 1939. Industrial commodity prices were steady, and increases in the prices of farm products and foods were responsible for the latest advance in the index.

Wholesale price movements under general price ceilings

The BLS all-commodity index has advanced 5.4 percent in the year since the first comprehensive price control measure, General Maximum Price Regulation, became effective. (The regulation went into effect May 11, 1942.) This advance was largely the result of increases in the prices of farm and food products, while the average for all other commodities showed a rise of but 1 percent during this period. The farm products and food indexes registered gains of 21 and 12 percent, respectively. (See Chart 4.) Of the other major groups, mostly industrial commodities, only two showed noticeable changes: fuel and lighting materials increased 3.4 percent; and chemicals, 3.0 percent.

The relative stability in prices of industrial commodities, in comparison with the sharp rise in prices of farm products and foods, reflects the fact that price ceilings under GMPR were extended to practically all industrial commodities, but did not cover a large proportion of farm products and some foods. Some commodities not originally covered by GMPR, however, have since been brought under price control.

- 5 -

The success in stabilizing prices of industrial commodities was due not alone to the extensive use of price control, but more fundamentally to measures used to control demand. Through material allocations and production limitations, the demand for most industrial commodities has been made to conform generally to supplies available. Until recently, little effort has been made to control demand for farm products and foods. Meat and canned food rationing will aid in balancing demand with food supplies, and thus tend to stabilize prices. It is very doubtful, of course, that the demand for farm products and foods can ever be as effectively controlled as can the demand for industrial commodities.

#### Stock market activity slackens

Although industrial stock prices rose slightly to a new high last week, trading activity slackened noticeably for the second consecutive week. At the close on Saturday, industrial stock prices, as measured by the Dow-Jones averages, were about 1 percent above week-earlier levels, while railroad and utility stocks also showed small gains. (See Chart 5.) Although stock prices have displayed a firm undertone in recent weeks, little net advance has been made from the levels prevailing in the early part of April just before the hold-the-line order on wages and prices.

In the London market, industrial stock prices have been able to make little headway on the upside since around mid-January, when the long upswing in British stock prices seems to have been largely halted. (See Chart 6.) By that time, however, industrial stock prices in London had doubled from the war-time low of June 26, 1940 and were 27 percent higher than on the eve of the outbreak of war. In discussing this rise, the January issue of the Bankers' Magazine (London) makes the following pertinent comments:

"This enormous gain must, of course, be largely attributed to the fact that for a long time previous to the commencement of the war stocks had been steadily falling in anticipation of the possible event of war, while it must also be borne in mind that since the declaration of war Government financial restrictions have all been in favour of a rise in existing securities. In the first place, there has been the general policy of cheap money. In the second place, there has been the ban on practically all new securities, so that scarcity of stock and cheapness of money have played a large part in the general appreciation in market values of Stock Exchange securities. In the third place, the curtailment of ordinary expenditure through the system of rationing has increased the volume of money available in one form or another for investment. And, finally, the

- 6 -

weight of taxation, while it may have reduced spending power, has been partly responsible for the great rise in variable dividend stocks owing to the search by the investor either for increased income or for capital appreciation."

#### Price and food developments

Compulsory grade labeling of the 1943 pack of canned fruits and vegetables was discarded by the OPA last week, after claims were made by canners that grade labeling would retard production. (Labor groups have strongly opposed the discarding of grade labeling, since it would encourage the selling of lower-grade goods at top-grade prices.) However, an alternative method for protecting the housewife against hidden price increases through upgrading was incorporated in an order issued by OPA.

Under this order, canners must continue to grade their 1943 pack according to Agricultural Marketing Administration grades, and canners and wholesalers must indicate on their invoices the AMA grade of the product sold. Furthermore, no producer can pack more than one grade of the same canned fruit or vegetable under the same brand name without a distinguishing label to show that different grades are being sold under the same brand name. This method will probably present more difficulties in controlling prices than would mandatory grade labeling, because the grade as such will not be apparent to the consumer.

The establishment of a War Meat Board, to decide upon the daily and weekly allocation and distribution of the national meat supply among the Armed Forces, lend-lease and civilians, was announced by the War Food Administration and OPA last week. The Board will be located in Chicago, and will consist not only of representatives of the Government but also of the meat industry. The quarterly and yearly meat requirements of the various consuming groups will continue to be determined by the responsible authorities in Washington.

The devastating floods in several Midwestern states have dealt a severe blow to crop prospects over an important area. It has been estimated that more than 1 million acres of land were submerged along the Mississippi, Illinois, and Wabash Rivers, and some winter wheat and a substantial amount of the oat crop in some states were washed out. The most serious threat, moreover, will be the delay to corn planting, which has already been held up by the late spring.

- 7 -

Congress indicates opposition to subsidies

Congressional opposition to the use of subsidies was manifested in the House last week by an amendment to the \$6,273,629,000 lend-lease supplemental appropriation bill which would forbid the use of any of these funds for payment of subsidies on agricultural products. The amendment was adopted by a vote of 214 to 96. Of the total appropriation, \$4,452,623,000 was for shipments of food. In testimony on the bill, the Lend-Lease Administrator revealed that lend-lease shipments of food would be boosted from 6 percent of our total output in 1942 to 10 percent in 1943.

Strong sentiment against subsidies also marked the House hearings last week on the bill to extend the life and increase the funds of the CCC. Moderate use of Government subsidies was recommended by President Hutson of the CCC and by Food Administrator Davis as beneficial to the national economy, particularly in wartime. However, Davis stated that "general reliance on subsidies as the chief implement to prevent inflation is a dangerous delusion."

Attempting to overcome Congressional opposition to the use of subsidies, Mr. Hutson said that practically all operations by the CCC potentially qualify as subsidy operations, since whenever prices are supported above the market, whether through loans or otherwise, losses may be incurred. For instance, the CCC lost about \$14,000,000 in the program permitting cotton growers to redeem loans on 1934-35 cotton at less than the loan price, and \$8,500,000 was lost in releasing 1937-38 corn to producers at less than loan prices. Furthermore, the current oilseed processing program, Mr. Hutson estimated, may result in a loss of \$15,000,000; the milk program, \$2,500,000; and the cheese program, \$6,000,000.

East Coast gasoline shortage critical

The critical shortage of gasoline in Eastern States, which has necessitated a renewed ban on pleasure driving and sharp restrictions on commercial transportation in the shortage area, has been heightened by a break in the Texas-Illinois pipeline as a result of flood conditions in Arkansas. It is planned to get the oil moving through the pipeline again within a week, but in the meantime oil movement to the East Coast may be cut by 100,000 barrels a day or more.

In re-imposing the ban on pleasure driving, it was revealed that thousands of farm tractors from Maine to Virginia were threatened with a lack of fuel. Moreover, Petroleum

- 8 -

Administrator Ickes has indicated that further restrictions on gasoline use will be necessary before the crisis in East Coast gasoline supplies is over. Agricultural officials are particularly apprehensive over the current gasoline shortage in view of the threatened interference with farm operations. In this connection, the Secretary of the New York State Department of Agriculture asserted that the gasoline supply for upstate farms would not last more than 2 days.

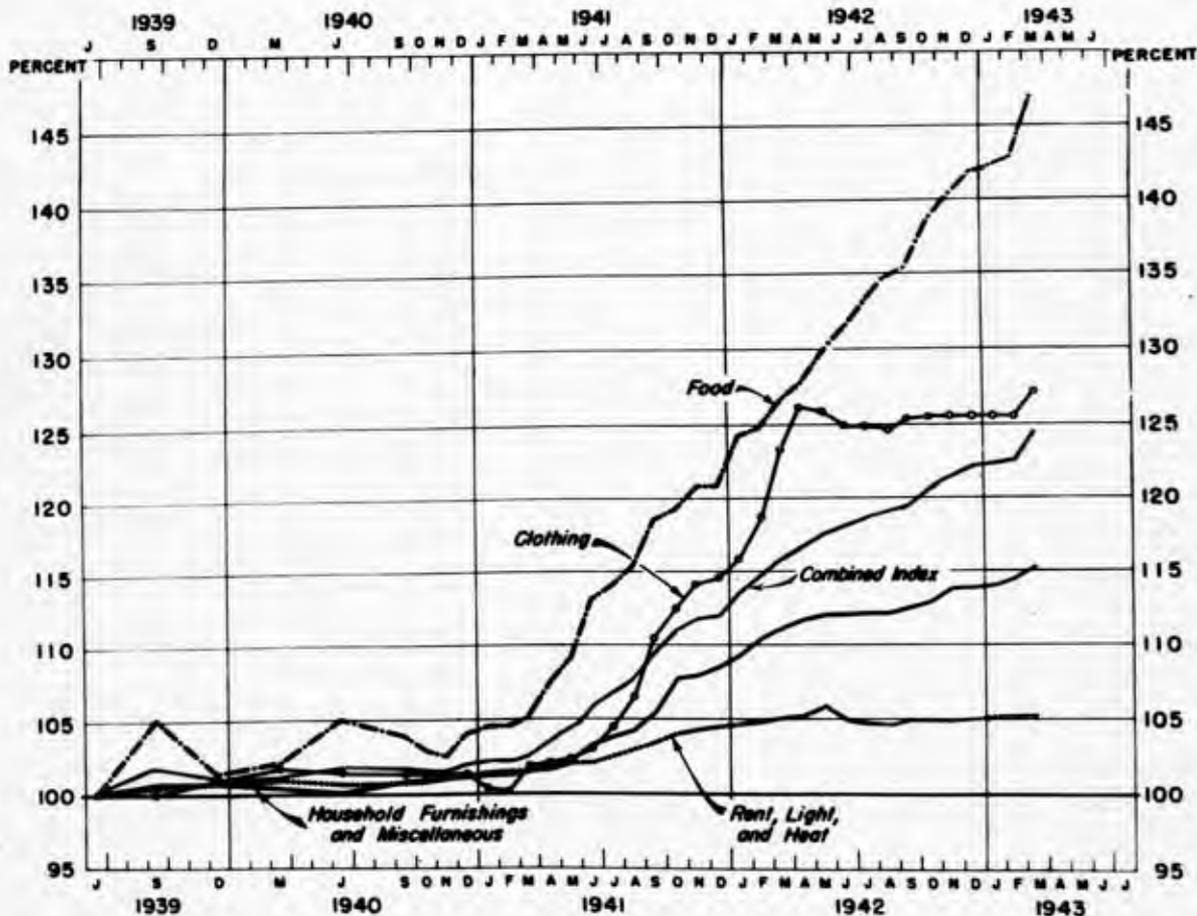
Department store sales above 1942 levels

After dropping below last year's levels in the week after Easter, department store sales in the first week of May rose 12 percent above the corresponding week a year ago, and in the week ended May 15 the gain widened to 16 percent. (See Chart 7.) Some revival of scare buying of wearing apparel seems to have been touched off by a recent statement of Mr. Nelson of the WPB to the effect that rationing of textiles and clothing is imminent unless all facilities of the industry are used to the utmost. However, insufficient time has elapsed to judge the importance of such scare buying as may be under way.

While military buying and lend-lease requirements inevitably cut deeply into the volume of textiles available for civilians, maladjustment in the price structure of the industry is also said to be an important factor in the tightening supply situation. In this connection, price adjustments are said to be a cardinal feature of a program being worked out by the WPB Office of Civilian Requirements, with the aim of avoiding rationing by providing such adjustments in price ceilings as will assure utilization of mill capacity to the fullest extent possible. Reports that mills have been reducing production by cutting out third shifts and overtime because of present low ceiling prices for carded yarns are said to be under investigation.

# COST OF LIVING AND SELECTED ITEMS

June 1939=100



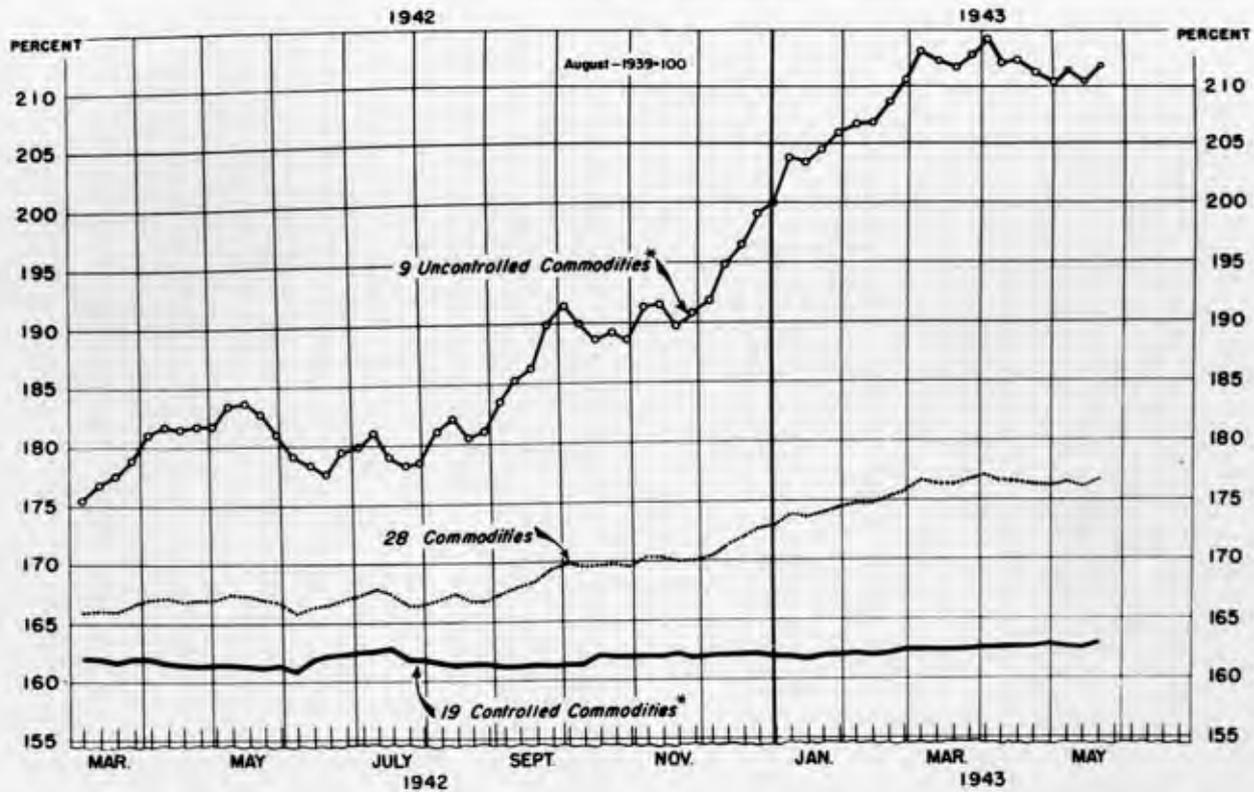
Office of the Secretary of the Treasury  
Division of Research and Statistics

Source: B. L. S.

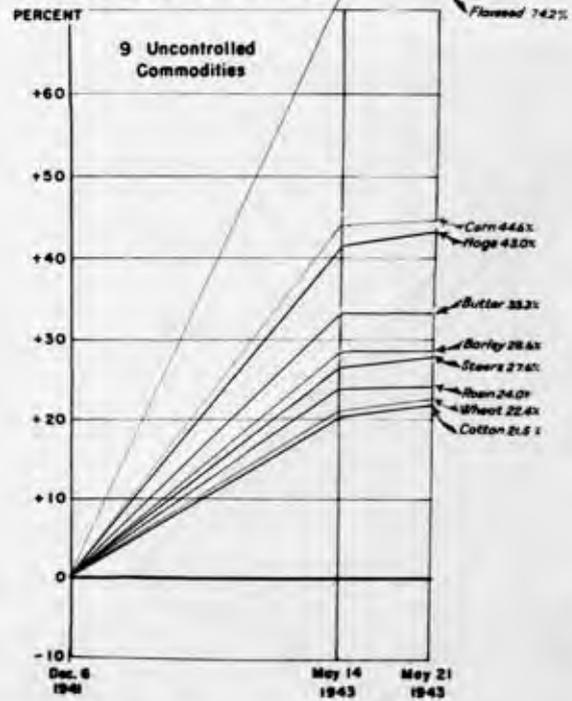
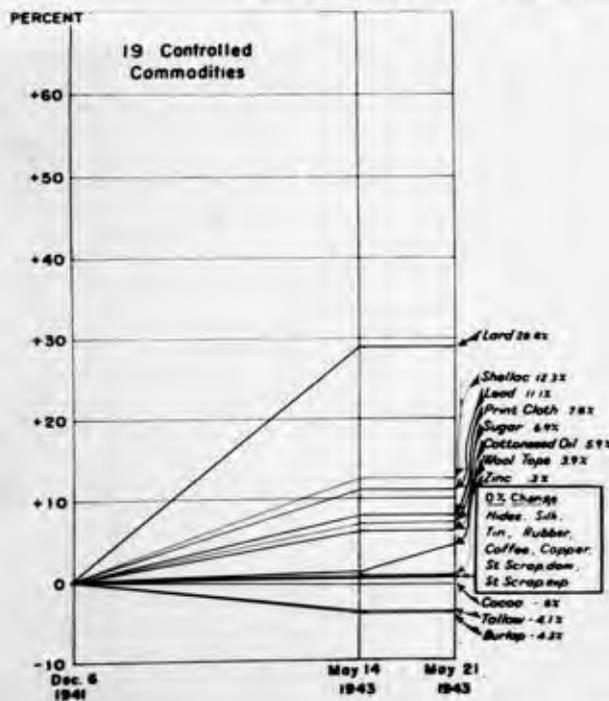
C-413-A1

Chart 1

# MOVEMENT OF BASIC COMMODITY PRICES



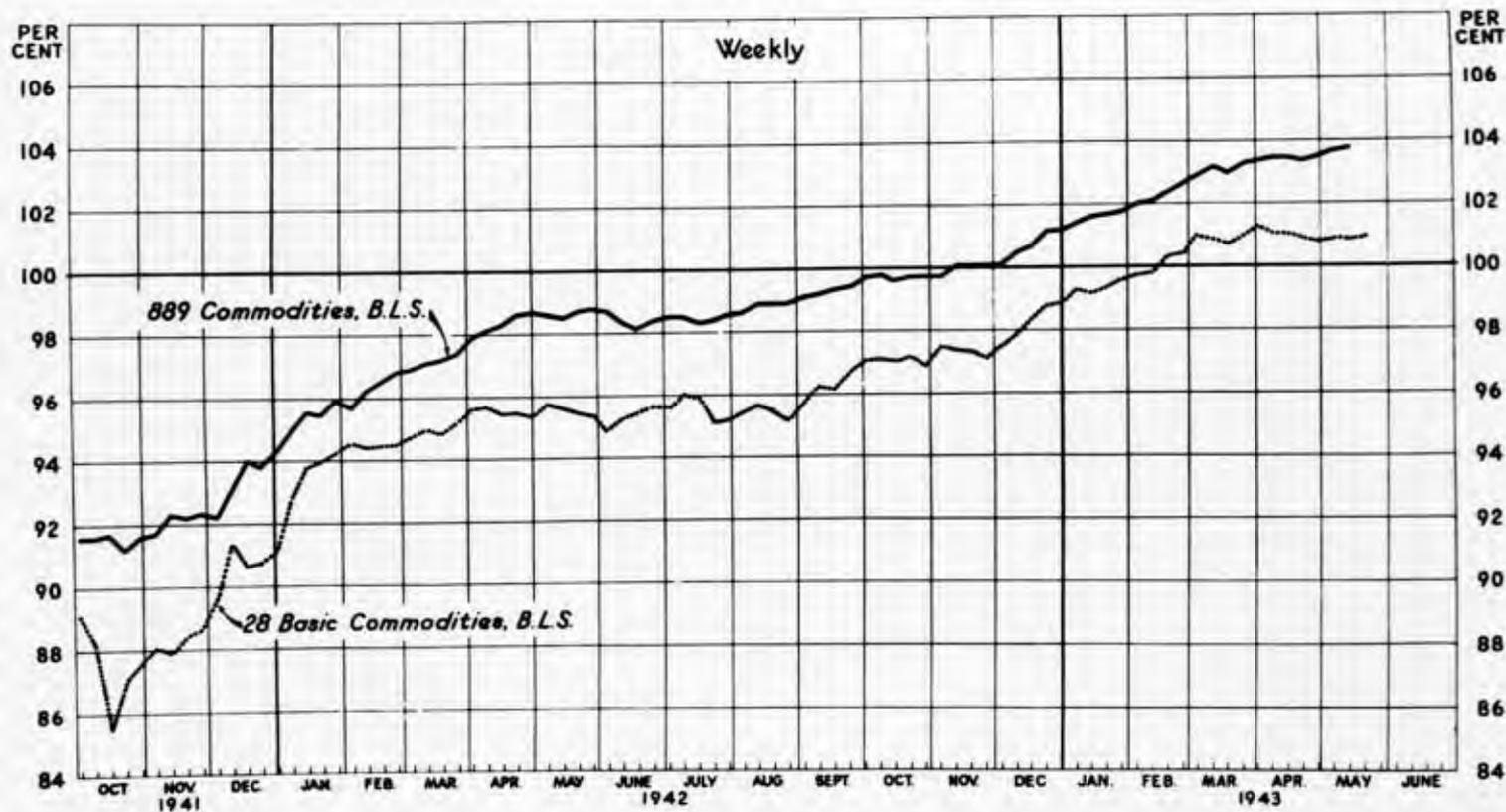
PERCENTAGE CHANGE DEC. 6, 1941 TO MAY 14 AND MAY 21 1943



\*20 Controlled and 8 Uncontrolled previous to June 26

# COMMODITY PRICES

1926=100

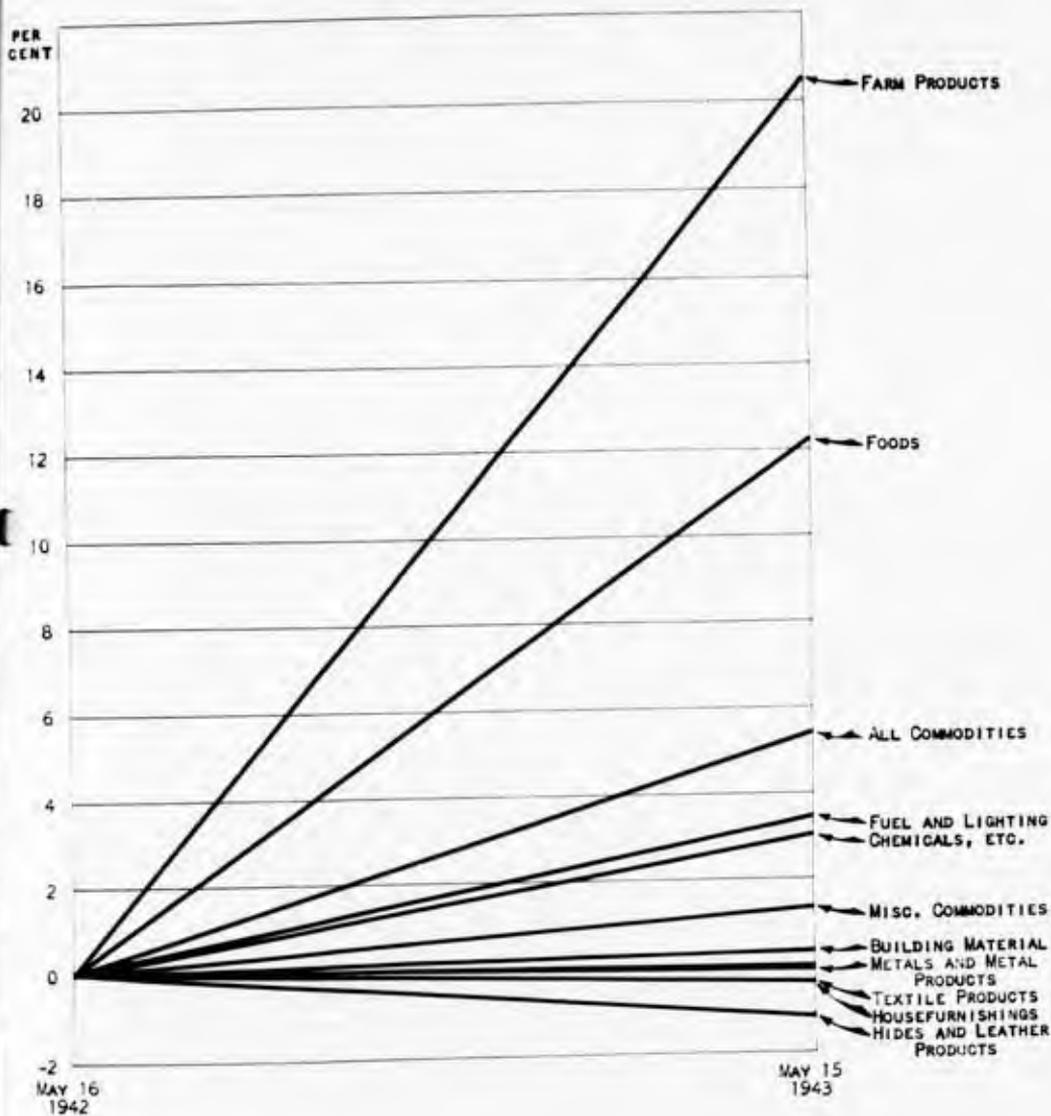


Office of the Secretary of the Treasury  
Division of Research and Statistics

P-196-E

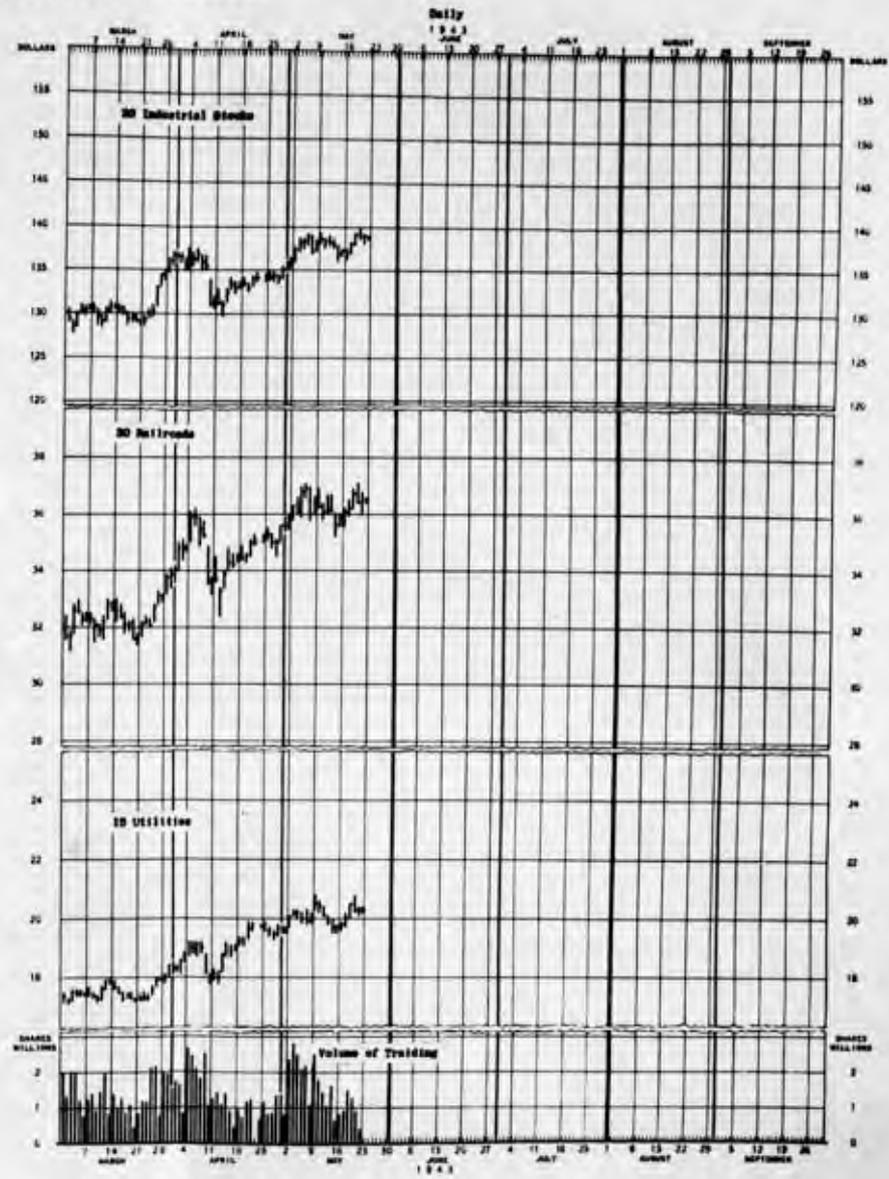
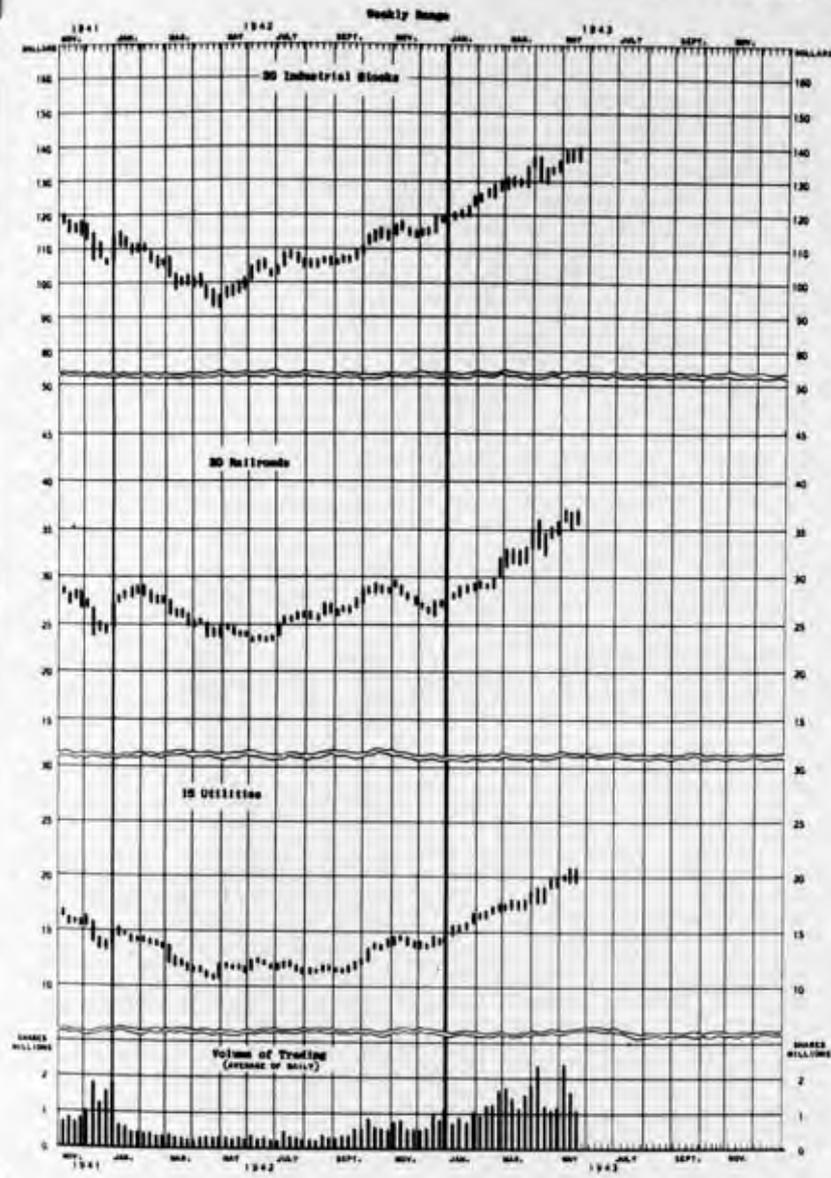
Chart 3  
7  
Regraded Unclassified

**WHOLESALE COMMODITY PRICES**  
**Percentage Changes in Major Groups of B.L.S. All Commodity Index**  
**Week Ended May 16, 1942 to Week Ended May 15, 1943**



### STOCK PRICES, DOW-JONES AVERAGES

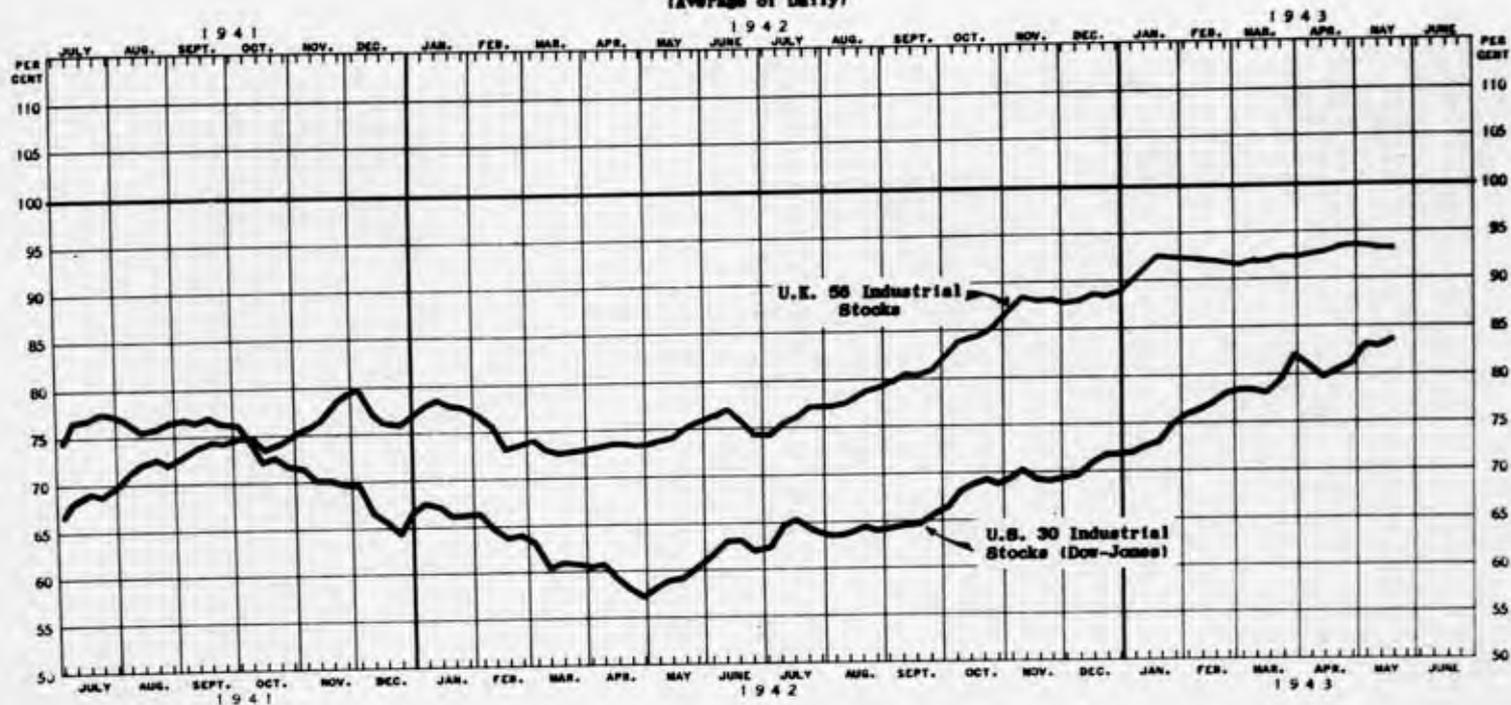
Chart 5



Office of the Secretary of the Treasury  
Bureau of Research and Statistics

# INDUSTRIAL STOCK PRICES IN U.S. AND U.K. August 1936 = 100

Weekly  
(Average of Daily)



Office of the Secretary of the Treasury  
Division of Research and Statistics

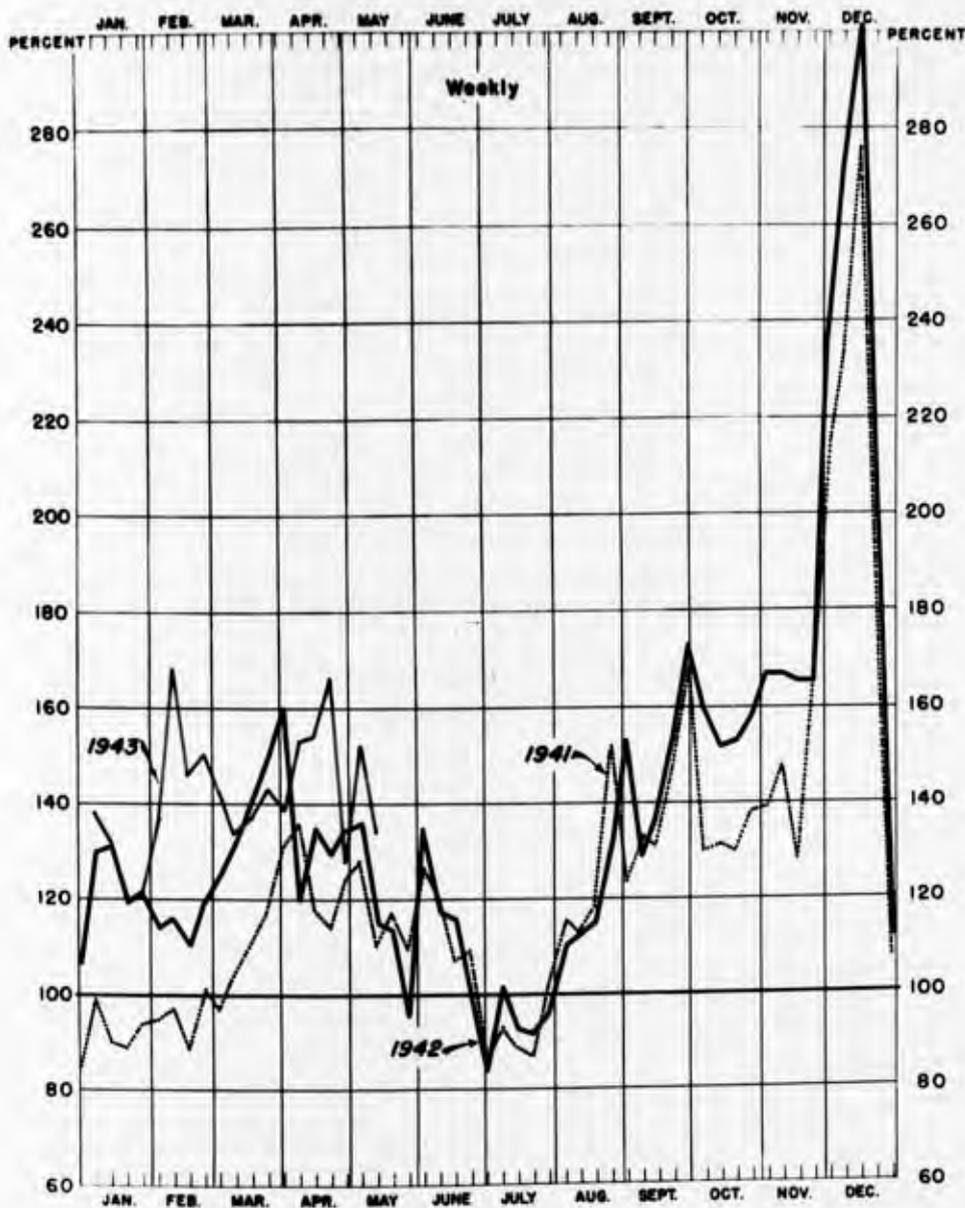
FD-156-

Chart 6

7  
Regraded Unclassified

# DEPARTMENT STORE SALES

1935 - '39 = 100, Unadjusted





OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

May 24, 1943

SECRET

MEMORANDUM TO THE SECRETARY:

Supplementing report to you of May 17, 1943, the purchases against the African Program from May 17, 1943, to May 23, 1943, totaled \$2,408,300.55 or a total of purchases for the program thus far of \$35,438,958.27.

Attached is report giving status of shipping against these purchases.

A. J. Walsh  
Acting Director of Procurement



**SECRET**SHIPPING REPORT AS OF MAY 22, 1943

<u>Commodity</u>	<u>Tonnage Shipped to Date From U. S. A.</u>	<u>Tonnage Under Load At Port</u>	<u>Tonnage On Hand at Port Waiting Vessels</u>	<u>Tonnage En Route To Port</u>
Aluminum sulphate				14.5
Asbestos sheet packing	2			
Boiler tubes				19
Bone glue		2.5	50.5	
Books & booklets	2			
Brass rods & sheets	29.7	31.35	12.8	88.7
Babbitt metal	53.85			
Brick	129		40	
Calcium carbide		414.05	340	1736.7
Cement				20
Cement, rubber			19.5	
Chemicals	181.5	349.8	244.9	661.48
Coal cutters	12			
Copper tubing			74.6	
Corrugated boards		76.5	47.9	22
Clothing	2233.71	131.55	11	
Copper sulphate	5697.75		47.5	
Cotton thread	69.25	30		
Cordage & twine	225	20	46.5	
Drugs	6.5			
Electrodes		13		3
Envelopes		11.5	15.18	
Files, steel	15	15		
Fullers earth	72			
Gelatin	1	1		
Glass, window			97.2	24.3
Glass lamp chimneys			17	
Glycerine	12.75			
Horse shoes & nails	125.9	61	30.03	10.75
Hosiery	26	5	6.5	2.5
Jute bags		175.4	986	

SECRET

<u>Commodity</u>	<u>Tonnage Shipped to Date From U. S. A.</u>	<u>Tonnage Under Load At Port</u>	<u>Tonnage On Hand at Port Waiting Vessels</u>	<u>Tonnage En Route To Port</u>
Light bulbs			8.6	
Lithopone			10.2	
Luminate	30			
Mach. finished book paper	2			
Matches	389.75	4.5	9.1	70.15
Newsprint	913	131	103	28
Nipples, bottles, eye cups			9	
Paper products	10	270.4	341.4	501.97
Paper bags		190.6	54	
Phonograph records			1000 Each	
Paint pigments	15.5	3.5	42.7	1.6
Piece goods, textiles	7775.5	2687.77	2151.75	890.05
Pig iron		105		245
Pig tin	64			
Powdered milk	119			
Printers ink	.1			
Raw sugar	1545			
Refined sugar	4196.5			
Sheet copper & rods	2.8	44.2	29.1	60
Shoe tacks	4	19.5		
Spare parts for autos, tractors & harvesters	256.1	314.2	39.6	639.29
Spark plugs	4.5	5		
Storage batteries	51.7		9.15	11.3
Steel, pipe, bars, angles, wire	38	468	1683.2	1142.22
Shoes, boots & soling	247.25	93.75	17	4.5
Sulphur commercial flour			1481.2	2320
Tin plate	845			
Tires, tubes & tape	240.75	36	57.7	346.54
Tools	3.5	8.5	204.3	379
Tooth brushes			.75	
Tea	171.75			

SECRET

<u>Commodity</u>	<u>Tonnage Shipped to Date From U. S. A.</u>	<u>Tonnage Under Load At Port</u>	<u>Tonnage On Hand at Port Waiting Vessels</u>	<u>Tonnage En Route To Port</u>
Typewriter ribbons			.5	
Wire nails	100.5			
Wire rope	88.5		17	
X-Ray films	1			14.5
Blasting caps	1.4			
Transformers				6
Wire cloth				3
Padlocks				2.5
	<hr/>	<hr/>	<hr/>	<hr/>
Totals	26,012.01	5,719.57	8,356.36	9,268.55

May 24, 1943.

My dear Mr. Stettinius:

In the absence of the Secretary, I am acknowledging your note of May 21, which transmitted the personal and private copy of the report on the status of the Soviet Aid Program, as of April 30.

You may be sure this material will be held in confidence and brought to Mr. Morgenthau's attention immediately upon his return to the office.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz,  
Private Secretary.

Honorable E. R. Stettinius, Jr.,  
Administrator, Office of Lend-Lease  
Administration,  
Five-Fifteen 22nd Street, Northwest,  
Washington, D. C.

File in Diary

\* B1a Report ret'd to Stettinius at his request  
8/24/43

GEF/dbs

SECRET 82

OFFICE OF LEND-LEASE ADMINISTRATION  
FIVE-FIFTEEN 22d STREET NW.  
WASHINGTON, D. C.

E. R. Stettinius, Jr.  
Administrator

May 21, 1943

The Honorable Henry Morgenthau,  
Secretary of the Treasury,  
Room 280, Treasury Department,  
Washington, D. C.

Dear Mr. Secretary,

Attached hereto is your personal and  
private copy of the report on the status of  
the Soviet Aid Program, as of April 30, 1943.

Sincerely yours,



E. R. Stettinius, Jr.

Attachment

10/21/43 SV WT 1 45

SECRETARY OF TREASURY  
OFFICE



**BRITISH AIR COMMISSION**

1705 MASSACHUSETTS AVENUE  
WASHINGTON, D. C.

TELEPHONE HOBART 9000

PLEASE QUOTE

REFERENCE NO.....

With the compliments of British Air Commission  
who enclose Statement No. 86 - Aircraft Despatched  
- for week ended May 18, 1943.

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

May 24, 1943.

MOST SECRETSTATEMENT NO.86Aircraft Despatched from the United StatesWeek Ended May 18th. 1943

<u>TYPE</u>	<u>DESTINATION</u>	<u>ASSEMBLY POINT</u>	<u>BY SEA</u>	<u>BY FLIGHT DELIVERED AIR FOR USE IN CANADA</u>
<u>CONSOLIDATED</u>				
Catalina IV	U.K.	U.K.		11
<u>CURTISS</u>				
Seamew	Canada	Canada		4
Seamew (A)	U.K.	U.K.	7	
Kittyhawk	Middle East	Port Sudan	35	
<u>DOUGLAS</u>				
Boston IIIA	U.K.	U.K.		1
Dakota III	M.E.	M.E.		1
Dakota III	U.K.	U.K.		1
Dakota III	W'Africa	W'Africa		2
Dakota III	India	India		1
<u>FAIRCHILD</u>				
Cornell PT26	M.E.	Suez	5	
<u>LOCKHEED</u>				
Hudson IIIA (B)	U.K.	U.K.		3
Ventura	Australia	Sydney	10	
<u>GLENN MARTIN</u>				
Baltimore IIIA	M.E.	M.E.		3
Baltimore IV	M.E.	M.E.		12
<u>NORTH AMERICAN</u>				
Mitchell II	U.K.	U.K.		2
Harvard	S'Africa	Capetown	7	
Harvard	India	Bombay	3	
<u>VULTEE</u>				
Vengeance	India	Bombay	10	
			Total <u>77</u>	<u>37</u> <u>4</u>

(A) Exported during week ended May 11th.

(B) Including one erroneously reported exported week ended May 11th, Statement No.85 should be corrected to read two.

British Air Commission, Movements Division

May 22, 1943.

Regraded Unclassified

25

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Chungking, China

DATE: May 24, 1943, 7 p.m.

NO.: 658

This is a telegram from the Secretary of the Treasury to Adler.

This refers to the Department's telegram no. 380 dated the 20th of March and to your cable TF-102 dated the 28th of March.

1. The following proposal prepared by the Treasury Department for the Stabilization Board and Dr. Kung's consideration offers a program for effecting remittances to occupied China from the the United States:

(a) The New York Agency of the Bank of China, or any bank in the United States, including Hawaii, which it specifies, would be permitted to effect remittances,, including air mail and telegraphic transfers, through the bank of China, Chungking, to people in occupied China.

(b) General License No. 75 outlines the procedure in accordance with which these remittances could be effected. Each remittance would be reviewed in Chungking under the responsibility of the Chinese Government to determine the desirability of the beneficiaries to be provided with funds and to ensure that no benefit would be derived by the enemy as a result of such remittances.

(c) The United States' censorship officials would receive information from the Treasury Department stating that no instructions (other than those sent to the Bank of China, Chungking, by the New York Agency of the Bank of China, or some other bank named by that Agency) directing persons in unoccupied China to send funds to persons in occupied China should be allowed to go forward to China from the United States. In appropriate instances censorship officials should instead inform senders of such instructions that for such transactions they should contact the New York Agency of the Bank of China, or some other satisfactory bank designated by the Bank of China. The New York Agency of the

Bank

- 2 -

Bank of China, or other banks of its choice, could make remittances when these individuals requested it, but it would have to be in the manner described above in paragraphs (a) and (b). The Chinese Government would thereby have control over these restrictions.

(d) The Honkong and Shanghai Banking Corporation of New York is also being considered as a possible channel for effecting remittances as specified in (a) and (b) above. Please comment on the desirability of this.

2. It would be appreciated by the United States Treasury if comments of the above proposals could be received from Dr. Kung and the Stabilization Board.

3. The New York Agency of the Bank of China has contacted the Treasury in connection with remittances to areas occupied in Kwangtung. It was suggested by the Bank of China that an amendment be made to Treasury's General Ruling No. 11 in order that remittances to areas occupied in Kwangtung would be permitted. Treasury has informed the Bank of China that a revision of General Ruling No. 11 will not be considered at the present time and that if any arrangements are made they would be informal and confidential in nature.

HULL

RCC  
 This telegram must be  
 paraphrased before being  
 communicated to anyone  
 other than a Governmental  
 agency. (BR)

Chungking via N.R.

Dated May 24, 1943

Rec'd 3 p.m., 25th.

Secretary of State

Washington

767, May 24, 2 p.m.

FOR SECRETARY OF THE TREASURY FROM ADLER.

TF 124.

Your 447, April 6.

One. Cassels informs me that pecata sterling  
 rate 15 pecatas to the pound.

Two. Bank of China, Chungking, learned from  
 its branch office in Shouhing, Kwangtung, that there  
 are no official quotations for pecata against Chinese  
 dollars in Macao. Black market rates in Macao at end of  
 April were pecatas 90 against Chinese dollars 1000. While  
 there were no quotations for pecatas against Nanking  
 Central Reserve Bank dollars even in the black market,  
 exchange market between Canton and Macao quoted rate of  
 Central Reserve Bank \$1000 against Chinese dollars  
 2050. The Chinese silver dollar was quoted at par with  
 pecata in Macao.

Three.

-2-#767, May 24, 2 p.m., from Chungking via N.R.

Three. Assistant Commercial Attache informs me that Japanese broadcast in English on April 21 claimed that Japanese economic and political penetration in Macao was increasing, that use of fapi in Macao was declining, and that circulation of Central Reserve Bank notes was growing. It was also claimed that the latter were becoming indispensable for important commercial transactions.

ACHESON

LMS

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking  
TO: Secretary of State, Washington  
DATE: May 24, 1943  
NO.: 768

STRICTLY CONFIDENTIAL

Reference is made herewith to the Embassy's previous wire of March 22, 1943, no. 754. (May)

1. Late on May 22 I had a conversation with Dr. Kung on various subjects. During the course of our meeting, he described at some length but in vague terms, the reasons including appreciation of the American loan which had prompted the Chinese Government to devise the new special exchange regulations. Although I did not obtain a very precise clarification of Article Three of the regulations, Dr. Kung stated that it was a matter which concerned his Ministry and the Central Bank and that there was no intention to create any debt on the part of foreign governments. (Mr. K.K. Kwok, General manager of the Central Bank of China, gave an officer of the Embassy a more specific clarification. Mr. Kwok said that the foreign embassies would definitely not (repeat not) incur any responsibilities whatsoever under Article Three and that the article simply covers a matter of mechanics between the Ministry and the Central Bank. He said that the "settlements" referred to is to be only between the Ministry and the Bank and that he had been somewhat surprised by the fact that the Foreign Office had transmitted the text of the article to the Embassy.)
2. During my conversation with him, Dr. Kung made no reference to any question relating to reverse Lend-Lease. Naturally, I did not mention the subject. With respect to the special exchange regulations, I stated that his active interest in the question of resolving our problems in connection with the exchange situation was appreciated by us and that we were reporting the matter to the Department.

ARCHESON

this copy  
5-29-43

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China

DATE: May 24, 1943, 4 p.m.

NO.: 769

This is a strictly confidential message, TF 123, for the Secretary of the Treasury from Adler. No distribution to other Departments is to be made.

Reference is made to Adler's TF 114 of April 29.

On May 21 Dr. Kung called another meeting of Financial experts on the subject of international monetary cooperation. As before, a realistic approach seemed to be the consensus of opinion.

The Former Minister of Information Dr. Wang Shih Chieh advocated China putting particular emphasis on the necessity for special consideration being given interests of countries which are undeveloped. This view was supported by a representative of the Bank of China, Mr. Tsuyee Pei. It was also his opinion that China should favor a monetary plan which would not exclude flexibility of exchange rates because in the post-war period China's interests would demand this flexibility. The fields of currency and international investment were covered in an ambitious alternative scheme by the Vice-Minister of Finance, Mr. Y. C. Koo. Mr. K. P. Chen talked for a long time on the need for going into all the possibilities of increasing China's exports after the war; unless her export trade had a sound foundation on which to stand China's international currency position would certainly be rather precarious. He said that speaking from the point of view of a private businessman, he thought it would be to China's advantage to relax foreign exchange controls after the war. In expanding China's foreign trade this measure would be indispensable. It was suggested by the Secretary of the Stabilization Board, Dr. C. T. Chi, that definite instructions should be given to delegates to negotiations which will take place in the near future regarding a few very important points which can be obtained by negotiations and that they be allowed some leeway on the less important points. He thought that China should ask for only as much quota as would be required figured on the basis of possible expansion of her foreign trade. That portion of the American loan which would not have been used could be put to good use to bring back international currency stability during the period of adjustment which China would need. If

China

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China announced here intentions with respect to foreign business and foreign investments after the war now, it would go a long way towards putting her in a good position in the forthcoming negotiations. The ex-Minister of Communications and Deputy Governor of the Central Bank urged that China be the spokesman for the undeveloped countries; her position, interests and international reputation require that she do this.

In his comment on the discussion, Dr. Kung remarked that it might not be easy for China to relax her foreign exchange controls as soon as the war was over. She would do all she could to expand her export trade, but the problems in the way of this undertaking should be given their full importance. On the subject of the undeveloped countries he thought that both the United Kingdom and the United States manifest idealistic trends which encourage measures conducive to lasting peace. The people identified with these trends would certainly support any special consideration for the undeveloped countries. Therefore special consideration for undeveloped countries should be urged by China as much as possible.

NB. Wang Shih Chieh and Gahng Kiangau both enjoy embarrassing the ins, being out themselves, and the espousal of the cause of the undeveloped countries by them should not have too much importance attached to it. They very readily support popular causes especially if no responsibility is placed on them as a result of this support.

ATCHESON

EXPERIMENTAL

RESEARCH

RESEARCH  
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STATE

1943 MAY 25 AM 11 55

NOT TO BE RE-TRANSMITTED  
TREASURY DEPARTMENTCOPY NO. 13BRITISH MOST SECRET  
U.S. SECRETOPTTEL NO. 169

Information received up to 7 a.m., 24th May, 1943.

1. NAVAL

Last night, 9 E-boats were operating Southwest of the NEEDLES, probably mine laying. Naval Albacores attacked and 2 E-boats were sunk and a 3rd possibly sunk. Clearance of an entrance channel at BIZERTA is proceeding and there is now a passage 20 feet deep and 85 feet wide with berths for landing craft. In a homeward convoy yesterday in Mid Atlantic, Swordfish Aircraft from one of H.M. escort carriers attacked 2 U-boats, 1 of which was sunk, 1 Officer and 10 men were picked up by one of H.M. Destroyers.

2. AIR OPERATIONS

WESTERN FRONT. 23rd. Escorted Venturas attacked the Coke Ovons at ZEEBRUGGE. Escorted Whirlwind Bombers seriously damaged a 1,000 ton ship and an armed trawler off the CHANNEL ISLANDS. 29 Focke Wulfs 190's in all attacked BOURNEMOUTH, HASTINGS and BEXHILL. 3 were destroyed. 23rd/24th. Aircraft despatched: DORTMUND - 826, (38 missing, 1 crashed in United Kingdom) Intruders - 20, Leaflets FRANCE - 15 (1 missing) Anti Shipping - 4. Preliminary reports DORTMUND indicate well concentrated attack in good visibility. About 20 enemy aircraft operated in TYNE-TEES Area. Casualties by night fighters and Anti Aircraft 2, 0, 1.

SICILY. 21st. 92 Escorted Fortresses attacked airfields at SCIACCA and CASTELVETRANO, and at night Wellingtons dropped 91 tons of high explosive on the Ferry Terminus at MESSINA. 22nd. 23 Escorted Fortresses attacked BORIZZO Airfield. In these operations, enemy casualties in the air - 14, 3, 6. Allied: 4, 0, 11.

SARDINIA. 21st. 94 Escorted Medium Bombers attacked airfields at VILLACIDRO and DECIMOANNU, at least 13 aircraft on the ground were set on fire and at the latter place large petrol fires were started. Enemy Casualties in the air: 12, 1, 6. Allied: 4, 0, 2.

3. MILITARY

MEDITERRANEAN AREA. Defences of SARDINIA, SICILY, BALKANS and DODECANESE are being steadily strengthened by the Germans. Strength in BALKANS has been increased by 1 division but personnel reinforcements to SARDINIA or SICILY are so far only small.

4. HOME SECURITY

BOURNEMOUTH. 23rd. A cinema demolished, 2 large shops and central hotel hit. One other hotel damaged. Casualties so far reported 58 killed.

HASTINGS. Casualties so far reported 20 killed.

SUNDERLAND. 23rd/24th. Several fires all soon under control. Residential damage and public services somewhat affected.

SOUTH SHIELDS. 16 persons killed.

May 25, 1943  
9:20 a.m.

FINANCING - ORGANIZATION PLANS

Present: Mr. Bell  
Mr. Gaston  
Mr. Sullivan  
Mr. White  
Mr. Paul  
Mr. Thompson  
Mr. Gamble

H.M.JR: Did you see Mr. Eccles?

MR. BELL: I did, yes, sir.

H.M.JR: Do you want to report?

MR. BELL: Yes. I went over there yesterday afternoon to see him, and I hadn't been there but a few minutes when he told me he had seen the President yesterday.

John had previously told me that he and George Harrison had seen the President, but George Harrison--

H.M.JR: He and George.

MR. SULLIVAN: I had seen it on the ticker.

MR. BELL: He said that he and George Harrison had seen the President, but George Harrison was the Railway Brotherhood, and they weren't together at all. They were separate appointments.

H.M.JR: I thought you meant he had gone with George Harrison, the banker, to tell him.

MR. BELL: That is what John thought.

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MR. GASTON: I could have told you different. I knew he was going to see George Harrison of the Brotherhoods.

MR. BELL: Anyway, he told me that he had seen the President. I said, "I am sorry you did that, because I was hoping you would wait to see whether or not we could work this out."

He felt, as a Presidential appointee, he had to do it, and the Presidents of the Federal Reserve Banks directed him to see the President by a resolution last week. As long as you had stated in the meeting that you had talked with the President about these meetings coming up with the presidents of the Federal Reserve and there would be this attempt to take over Treasury functions, he felt it was his duty to report to the President.

He said he did see the President, and he told him the story and told him that there wasn't anything for him to do. He wasn't asking him to do anything. He merely wanted him to know before it got into the papers, and wanted him to know the Federal Reserve side of the story in view of the fact that you had said that you had reported to the President previously.

Apparently the President forgot it, because he said that he didn't remember you having reported it. The only incident he remembered was the San Francisco incident. He said that he remembered that report.

But he said that the President seemed a little disturbed about it and told him that he hoped that the Treasury and the Federal Reserve System would get together, because he thought that the System ought to be in the financing.

I then discussed the question--

H.M.JR: Just like that? That is all?

MR. BELL: Yes.

H.M.JR: They ought to be in the financing?

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MR. BELL: Yes. He said he thought that they ought to be a part of the program, and he hoped that the Treasury and the Federal Reserve would get together on it.

He said he told the President he didn't want him to take any action, that he merely was reporting. He also wanted to make it plain - he said that he wasn't continually running to the President with troubles, because he hadn't seen him since a year ago last March.

H.M.JR: I don't blame him for going to see the President. I think I would have done the same thing if I were in his shoes.

MR. BELL: He said that - he was quite fair with me - he said, "I want you to tell the Secretary," and I hadn't been there two minutes when he said this, "I want you to tell the Secretary that I saw the President. I felt it was my duty as a Presidential officer to report what had transpired."

Then we discussed the question of the minutes. He said that he had thought--

H.M.JR: I even told the President - I said, "When we get into this fight I will need every weapon I can get. One is the FDIC - and I can't do anything with Crowley. You will have to handle Crowley for me." But anyway--

MR. BELL: On the minutes - he said that he had thought about that quite a little before he wrote the letter. I had talked to him on a previous day or two - I think it was Monday - and told him not to write a letter, but talk to you personally about a matter of that kind. There wasn't any sense in exchanging correspondence on it, and he couldn't get any place.

He said that he started to call you up, but he knew you were going away and thought it would rush you. He thought if he wrote a letter you could take your time - there wasn't any hurry about it - and that was the reason for the letter.

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He said he thought editing the minutes was a good suggestion, but he didn't think it could be done properly because he said after we started this conversation in the afternoon that we always came back to this one subject. And he didn't think you could properly edit the minutes without tearing them up so badly that they wouldn't make sense unless you had the full story.

He would like to suggest that you write him a letter and say that everything after Robbins' statement is expunged from the record. He thinks you probably want Robbins' statement in the record, that is, where you talked about Robbins.

H.M.JR: They want Robbins' thing on the record.

MR. BELL: He doesn't care if you eliminate the whole afternoon session.

H.M.JR: Robbins didn't make his speech in the afternoon, did he?

MR. BELL: No, the Secretary went in after lunch and told them of Robbins' resignation, and he asked Robbins if he wanted to make any statement. Robbins merely made a short statement saying why he wanted the Secretary to do it.

MR. GASTON: And after that they presented their alternative plan, and the Secretary said, "If you don't mind I will have to talk this over with some of my own people." We then left the room and took their plan with us.

H.M.JR: The Robbins statement where he supported us was made in the morning.

MR. BELL: That is right.

H.M.JR: I think if you want to eliminate the thing, the thing to eliminate is from the time we left the room.

MR. BELL: That is what he suggested.

MR. GASTON: I think you might be able to pick up some later material also.

MR. BELL: He thinks that it would be much better if you just eliminated everything after that, and he also thinks that it would be a nice thing if we could start Wednesday where we began Friday afternoon.

H.M.JR: Where was that?

MR. BELL: That is considering the two memoranda, and eliminate everything in between. And he thinks if there is any reference to what happened at that meeting on the Harrison thing that it ought to be off the record.

H.M.JR: What I thought was - after all, you read my conversation with Ronald Ransom, and I thought that where I would start is simply this, "Look, gentlemen, I have asked you to come here to assist the Treasury on their Third War Loan. I would like to know whether you are prepared to assist us."

MR. BELL: I think that would be all right.

H.M.JR: I told Ronald Ransom that I am not going to bargain with them.

I tell you, Dan, the longer this thing goes the more bitter I am getting.

MR. BELL: I am afraid that is probably true on the other side, and I am hoping it isn't true on either side.

H.M.JR: Well, I am, and I am convinced of two things: One - I will let Gamble tell his own story - that these fellows really want to take us over. Mr. Byrnes has taken us over on the tax matter - and if you read Arthur Krock this morning - he has a story - and as far as I am concerned he can present the next tax bill. If the Federal Reserve wants to take over the financing, that is wonderful. Then I can go back to the farm; I am not going to stay here and look after Foreign Funds. If I don't get the full support from the President - I am not going to stand for any nonsense.

Gamble, tell them what these two bankers told you in New York yesterday.

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MR. GAMBLE: Well--

H.M.JR: Listen, Bell, I told them in no uncertain terms that I am not - and you had better read my memorandum - I am not going to bargain. I am not going to bargain tomorrow; I am going to ask them to come in on my terms. I positively will not bargain.

My conversation with Ronald was perfectly clean-cut, wasn't it?

MR. BELL: Yes. I am merely reporting the conversation.

H.M.JR: I know, but I asked you to do it, and I am glad to know what he said about the President and what the President said to him, but also I don't know whether Ronald had anybody taking it down. But he certainly knows where I stand, and based on that they are coming.

Does Eccles know what I said to Ransom?

MR. BELL: That I don't know. I assume he does, because they had a meeting all Saturday afternoon. I didn't get Eccles until almost six o'clock. He said that he was in a meeting discussing that very thing.

MR. GAMBLE: I called on these people.

H.M.JR: Tell them who.

MR. GAMBLE: I called on these people at the request of the Secretary - Mr. Lew Pearson and Bayard Pope, and talked to them.

H.M.JR: Tell them who they are.

MR. GAMBLE: Lew Pearson is a former New York banker. He is chairman of the Manhattan committee. He took Lew Douglas' place on the New York War Savings organization.

H.M.JR: President of either the Chemical or Irving Trust Company.

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MR. GAMBLE: Irving Trust Company, and Pope is the executive vice-president of the Marine Midland, and he is one of their top men. He is the chairman of the executive committee of the New York War Savings Organization, and I might say that both of them have recommended Federal Reserve Bank participation on this program. They believe we would be much better off with the System in the program, but they had a reaction to it - this little fracas that has been going on. It was interesting to the Secretary, and I think it would be interesting to you.

They don't feel that Sproul wants to get out of this program. You know, the suggestion has been made a couple of times that one of the reasons Sproul has been difficult to deal with on these two or three details was that perhaps he didn't want to head up this program and be charged with walking away from the Secretary, but really wanted to make it difficult for the Secretary so the Secretary would walk away from them on getting together in this program. But the people in New York say that is not true. They think Sproul is very much interested in this program, that he wants to be identified with it, that he wants to head it up, and that the points of friction are caused because Sproul believes that under this plan of the Secretary's it will not be possible for him to have as much freedom working with the bankers as he would like to have.

(The Secretary held a telephone conversation with Senator George.)

MR. GAMBLE: They stated very emphatically that they were satisfied in their own minds that Sproul's resistance to this plan is a result of his feeling that bankers ought to dominate this whole program, that it is very logically a function for bankers that they should be raising all this money in wartime, and they should have charge of the sale of the securities; and that while he has some appreciation for the wide-spread methods the Treasury has used and wants to continue to use, they believe his sympathy for that program has increased greatly and did increase greatly in this last drive.

They think it is his opinion that it should be dominated and supervised by the banking fraternity, and that he doesn't

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feel he is going to have that freedom in this program of the Secretary's, and consequently has picked two or three little things he doesn't like about it.

Their reaction to Sproul and the bank, I think, was very good. They said they think it would be a serious mistake for us not to get together with the banks, and they think that certainly in that particular section of the country - in New York - that the Federal Reserve Bank ought to maintain a very important position.

They say the job can be done without them, but they believe it is up to us, if we can, to try to get Sproul to see the light. They speak very highly - complimentary - of him - all his people - the work they did in April, but they say he just does not understand and was very stubborn about it. He just doesn't feel that the retailers and the women and the farmers and all of the industrial groups we have in this program - that they should be heading it up. It is a banker operation pure and simple, and not so much Federal Reserve Bank - in other words, it wasn't the desire on Sproul's part to have the Federal Reserve Bank dominate this picture, but a conviction that it is a job for all the bankers in New York.

That was about the sum and substance of it.

H.M.JR: One thing, Ted, there are a hundred and eighty industrial committees organized, War Bonds, and the Federal Reserve didn't use one of them during this last drive - they didn't use one of them.

MR. GASTON: Who organized them?

H.M.JR: The War Savings.

MR. BELL: Did they know about the controversy?

MR. GAMBLE: Yes, they knew about it, but they didn't know all about it, not about the meeting that took place here on Friday - they didn't know the details of that. But they did know there was a controversy going on, and they

knew there was some resistance. They have that much information.

MR. BELL: Pope is in favor of one organization.

MR. GAMBLE: They both are, and they both are in favor of the Federal Reserve leadership.

MR. BELL: They want two sections, one on pay-roll--

MR. GAMBLE: The thing that--

H.M.JR: Here it is in writing, and I don't understand it. I got a written memorandum from them which I will circulate. (Copy of plan suggested by New York War Savings Staff attached.)

MR. BELL: From whom?

H.M.JR: The New York War Savings Staff suggested: "Organization: one head - one control in each district is necessary for effective coordination. The Federal Reserve Districts seem the most suitable units into which to divide the country - and the president of each Federal Reserve Bank the most appropriate chairman of each district. It is suggested that under him the two organizations - War Savings and Victory Fund, be kept separate because the War Savings organization has the most experience and better understands the job of widespread distribution, whereas the Victory Fund group are the natural leaders in the financial field. Many from the financial field would be a part of or at the head of the solicitation of the most important special commerce and industry groups of the War Savings organization.

"To eliminate the War Finance committees in each district and to have the authority vertical from the Chairman of the district through the executives of the War Savings organization and of the Victory Fund organization in all the regions of activity, eliminates the confusion in each Federal Reserve District of having regional War Finance Committee representatives."

I don't understand that.

MR. GAMBLE: The regional--

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H.M.JR: He wants one organization, but two--

MR. BELL: One head, but two lines, which, I think, would still be confusing.

MR. GASTON: Instead of having a War Finance committee and regional representatives, the regional representation - local representation - would be through two separate organizations.

MR. BELL: Two channels. That is what we have now.

MR. GAMBLE: It isn't exactly what we have. Another way you could read this memorandum - and in this respect it is the same as the Thomas and Robbins report - is that if the so-called Victory Fund Drive or campaign committee is a part of the single organization, then the procedure is just the same in all.

MR. BELL: I know Pope would be - he came and talked to me - he would be willing to eliminate all prior names - War Savings Staff, Victory Fund Committee - and set up a new head, but he thinks it ought to be subdivided.

MR. GAMBLE: There was nothing critical of the other people, just that they didn't feel that--

H.M.JR: I still don't understand what he wants in the field. How would he do it in the field?

MR. GAMBLE: This one thing that confused you was that the Treasury War Finance Committee had regional supervisors that were set up for the purpose of this drive to head up the drive, and those people were not people who understood actually what they had to work with. They only worked with the committee that was set up for the drive, and they didn't work with the two groups. It was confusing, and would continue to be confusing if you tried to work with two organizations, in my opinion.

MR. GASTON: You mean Perry Hall and the rest?

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MR. GAMBLE: I wasn't thinking of Perry Hall, but under Perry Hall, for example, they would have regional or area managers who would supervise four or five counties, and they would have direct contact with the Treasury War Finance Committee in that county but no contact with the War Savings organization as such.

H.M.JR: When I think of all that is going on for days and days and days - wearing myself out on this sort of thing - it is just outrageous.

One suggestion they made which you didn't mention - he suggested - Pope - that if we don't get together that we work through the clearing house associations. He says that every large city has a clearing house association. He said that they would be delighted and would have much more influence with the Federal Reserve. You forgot that, and that is a damned important suggestion.

He said, "You go to the president of the clearing house association. Every bank is a member, and there is your organization all set up for you."

Isn't that a good idea, Harry?

MR. WHITE: It is quite a novel one. Do the banks in all the rural areas - not rural, but out away from the big cities - belong to a clearing house organization, or do they belong through a big bank? I am just not sure. If it touches most, I think it is a good idea.

H.M.JR: You don't need that. Give me half a dozen or a dozen big cities that have clearing associations, that is all you need. And the so-called country banks will play ball anyway.

MR. WHITE: I think that is true. They must, in any case, have representation through one of the larger banks. That is a very interesting suggestion if you want to release the banks.

H.M.JR: There is an organization set up. Are you at all familiar with the clearing house?

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MR. BELL: Somewhat, yes.

H.M.JR: Is there any report in the library showing how many cities have clearing houses?

MR. BELL: Delano could find out.

MR. GASTON: I think any city over a hundred thousand has one.

MR. BELL: I expect it goes down to twenty-five - where you have ten or fifteen banks you would have a clearing association, I am pretty sure.

MR. GAMBLE: They made a point of the fact that in the cities where the Federal Reserve Banks are located they have an important clearing house association, and in every instance have an outstanding banker as head of it.

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

MR. WHITE: I think they are a fairly loose organization and one would have to take that into consideration.

H.M.JR: I don't think so. They have a paid staff.

MR. WHITE: But the amount of contacts and business they have with others is in a rather narrow front.

H.M.JR: Then they have a president, and they have members.

MR. BELL: Just an exchange of checks each morning, that is all.

H.M.JR: It makes just as much sense to say that they should sell bonds or handle the banks as the Federal Reserve should sell bonds.

MR. BELL: We deal through the clearing associations on many of our depository matters. We go into a town; and if we want a bank to give us facilities at its Army post, we

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go to the clearing house association and ask them if all the banks can get together. We don't have any trouble - one bank gets it, and the others are jealous. We have done that in a number of cases.

H.M.JR: Couldn't you make them our fiscal agents?

MR. BELL: I don't think you have authority to do that.

H.M.JR: I can make any national banks that--

MR. BELL: They are not national banks.

H.M.JR: Paul, would you study - somebody raised this the other day - what the relationship is, the exact relationship and the history of the fiscal agencies of the Federal Reserve Banks, how it grew up, and so forth, and so on? Put some good, bright lawyer on it.

MR. PAUL: I don't quite get the point.

H.M.JR: I mean, how it came into being, and all the rest of the stuff, the fiscal agency relationship. Is there anybody in your office who studies the banking end?

MR. PAUL: Tietjens.

H.M.JR: Would he be good on it?

MR. BELL: I think so. I can help him out; I know both sides of the story pretty well - fiscal agency and depository.

H.M.JR: What would you say Eccles' attitude was, Bell?

MR. BELL: Eccles' attitude is that he would like to get together, but he thinks if we can't get together then you had better set up your own organization and they will help in whatever way they can on bank financing or advising on the types of issues, and even helping in the field wherever they can. But I might go on to sales director if you want me to.

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H.M.JR: Yes.

MR. BELL: We got on the appointment of Ted as sales director. He says that there is a feeling among the presidents - and it was expressed that day at their meeting when they had the suspicion that Ted was going to be the sales director - that a great deal of this trouble between the War Savings, Victory Fund Committee, and the Federal Reserve System has been brought about by Mr. Gamble, Mr. Graves, and others in the War Savings Staff carrying tales to you, and they feel this is just a perpetuation of that organization. And if Mr. Gamble is going to be the sales director, they think possibly you ought to accept the suggestion of the Reserve System that they initiate the appointment of these sales directors in the field.

On the other hand, he thinks in view of the fact that you haven't announced the appointment of Mr. Gamble that you might appoint a sales director, such as Dr. Burgess, and let Mr. Gamble be deputy for a while until he does become more acquainted with the Federal presidents. Dr. Burgess is well known and well liked. While he says he differs with him on many occasions on principle, yet he has a high regard for the fellow, and he certainly can't question his integrity whenever he has an opinion, so they all get along with him.

He thinks in that way he could ask every Federal Reserve president to accept your memorandum without any change. He may have a little difficulty with Allan Sproul, but he would go to Allan and say, "Look here, it is time to forget all of this, and we want you to go along and accept the Secretary's program."

H.M.JR: If I did what?

MR. BELL: If you would appoint some sales director outside of the two organizations. He merely suggested Dr. Burgess because he knows what a high regard you have for him. He said he was not suggesting it because he wanted Dr. Burgess, but you can suggest to him some other possibility. He suggested him and suggested making Ted deputy for a period

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of months until he becomes thoroughly acquainted with the Federal presidents.

He thinks he can sell your memorandum without changing a word in it if the sales director appears to the Federal presidents to be neutral, not one that they will pick, but to be neutral in the picture rather than partial towards the War Savings.

H.M.JR: What do you think of that, Ted?

MR. GAMBLE: Well, I think the suggestion you made to me yesterday is much better.

H.M.JR: Well, the suggestion - we are all talking amongst ourselves - is the one that you (Bell) and I talked about. Burgess - I can't say how helpful he has been - in fact, take a man like Burgess and compare him with Leffingwell who is always around wanting to be helpful. When we get down he wouldn't help.

Now, while this is still in a mess - and it means really, as Burgess said - and I advised him to come in in New York - that he would have to fight the Federal Reserve. He said that it would be most obnoxious to him, but he said he would do it for me. The way to find out who your friends are is when the thing is difficult.

He said it would not be necessary to get the President to write him a letter to do it. He has a full grasp of this picture, particularly on the industrial side.

"On the industrial side," he said, "it is ridiculous. We are selling bonds for three weeks a year to groups - you get people of the kind like Dubinsky and the AFL man, Hillman - you get people like that sitting with you and you can get somewhere. The industrial side of this thing - reaching the workers - has been absolutely neglected."

He agreed that a fellow like Perry Hall just never would understand it.

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MR. GASTON: Who was this speaking?

H.M.JR: Randolph Burgess. He has a full grasp of this thing. As I say, he said he would like to have Dubinsky and Sidney Hillman working with him.

As I said, he said it would be very obnoxious to him.

Then the interesting thing was, Leffingwell said - it is a terrible thing for a member of J. P. Morgan to say it - he said that since Morgan died - back prior to '32 - there is no leadership in the financial district. He said, "Everybody is jealous. The banks compete, and, therefore, we have to look to the Federal Reserve Bank, not Sproul, for leadership."

So I said to Burgess - I didn't quote Leffingwell - I said, "Look, Randolph, how would it seem if we got a National City Bank man in? Wouldn't Winthrop Aldrich go along?"

He said that he wouldn't cooperate. He said, "I am chairman of the fund for Greater New York, raising funds for the charities for New York, and I get full cooperation from Winthrop Aldrich, and I would on this."

MR. BELL: I think so.

H.M.JR: He said that the thing would not run that way - I didn't quote Leffingwell, but Leffingwell said, "Any one bank president couldn't get the others," but Burgess said he could get it. I mean, he doesn't like it, and he doesn't want the job.

Then the other thing - so you all get all the picture - the thing which I didn't think of is that he said, "It would more or less put me over Allan Sproul, which Sproul wouldn't like."

I don't know how many of you know - you see, we play politics here, but the Federal Reserve never does. Here Randolph was in line to be first vice president, and the Federal Reserve took Allan Sproul, who was considerably down the line, and jumped him over the head of Randolph Burgess because he was George Harrison's pet. Of course, we do the politics here; they never do. (Laughter)

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MR. GASTON: Randolph was first vice president, and he was in line to be it, wasn't that it?

H.M.JR: No.

MR. BELL: Randolph Burgess was the first deputy, yes. He was deputy governor and first in line, and then came Allan second.

H.M.JR: But before George resigned, didn't he jump Sproul over Burgess?

MR. BELL: Yes. Burgess wasn't a pet of George Harrison's.

H.M.JR: But didn't he jump him?

MR. BELL: No, I don't think he jumped him, but I think he put him into a position where he was contacting the public more and working more on foreign stuff.

That is where George Harrison got his big boost; he worked with Ben Strong on the foreign banks and got that picture. That is the reason they made him governor over Case.

H.M.JR: Well, Burgess said that Sproul undoubtedly feels that I would pick Burgess just to make it uncomfortable for Sproul.

I said I wasn't that smart, but it was a good idea.

MR. BELL: Eccles didn't think so. He thought they would get along.

MR. GASTON: The substance of that situation was that Harrison groomed Sproul to be his successor; and Burgess knew that and got out and took the job in the National City.

MR. BELL: Burgess didn't get out until quite a while afterwards.

H.M.JR: As I say, to get the benefit of everybody's advice - this goes back to a conversation you (Bell) and I

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had just before I went up to the city. Do you mind if I talk about you and the conversation we had?

MR. BELL: I don't think so; I don't know what you mean.

H.M.JR: As long as I mentioned it to Gamble yesterday--

MR. BELL: Go ahead. I don't know what you are going to say, but I haven't anything to hide.

H.M.JR: This is a result of a conversation that I had with Burgess. I mean, Burgess was worried about Gamble, and so - but what I was talking about was making you (Bell) actually Under Secretary - not acting - and putting Eddie Bartelt in as fiscal assistant, but getting a letter of resignation from him when he went in - as he went in. The minute he was sworn in I would ask him for his resignation, which I would put in the safe, and then announce in this setup that we did this thing, so that you could devote yourself more to the financing and that Mr. Gamble would be your assistant.

Now, Burgess said that would sit all right with the financial community, you see. He said that both from our standpoint - he said, "Everybody is watching to see who that person is going to be." And he said that if we did that, that would sit much better with them.

So I wish everybody would get off the log and do a little croaking.

MR. GAMBLE: I would like to say something about--

H.M.JR: This is the sort of thing that Robbins objected to, my getting in a group and thinking out loud with you. That was the thing - he said that he couldn't work that way, to have a group around, and I would talk and talk and talk until I would begin to see daylight. You have seen me do it. That is the way I like to work. I like you fellows to tell me - and I have seven heads instead of one.

MR. GAMBLE: I think you have--

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H.M.JR: I may make Bell feel a little uncomfortable, but it is only what you and I talked about. This was after two hours with Burgess.

MR. GAMBLE: I think you have a great deal to be concerned about, Mr. Secretary, with respect to a great many people in this country, not alone the presidents of the Federal Reserve Banks - and I think it would be a mistake for you to select a banker of the prominence of Burgess as a sales director and then make this deal with the Federal Reserve Banks. I don't think it would set well.

I think if you feel that you need to do that, it would be much better to go outside of the banks and get somebody like John Stevenson, the president of Penn Mutual - get somebody beyond question on both sides of the fence, but not as closely identified with the Federal Reserve Banks and the banks as Burgess might be.

I think that in lieu of that, this suggestion you have made about Mr. Bell is a very good one.

H.M.JR: Well, I have another suggestion which I haven't told anybody about. Burgess liked this as an out. I had a couple of hours with Burgess.

Supposing I simply do - have you all read my conversation with Ransom? Has everybody in this room read it? Who hasn't read it?

MR. WHITE: I haven't.

H.M.JR: Have you read it?

MR. THOMPSON: No, sir.

H.M.JR: Here is the original. You (Thompson) read it first and then give it to Harry. That is the last word on that. (Copy of telephone conversation with Ronald Ransom handed to Mr. Thompson.) 6-16-55  
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This is another thing. If we get nowhere tomorrow - in this memorandum you will see I say I am through bargaining;

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I am going to stick by my guns. This is when nobody could find Marriner Eccles. He was at a secret meeting buying himself some undershirts. (Laughter)

MR. BELL: Buying something; I don't know what it was.

H.M.JR: I am going to show you all the cards I have. If we don't get anywhere tomorrow - and I am through bargaining. I don't have to bargain. I think that the Secretary of the Treasury, whoever he is, doesn't have to bargain in the middle of a war as to who to get to cooperate.

All right, we will continue as is; and we go out and begin to strengthen our State organizations; get rid of the weak sisters and strengthen them wherever they need strengthening. Then as we approach September we will say - or we can say right away, "We will just follow the same performance for the Third War Loan as we did for the Second. During that three-week period the president of the Federal Reserve Bank will be in charge. In between times we will run it from here," we amateurs. But strengthen this thing all the time.

Ted says there are sixteen States where he would like to change the top fellows, so just go ahead as is.

When September comes - announce it now so they can get ready, keep the old War Finance Committee going so they can meet once a week with the president of the Federal Reserve to do their planning. They have three months in which to get ready for September. In the meantime we will go along just as we are - stalemate - but we will be strengthening our organization all the time.

MR. THOMPSON: That sounds good to me. That is the best of what I have heard.

MR. GASTON: If we were forced to that, I would want to get the promise of the Federal Reserve presidents - and I think they would probably give it - that when the time comes for a drive they will work more intimately and more closely with our organization than they did in the other drive.

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MR. BELL: I think we would still have some confusion and sniping that went on during the last drive.

H.M.JR: Sure.

MR. GAMBLE: You would have less, though, if you followed Herbert's suggestion. That was partly our fault. It wasn't wholly theirs.

MR. BELL: You might get less and less as you go along.

H.M.JR: But they would have three months, and I would insist that they meet once a week, the so-called War Savings group and the Victory Fund - once a week meet with the president of the Federal Reserve Bank as a campaign committee to get ready for the September drive.

MR. GAMBLE: I would like to alter that with one suggestion, that is, that you not continue the two organizations here in Washington.

H.M.JR: No, that is out; that is finished. If I did this the authority would flow from me to Bell, to you (Gamble).

MR. GAMBLE: That would work at this level certainly.

MR. BELL: As I have been thinking it over the last week - it seems to me something like that or some separate organization is what we really have to come to. I think this difference has gotten to the point where even though you get together there is going to continue to be some suspicion throughout the operations, and I have been thinking that maybe what you really ought to do is go to a State basis, strengthen your War Savings Staff along the lines Ted has suggested, and really sell securities to the individuals; keep it out of the Federal Reserve, except for what help that they can give at the time that the big drives are on when they will cooperate with you.

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Now, the banks and maybe the big insurance companies and financial institutions could be separated and let the Federal handle those.

H.M.JR: You are saying the same as I did.

MR. BELL: I am saying the same thing in a little different setup. There wouldn't be any top organization in the Federal Reserve System the way I am suggesting. I am merely trying to get their cooperation and help during the drives just like you would get any other organization to help.

MR. SULLIVAN: And not supervision.

MR. GASTON: Not supervision during the drive.

MR. BELL: That is right.

MR. PAUL: If you announced that plan, you would have a pretty swell trading position with the Federal Reserve - if you announced it to them.

MR. BELL: Yes, not announce it to the public until you are definite.

MR. SULLIVAN: That is eliminating the Federal. That is by-passing them altogether, Randolph.

MR. BELL: Except for the banks and the large financing.

MR. SULLIVAN: Not as something to bargain with the Federal Reserve, but as a new plan.

MR. PAUL: It is a separate and distinct plan; but if you were leaning very strongly that way, they would come into line pretty fast.

H.M.JR: The difference between what you and I are saying is when we come to the September drive I was saying

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we go back to what we did in the Second Drive, and you wouldn't do that.

MR. BELL: No, I would merely say, "There is a drive on and we want your cooperation. We would like you to get in behind and help the State administrators in your district wherever they need it. If they need advice and counsel, we hope you will be there, able and willing to render that service or sit in on their advisory committees or whatever they have in their district."

MR. GASTON: If you put them in that advisory relation, why wouldn't it be better to form our own regional organization with regional sales managers in each of the Federal Reserve Districts who would be in closer contact for consultation throughout with the presidents of the Federal Reserve Banks?

MR. BELL: You could do that. The one thing I haven't liked about the Federal Reserve regional districts and then a State setup is that it seems to me you are imposing one organization on another, which is making the whole thing rather expensive and a little bit cumbersome, to go through so many channels.

MR. GAMBLE: If you are thinking of ultimately getting together, which I think we should do, the Secretary's plan is much better, because it gives you an opportunity to work with them. It gives them an opportunity to see how we are thinking, and probably after the Third War Loan we would be pretty well weathered.

MR. GASTON: Leaving them in actual charge just as they were in these other drives?

MR. GAMBLE: That is right, and try to do all of the changes in advance that we know are necessary. We could even do some of it probably with the advice of these people.

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H.M.JR: Well now, let's get down to brass tacks. Supposing I take my suggestion for the minute and say, "All right, we will go along from now to the 5th of September" - what's-his-name made an interesting suggestion - he suggested we have our drive from the 5th of September to the 25th and then the last four days have the bank drive.

MR. BELL: That is all right, except I would suggest the 13th, because--

MR. SULLIVAN: Of course you have an income tax payment in there, you know.

MR. BELL: We hope we will have withholding.

H.M.JR: Supposing I say, "All right, we do" - I say for a moment - then we come to New York - would you say for this drive, "Sproul, you can employ anybody you want. If you want Perry Hall, O.K. - for the drive."

MR. SULLIVAN: You don't solve a problem that way, Mr. Secretary. You are talking of the old ones coming up under the new system.

H.M.JR: I mean, "For the drive, O.K., if you want Perry Hall" - I am just sitting around here arguing.

MR. SULLIVAN: I don't think you solve it.

(The Secretary left the conference temporarily.)

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H.M.JR: One thing I would like to say for the benefit of the people and the machine, I mis-spoke myself when I said I am getting bitter. I don't feel bitter. I am impatient, but this is nothing new; this is what has been going on ever since I have been here. I am not bitter about it. I mean, I am impatient but I don't - they seem to think this is an opportunity to get hold of the best thing financially that is going on. I don't blame them for making the try, but there is no use of my getting bitter about it.

MR. GASTON: Eccles' proposition is some revision of the general command which will sweeten the pill so that the Federal Reserve Bank presidents will accept the idea of our, in effect, selecting the organization throughout the Federal Reserve Districts; that they can accept your offer if you do something that is entirely outside the scope of either plan that was discussed.

I think we ought to examine that and see whether it is any good.

H.M.JR: Let me examine it, may I?

MR. GASTON: Yes.

H.M.JR: In the first place, let's say that we did it - I am just going to be as honest - I was just as honest with Burgess as I knew how to be, and I certainly will be with you - supposing I put Burgess in here. I have had experience with Burgess. It is one thing to have him in New York and another thing to have him in the Treasury. I have had him before. I had him here in '39 with Bailey and all of them.

There are a lot of things Burgess and I don't agree on on general policy, but let's say we took him in and Ted says "I will play second," and so forth - Herbert, after my experience we would have exactly the same conflict in every one of the twelve districts as to personnel that I have had.

I swear to you people, I have never been more patient, more quiet, more self-contained than I was in my two conversations with Allan Sproul, nor did I ever plead more. The

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last time I pleaded with anybody as hard as I did with him was when I was trying to get somebody to take Bell's place in the Budget Office and I pleaded with Tom Smith to come in and be Director of the Budget.

MR. BELL: Harold?

H.M.JR: Tom K. Smith. I don't ever remember pleading with anybody so for the sake of this country at war, and so forth and so on. He was man enough to say to me, "I want to say to you, Mr. Morgenthau, after reading the memorandum of March first" - which I hope you have all seen, which was not Mr. Eccles but was the expression of the Open Market Committee - the Executive Committee of the Open Market Committee - he said, "After reading that, you had grounds for suspicion." He said it wasn't meant that way, but he said, "From your standpoint, I can see that you had grounds and that you felt that this was creeping up on you."

Now, at no time did he say to me that he would resign. I understood he said it to somebody.

MR. BELL: That was in his memorandum that Eccles read to you the other day.

H.M.JR: He didn't get that far, did he?

MR. BELL: He read the memorandum to you.

H.M.JR: Not in full to me. All he read to me was the various things I had said. You said afterwards he must have been a stenographer.

MR. BELL: Yes. Well, he said in that, that he felt strongly that the Federal Reserve System should be in this picture as part of this financing program, helping out the Treasury. He said, "If it comes down to personalities, which it looks as though it is, I should like to take this whole matter up with my Board of Directors and submit my resignation so that someone else can go on in my place."

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He said, "There are plenty of men in the Federal Reserve District of New York that can take this place and do it. It isn't confined to Allan Sproul."

H.M.JR: If his Board disagrees with him--

MR. BELL: He didn't say that. He said he would submit his resignation.

H.M.JR: I was surprised. I asked Paul how they conduct a Board meeting of the Federal Reserve. He said Kuml presides. Sproul is allowed to sit at the table, but he is not a member of the Board. Fellows like Kouse sit up against the wall.

MR. PAUL: He may be some sort of an ex officio member.

H.M.JR: He says very little - he is very quiet. And any idea that he dominates the Board is ridiculous. I know I am kind of going around the lot, but let me just - I will come back to you in a minute.

Walter Stewart said to me that I would have just as much right to ask to appoint three directors of the Federal Reserve Bank in New York as our Fiscal Agent, and it would be just as appropriate as it would for the Federal Reserve Board to ask to have two men on my Policy Committee. He went over the Board members of New York and he said that there isn't a single man who is a director of the Federal Reserve Bank of New York who is sympathetic to the Treasury. He says, "You haven't got one, and you are entitled to have somebody. I don't think you should do it," he says.

This whole idea - first they want to put two men on my Policy Committee, then they want to tell me I can't have Gamble.

MR. GASTON: I don't know about this Policy Committee.

H.M.JR: Didn't you read the March first--

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MR. GASTON: I guess I did.

MR. SULLIVAN: You read it.

H.M.JR: And, incidentally, I want to again say that I checked right along with Walter Stewart and he has been completely in my corner and completely approves everything that I have done up to date.

Well, now, to come back. I am a little long-winded today, but I will try as I go along to tell you everything I have done.

Herbert, if I acceded it would sound like a nice way out to put Burgess in second to Bell - me number one, Bell number two, Burgess number three, and Gamble number four - you would have the same for the next three months - instead of getting ready to sell securities, they would be spending this time arguing about the Perry Halls of America. Then we go right up against the gun about the middle of August and we get weak and we get frightened and say, "O.K., you can have your Perry Hall."

MR. GASTON: Well, I am not arguing in favor of the Burgess plan. I don't think it was a good one. I would want to look at it and see what it involved, and an alternative that might reassure them - your alternative - the first alternative.

H.M.JR: My alternative about Bell?

MR. GASTON: Yes, giving Bell more time by bringing Eddie Bartelt to take a lot of the detail of the Fiscal Service and then giving Dan more time to concentrate on the financing and both promotional and the fiscal. That might have some effect on them.

H.M.JR: Well, Burgess said as far as the financial community is concerned, it would sit very well. Incidentally, you (Gaston) made a very good impression with Burgess - he liked you. But he said that would satisfy the financial community.

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MR. SULLIVAN: I am for Dan's plan.

H.M.JR: For Dan's plan?

MR. SULLIVAN: Yes.

H.M.JR: How do you understand Dan's plan?

MR. SULLIVAN: I understand Dan's plan to be set up on State lines with the Federal Reserve coming in and helping and not supervising. I think the thing has gone too far, that there is too much feeling. I don't think it is possible between now and the 5th of September to work out any plan by which the Federal Reserve is going to head this thing up that won't result in your having trouble all the time.

Now, I think the fact that this is going to flow through Dan will do more to reassure the financial community than any kind of a deal you can make with the Federal Reserve.

MR. GASTON: That is, you would really combine two plans. You would take the Secretary's suggestion to give Dan more freedom to devote to the promotional end and make him the real head of this financing thing, and then you would have it organized on State lines.

Then, with respect to Federal Reserves, you would probably have them take care of the ordinary offers between drives which would be taken up by the banking system.

MR. SULLIVAN: That is right.

MR. GASTON: That only, and leave the corporations, big and little, and the individuals, big and little, to the organization set up under Dan.

MR. SULLIVAN: That is right. Now, I don't know what is going on in the minds of these bankers around the country, but speaking for myself - and probably knowing less about

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this whole thing than anybody in the Treasury - I have never been able to understand the disassociation of War Bonds from the other financing operations of the Treasury. Now, whether that has affected other people, I just don't know.

H.M.JR: As I say, quoting people like Leffingwell, this is going to be a tragedy. Well, a tragedy for whom? For the Treasury? Do you think it would be a tragedy for the Treasury?

MR. BELL: No, I wouldn't call it a tragedy. I think it would probably be a shock to the financial community to see the two pull apart. It would probably do the Federal Reserve System more harm than it would the Treasury.

MR. SULLIVAN: What might become the tragedy would be if we tried to heal this thing over superficially and before the drive started, or during the drive, we found that none of the problems had been solved and the drive failed. And I don't think it is a question so much as to who gets hurt, it is the whole country that gets hurt, and the whole war effort.

MR. GASTON: We would be taking in this case one of the alternative plans which Eccles originally promoted, and which he indicated might be just as satisfactory. We could announce the plan with full agreement, probably, with the Federal Reserve Board and the Federal Reserve Bank presidents.

The situation we are in right now is this, that we considered alternative plans that had, on the face of them, relatively small differences. It was a question of who initiated the selection of the executive personnel, but in both plans there was provision for consultation and agreement as to personnel.

Now, the Secretary tries to explore what could be done - we didn't come to any agreement - the Secretary tries to explore what could be done under either or both of those agreements in one particular district, the most

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important, New York, and he comes to a situation where he can't find a working basis under either plan.

In other words, taking the bank president's plan as the one under consideration, Sproul proposes a man and the Secretary says that man won't do, and then we are stymied right there.

Sproul says, "I have got to have that man." Well, their plan provided that no one was to be selected without the approval of the Secretary of the Treasury. First, then, he not only won't agree on that man, but he says further, as to the general organization, "I don't know that I am willing to go along if you have a certain man as head of the national sales organization."

MR. SULLIVAN: Herb, the reason you are going to have problems like that all along is because you have one fundamental issue here. You have two organizations, both of whom think they should run this show. That is what your issue is here. The Federal Reserve thinks they ought to run it.

MR. GASTON: Of course, that is underneath it. On the face of it, those two plans were practically identical. It was a matter of consultation - but it wasn't that. It was the feeling on our side - and I think it has been pretty well justified - that what we think they want is not the appearance but the reality; that is, they want to abolish existing organizations and create something new that will be absolutely under the control of the Federal Reserve Banks.

(The Secretary held a telephone conversation with Mrs. Brady of the White House.)

MR. SULLIVAN: I think if we take a separation here we may be able to avoid a divorce.

H.M.JR: Of course, the thing that I don't like about my suggestion is we will be squabbling all summer long.

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Nothing makes me so unhappy as these kinds of talks that I have. I mean, nothing upsets me so much. You are constantly upset; you can't concentrate on anything except this thing because, after all, this is number one. Then we go up - we might go through September with frictions, and all summer long we would be trying to adjust things and we don't get anywhere.

This way, if we follow what Bell suggested, we go ahead and get our own house in order, and there is plenty to do.

MR. GAMBLE: That is right.

H.M.JR: And Gamble is on trial, so to speak, to put this - I mean, you have told me you are going to do it - you are going to have the guts to do it. You said, "There are sixteen States," and so forth and so on - to go through with it. (Gamble nodded yes.)

If, during the summer we strengthen our States, that is a demonstration to the Federal Reserve - the best kind of a demonstration. They may go around saying War Bonds is just filled with politicians - that Internal Revenue, and so forth and so on, are political organizations.

Then, if I get Bell right, we say, "When we come to these drives we want your full cooperation, but we won't hold you responsible." Is that right?

MR. BELL: That is right. "Get in behind here and work just like any other organization."

MR. GASTON: The State managers and maybe two or three come in and talk to the presidents of the Federal Reserve Banks and say, "We have some trouble here, what can you do to help us?"

H.M.JR: I don't know that we would have a regional organization. I don't know whether you gentlemen know, there are sixteen split States in the Federal Reserve Districts, which makes it very difficult.

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MR. SULLIVAN: That is why you had half of Tennessee doing well and the other half not doing so well.

H.M.JR: It makes it very difficult.

MR. GASTON: Of course, you could make regions that would consist of whole States, only, that would roughly correspond to the Federal Reserve Districts.

MR. BELL: I wouldn't put anybody out there in charge of any particular group of States, but I think it would be well to have somebody from Washington traveling around in a particular group of States closely approximating the Federal Reserve District to see what is going on and see how things are being run and getting the gossip and bring it back to Washington for our benefit and improving the organization.

MR. GASTON: We have a district down in Texas, Arkansas, Oklahoma, Kansas, for instance, which doesn't coincide with any Federal Reserve District at all, but for field purposes it is more or less of a district. At least for women's purposes, it is.

H.M.JR: What do you think, Norman? There is a lot of palaver here this morning.

MR. THOMPSON: I liked your suggestion when you made it. There has been so much discussion since, I am a little confused.

MR. SULLIVAN: Now, are you talking about the combination of the two - the center of authority the Secretary outlined, and then the operations as Dan outlined them?

MR. THOMPSON: Yes, the Secretary's original--

MR. GASTON: The Secretary's alternative for letting the Federal Reserve Banks run the drive as they did before - I don't think it will work.

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MR. GAMBLE: I will tell you one value in such an arrangement. We don't know, Mr. Secretary, just how much of a scrap we are going to have with the Federal Reserve, even if we make a deal, until we go out into the field. Under that arrangement you have suggested we would have to do a lot of working with them between now and the drive and we might - our minds may meet on all these problems so that by the drive time they would be completely convinced this plan of yours would work.

H.M.JR: Where are you right now?

MR. GAMBLE: On your plan of having them supervise the drives - the drives only. We would have so much work to do with them between now and the time of the drives, that we would have a pretty good idea whether we were going to have twelve sessions like we had in New York.

If we were going to have that, it wouldn't make a hell of a lot of difference what kind of a deal, and we would know that without making a deal - know it on the basis of making a deal with them to supervise the drive for three months.

MR. SULLIVAN: What is the advantage over having them come in and help?

MR. GAMBLE: If you are going to do it later, I think the decision should be made once and for all that the Federal Reserve are not going to have anything to do with this program. I don't know whether you want to make that decision. I think you will be marking time - that sooner or later you will - you are going to get together. I would rather be working on a plan to find out whether we are going to work together with them, which your suggestion would permit, and I wouldn't be afraid of that at all.

H.M.JR: Harry?

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MR. WHITE: I was trying to look at the thing from a distance because I am not familiar enough with the details to know what merits lie in the number of proposals. But as I see the thing in the large, the Federal Reserve System is a central bank with its branches, and the function of a central bank and its branches everywhere is to supply credit. Nowhere, to my knowledge, does the central bank perform the functions of the raising of money to finance a war. This is a Minister of Finance's responsibility - it is the Treasury's responsibility. As I see it, in those matters the Secretary of the Treasury is the Commander in Chief. He has to run the drive. He gets assistance wherever he feels the assistance is most effective, and he gives the orders. The Fiscal Agents are expected to obey those orders. That is what a Fiscal Agent means; he is an agent. And it seems to me that the conditions which the Federal Reserve Board are setting up for their support is the most preposterous thing I ever heard of, that they ought to carry out your orders.

I think that a Minister of Finance - any Secretary of the Treasury - would be less than wise if he didn't consult and pay a good deal of weight to their advice. I believe you have done that and that you would continue to do so.

I believe they ought to be eager to cooperate wherever they can in helping to finance the war by advising you and helping you in any way that you see fit; not in any way that they see fit. Any assumption on the part of the president of any Federal Reserve Bank to say, "These are the conditions under which I, as a Fiscal Agent, will help" I think should entitle him to be dropped if that power were possible - if not possible, forget it.

But as I look at the whole thing - the whole controversy - it seems to me to be on the most absurd area that I can imagine. I can see where there would be a controversy in which you were doubting as to how the best way to handle this advice of the presidents. You had the advice of the Board and it was up to you to decide which advice was the best.

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There is room for differences of opinion; there is room for long negotiations. But to have the negotiations on the basis as to who is going to run the drive and under what terms they are going to have it, I say that thing makes no sense at all to me. It appears to me that one of the things I would do would be first to make my position clear with the President, because he has got to be behind you, and he has got to be behind you, it would seem to me, on your terms. From then on I would make whatever arrangements seemed best to you to secure the success.

Now, what Dan suggests seems reasonable to me. I don't feel enough confidence in the knowledge of the subject to comment very intelligently on it, but it seems to me that the drive will continue, and you ask them for their advice and their help, and if necessary, use clearing associations. I think that the Federal Reserve Board and the Federal Reserve Banks would be very, very much hurt if they didn't fully cooperate. I think most of the cards are in your hands. I don't think they have got any cards. I would let them deal with the banks - savings organizations - deal with the mass of the people, and get their assistance wherever it is necessary.

Now, just where is it necessary? I am not at all sure. I don't know which organization is the best. But I certainly would not approach it from any point of view other than what I think is best to get those results. I would tell those fellows exactly those positions after I had had it cleared with the President. That is the way I feel, and after you have the assurance he is backing you - I think that is essential - without that, I don't--

MR. GASTON: I am convinced, as a result of the discussion here, and partly as a result of what Harry has said - I am coming to that idea more and more that the Federal Reserve Banks, even as Fiscal Agents of the Treasury, do not belong in the picture of the promotion and active sale to the public of Federal securities. I think their function is different. I think it deals with the credit of the banks, the balances of the banks, the reserves, and so on, and with the physical distribution of the securities. I don't think they have a place in the active promotion of the sale on the purely theoretical ground.

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MR. WHITE: As fiscal agents, they are employees of the Treasury.

MR. GASTON: The plan outlined by Dan is the best plan.

MR. WHITE: I am not very helpful on this because I don't see the thing clearly, but--

H.M.JR: No. I will tell you where you are helpful, Harry. You are helpful on this: Why should a central bank become a sales agency for securities? After all, after the Pecora investigation of '33 and '34 they said the banks should not be salesmen of securities - that that thing was settled. I mean, the Federal Reserve Banks as such do not go out and sell any securities for me. They ask the banks to do it. And after the Pecora investigation and all the rest of the thing, they decided it was not the proper function of banks as such to be salesmen of securities. We went all through that thing.

MR. PAUL: That is a somewhat different proposition, though.

H.M.JR: No, I don't think so.

MR. PAUL: It seems to me it is because there they were selling securities in which they were interested through affiliates, whereas here it is the sale of the securities for the Government.

H.M.JR: How do you know? Isn't it a way to inch back into it?

MR. WHITE: I am firmly convinced there is more than meets the eye in their maneuvering for position because I always believe that when a thing is of little importance people don't fight about it. People who have an opportunity to think about a thing and talk about it among themselves, if it is of little importance they will have it your way. If it is of major importance, what is the major importance? I think it is a matter

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they feel is far more significant, as to whether the say is going to be here or somewhere else.

H.M.JR: Or Gamble. We are talking about getting together or split on Perry Hall and Gamble.

MR. GAMBLE: I think these men should know, too, that this director of sales is a misnomer. The job at the Washington level is a job of planning and service and of equipping these people to do their job in the respective districts, not a job of riding herd on the national sales organization. They are aware of that.

I have had a feeling all along that they are saying through me that they don't want the Secretary of the Treasury to be national sales director of this campaign, because actually it is an organization under the Secretary that is doing the job. And it has never called for a glamour boy; it has never called for somebody to go out with a name. In fact, a national figure, in my opinion, would be a detriment to the program rather than a help to it because it is a working job and is a working job under the Secretary.

And I think they know that. I think that they are saying when they say they don't want Gamble - in the first place, they don't know whether they do or not.

MR. PAUL: Isn't the real plot back of all this - isn't this one road by which they hope to get control of what bonds will be sold, what kind of financing it will be.

MR. BELL: I don't think so.

MR. WHITE: At one end you get the statement of the Federal Reserve Board that it has control over the credit - should have control over the credit situation in the country - and on the other end, they know most about financing when it is a real problem. When it is an easy problem of customary financing, let the Treasury

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do it. I think it accentuates their importance and their significance, and I think they are quite aware of that.

The statement that was repeated here that they wouldn't go along with Ted Gamble - I don't know whether I understood it, but the implication - I think it is the most outrageous thing I ever heard. They can advise you they think Ted Gamble such and such and such and that you could do better. But whether you have Ted Gamble is a matter wholly within your own jurisdiction and is none of their business.

The responsibility of financing the war is yours and not theirs.

MR. GAMBLE: I think you men ought to know, too, that this bond organization is a pretty good, going concern. It is something that has been rolling for two years.

I am not now making a speech for the War Savings organization. I am talking about everybody in it on both sides of the fence, the Victory Fund and War Savings. I am more particularly talking about people in every State of the Union that have been interested in this program - the newspaper people, the radio stations, all the media opened up and put at the disposal of the Secretary of the Treasury.

This is the biggest business in this country today, and there is fascination to be attached to it and fascination in being in a supervisory capacity where you can't turn around but what you see something like this War Bond game, which was one of the most colorful affairs to take place in Washington since the war started. They had Sir Archibald Wavell out there; they had Babe Ruth; they had a list of Hollywood stars; they had the Secretary of the Navy. It was a big affair - it was made a big affair.

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Those things are going on every day in this country, and they are the indirect result of this program that has been started by the Secretary.

Eugene Meyer didn't take it up with us before he decided to do this thing. It was a self-starting operation. We have encouraged that sort of thing, and we have a contagion about this bond program in this country today, and they like to get aboard.

I think you ought to know that.

H.M.JR: Was it a success last night?

MR. GAMBLE: Very successful.

MR. THOMPSON: It was grand.

MR. GAMBLE: Most colorful thing ever put on.

H.M.JR: Who managed that?

MR. GAMBLE: Eugene Meyer.

H.M.JR: Did you ever go over to see him?

MR. GAMBLE: No, I haven't.

H.M.JR: You know he sort of has a mark against you that you haven't come over. I called up, and then you don't go over.

MR. GAMBLE: You know why.

MR. PAUL: You will get a good lunch. (Laughter)

H.M.JR: You had better call him up and see if he can't see you this afternoon.

MR. GAMBLE: All right. I have just kept myself in readiness for you - Friday and Saturday.

H.M.JR: This would be a good time.

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Paul, you haven't said anything.

MR. PAUL: I find it a little difficult to get the precise issue. I am a good deal like Harry in my lack of understanding of the details, and I am very much like him in his feeling that the Federal Reserve here has no business in the picture except in an advisory capacity. They have no business suggesting who may be your employees, that you have the responsibility, and I find myself a little unable to determine the real plot and what they are really after. I don't quite see it. I know they are after taking away power and jurisdiction.

H.M.JR: Well, let's say I see the President and the President says, "O.K., Henry, I am back of you", which he will, and then should I go into the meeting tomorrow and say, "Now, gentlemen, I want you to take my memorandum of Friday or I won't play ball." Or should I simply say, "After thinking this whole thing over" - I mean, have them turn me down and say no - I mean, go through the motions of saying, "Now, look, gentlemen, I am asking you to accept my memorandum of Friday morning where I said I will select the people and you can have the veto" or simply say, "After thinking this thing over very quietly I think we will just go ahead and organize and ask you, as we will every other financial agency in the United States, to cooperate with us."

MR. GASTON: You have selected one of the two alternative plans proposed by Mr. Eccles some time ago - the other of the two. You explored the possibilities of working out something under the basis of either of these two agreements, and you haven't been encouraged by the prospects and it seems now best for you to go to the other plan that was suggested by Mr. Eccles. "Here it is; this is the plan, and we need your cooperation on this and we need your advice and help."

MR. WHITE: I like what the Secretary said a little better because I think his second statement seemed to suggest - and I don't know all the background - it seemed to suggest to me that in a sense, "Gentlemen, the fight

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is over. We have considered this, and I think there have been many suggestions but I think we will continue in the way we are."

It would appear from that statement that nobody wins, nobody loses - there is no issue - that whatever has gone over the dam is gone, it is forgotten, and that you are going to continue to finance the war and that you expect and will welcome and hope that they will give you every cooperation in the future as they have in the past.

MR. GASTON: I think that is substantially--

MR. WHITE: It seems to make no issue - no loss or gain.

H.M.JR: One way I take the leadership, saying that. The other way I say, "All right, this is what I want. You slapped me down, and I say, 'All right, having been slapped down I do the other.'"

MR. SULLIVAN: But suppose they accept it, then you are in worse trouble.

H.M.JR: That is the point.

MR. WHITE: Suppose they accept what?

MR. SULLIVAN: Suppose they take the Secretary's first plan.

MR. WHITE: I think you forget both plans.

H.M.JR: The first plan would be - following this conversation with Ronald Ransom I say, "All right, gentlemen, I give you one more chance. Will you do it my way? And my way is that I take the initiative in each district, try to select these men in cooperation with you, and you have the veto power." Then supposing they say yes--

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MR. WHITE: Either way I think it will be bad because you have made an issue of something. They either agree with you because you have forced them into a position, or they disagree with you, in which case there is more fat in the fire.

The reason your second alternative statement as you phrased it a moment ago appealed to me is that it eliminated all issues. It made no issue. It merely said, "After all the thinking and all the discussion maybe we had better continue the way we are with your full cooperation at that level." What can they fight against - kick against?

H.M.JR: We are changing because when the September drive comes we are asking for their full cooperation but not turning it over to the Federal Reserve banks.

MR. WHITE: That is something that can be discussed later.

MR. SULLIVAN: No, you will fight all summer that way.

H.M.JR: No, I disagree with Gamble, if I understand him. What Bell proposes as against mine is we simply say, "Gentlemen, we have made our best effort to get together. You want to do it your way. I would like to do it mine. All right, all bets are off, and therefore I am simply saying to you that we have gotten along for ten years and we are going to go ahead and make our plan and we are going to count on the Federal Reserve System, like all other agencies in this country, to give us their full cooperation when the drive comes in September. And when it comes to selling the banks the securities, we are going to count on you exclusively for that."

MR. GASTON: "And selling to the banks will not be included in the drives, but we will look to you to do that."

H.M.JR: Isn't that what you said?

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MR. BELL: Yes, that is about what I said.

MR. WHITE: Yes.

MR. BELL: "And I make that suggestion after reviewing all the background and what has gone on and the suspicions and bitter feelings that have been engendered here."

I hate to see it, frankly. I would like to see it on some other basis of cooperation, but I am afraid that if you do get together on some compromise basis there will always remain underneath this current of unrest and ill feeling of some kind and we won't get the best results. That is my only reason for suggesting it.

MR. GASTON: This is your suggestion, and you hope to have their hearty approval on it. They might, after you have outlined that as your present plan, make some counter suggestion. They might plead with you for the opportunity to get in on a different basis. I don't know.

MR. BELL: I wouldn't be surprised if they would. I think some of them feel very strongly that the Federal Reserve System ought to be in on it.

MR. SULLIVAN: It isn't a decision you have to make immediately - whether you want them in.

H.M.JR: Say that again.

MR. SULLIVAN: If they make a counter-proposal and, as Dan says, they want to get back in in a more nearly supervisory position, you don't have to make a decision on that right away. You can go ahead with your own organization, and then see what develops.

MR. BELL: I think if they are going to get in that the time to make the decision is at the beginning. After you once proceed with an organization it is going to be pretty hard to change it before the next drive. We haven't any too much time as it is to map a program for the drive, and we want the organization behind us when we start in.

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MR. WHITE: You can say it is an interesting suggestion and you will think it over. You don't have to give the decision at once.

MR. SULLIVAN: I meant right off this week.

H.M.JR: "I am asking you gentlemen, can I count on your cooperation."

MR. WHITE: "Can the country count on your cooperation?" They are not helping you, Mr. Secretary. This is a war.

H.M.JR: I may say, "Can the President count on your cooperation - the country?"

Now, we may find in places like Philadelphia the fellow will say, "I want to stay behind. I want to talk to you, Mr. Morgenthau. I want to get in on this thing." If Philadelphia wants to get in, why not? What would you say to that, Dan?

MR. BELL: Say it again.

H.M.JR: I mean supposing the fellow in Philadelphia says, "Mr. Morgenthau, I want to get in on this thing. I would like to run this for you in Philadelphia" - would you let them do it, or would you simply say, "We can't do it."

MR. THOMPSON: I think you would have to have uniformity.

H.M.JR: I think we can just count on them.

MR. BELL: He couldn't come in as fiscal agent. He would have to come in just like any other bank president would come in.

H.M.JR: I think these fellows have far exceeded their authority without going to their board. Wouldn't

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you feel that way, sitting on a board? Supposing you learned all of these things Sproul has been doing without consulting the board in New York, how would you feel as a board member there?

MR. PAUL: I think that is true. I think they should put these up to the board. I don't think that would make any difference.

MR. WHITE: It depends on who put it up to the board.

MR. BELL: I disagree with you because I don't think the board of directors or the board of governors has one thing to do with the fiscal agency function. That is in the statute as a direction. I don't think they have a thing to do with it. It is working for the Treasury of the United States, not for any board or any board of governors. They are not the stockholders.

H.M.JR: Then do I ask them as my fiscal agents to give me their full cooperation to put these drives over?

MR. WHITE: I wouldn't rub it in at that point.

MR. BELL: No, I think all you have to do is say, "All of you are fiscal agents of the United States, and we need your help and we would like to have it. We want your cooperation when these drives come up." I think they will give it to you.

H.M.JR: What I said, Dan, was this - and this kind of hurt - in my conversation with Sproul all Friday I didn't say, "If you cooperate." I simply said, "when." I kept saying "when we get this thing settled", "when we do this thing together"; and after doing all of that and my saying, "I am counting on every man, woman and child from every walk of life" - and in face of that what it amounted to when it got down was he said, "Whether you take the initiative or whether I take the initiative I want my man." And I sat there and took it. Who the hell is he?

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And when I asked him, Dan - I don't know how much of this I am repeating - I said, "Now look, Sproul, when the Federal Reserve System needed the money we were paying and you were living off that for the last nine years, or eight years." I said, "Did I ever use that? When you fellows needed us did I ever ask you to do a single thing? Did I ever play politics? Did I ever ask you to appoint anybody?"

He thought a minute and he said, "No, not once."

I said, "What the hell are you fellows worrying about? Isn't my record for the last nine years a damned sight better than any promises of what I will do for the next year and a half?" And I am not on trial.

When I asked Eccles if I ever tried to infringe on him, the only thing he could think of was on the bank holding companies when I wanted to throw it to the FDIC instead of the Federal Reserve Board.

Their position is that I am on trial: One, because Robbins and I decide on a very amicable basis that our temperaments don't hitch; two, I decide that as an assistant to Bell and me I want Gamble and they say no.

It has gotten to a pretty pass.

They want the Perry Halls. Look, Dan, you know what you will be doing - you and Gamble and Gaston, because all summer long you will be fussing at twelve Federal Reserve districts. You will be sick. You won't be able to put your mind on the important thing, and you will be trying to straighten out the Perry Halls in each of the districts and satisfying the Federal Reserve bank presidents and the Federal Reserve Board here.

Now, why in the hell should you? When we can go and get some very respectable people in each community to take the leadership, why should you? Here is the head of the Marine Midland - he is the head of the Marine Midland, now,

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a State-wide banking organization in the State of New York - and he will play ball. And Mr. Pearson, former head of this bank - all bankers.

Well, I will talk to you again about it this afternoon, but the way I feel right now - I am going to check with Lauch. He won't talk in front of people, and I am going to see him alone. The way I feel right now, I think I am going to take the initiative tomorrow and say, "Gentlemen, I have tried to do everything humanly possible, and if I can't do it in New York I can't do it anywhere. Therefore, we will call all bets off. We will go ahead during the summer increasing our pay-roll thing, doing the various things that we have done."

"I am asking the Federal Reserve two things. I am asking them to sell the bank securities to the banks, and then as we go through the next drive I am going to ask them for their cooperation.

"You people can say it to me now or you can say it to me this afternoon or tomorrow, but I want this thing settled this week. Do I get your cooperation, or don't I?"

MR. BELL: You put the first statement on the basis of your New York conferences, that you had conversations with Mr. Sproul of New York, that you realized that was the most difficult situation, and you haven't been able to get together.

Of course I think some of the Federal presidents feel that you and they could get together. Certainly I know that is true of Hap Young.

H.M.JR: I can't get together in New York where we have got to sell forty percent of the money. Is that what it is?

MR. BELL: Between thirty and forty, yes.

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MR. GASTON: Two plans were presented, and actually neither one of them was feasible. As the conversations in New York showed, if it is a matter of consultation and agreement on the executive personnel, you can't come to a satisfactory agreement in all districts. You can't come to an agreement which will protect both of your existing organizations.

There are two practical plans. One is the one that we have now arrived at. The other plan is the plan of making the presidents of the Federal Reserve banks the heads of the sales organizations in the districts and leaving to them completely the organizing of their own machine, and scrap everything that we have had heretofore. That is a plan that could be worked if we wanted to work it.

MR. BELL: I think you might start this conversation by saying that there were two plans submitted last Friday to the meeting, one by the Treasury, which would give the Treasury the initiative in making the appointments of the sales managers in the Federal Reserve districts. The other plan was by the Federal Reserve System, which would give the Federal Reserve presidents the initiative, with the veto power in the Secretary.

Then you subsequently had two conferences with Allan Sproul to kind of test out these plans to see what could be done, and you find that neither one will work. You can't make the initiative, and Allan won't accept the suggestions from you; and even when you veto his suggestions he doesn't accept that.

You say that neither one of them will work and so we have to go to something else.

MR. GASTON: After mature considerations and after discussions with Sproul and the others, the Secretary has come to the conclusion that neither one is logical, that there is a better way.

MR. BELL: "This is my suggestion."

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H.M.JR: And did I try!

MR. GAMBLE: That is Eccles' suggestion originally.

H.M.JR: I won't call it Eccles' suggestion.

MR. BELL: Eccles' suggestion was to separate it and keep the Federal Reserve out of the picture, but he didn't suggest the cooperation.

I think that is important, to get them into the picture in the cooperative line rather than the administrative line.

MR. GASTON: It is the alternative plan.

MR. SULLIVAN: With the amendment they are actively cooperating, which was not in the Eccles' memorandum.

H.M.JR: Well, we will let that simmer.

Paul, what happened--

MR. BELL: I want to say that Allan Sproul will not be here tomorrow. You know he is flat on his back. He has a severe cause of flu, and the doctor put him in bed. He thinks he will have to be there for ten days or two weeks.

H.M.JR: I didn't know that.

MR. BELL: Eccles thinks Allan has to go away for many months. He is on the verge of a nervous breakdown. He says he thinks he might have ulcers.

H.M.JR: I said to Allan, "What is the matter with you? You are not acting natural." I mean he was gray, he was grim.

So after he got up to go he said, "Both days I got up out of bed." He says, "This made me sick."

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MR. BELL: He has been troubled with this stomach trouble, and I think they have found an ulcer.

MR. GASTON: I don't think he created the stomach ulcers in this short time.

MR. BELL: He hasn't been well the last six months.

H.M.JR: I think that certainly has influenced his judgment in this matter.

MR. BELL: It might have.

H.M.JR: The people that know him say he is a very stubborn person. I swear I never worked so hard on anything. And here is the Secretary of the Treasury pleading with a bank president to do what he wants him to do.

I am sorry he is sick.

Miss Chauncey:

Attached is suggested plan of New York War Savings Staff, together with extra copies.

At the Secretary's direction, I have delivered copies to Mr. Bell, Mr. Gaston, and Mr. Gamble. He said others present at the 9:20 Financing meeting could have copies if they wanted them - therefore, the extra copies.

M.C.Dennis

PLAN FOR CONDUCT OF  
THIRD WAR LOAN  
AS SUGGESTED BY NEW YORK WAR SAVINGS STAFF

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5/21/42* 145

As to results, the following plan has as its objective, -

- 1st -- the utmost investment of current income by individuals and corporate entities in the longer U. S. Government securities and -
- 2nd -- the investment of commercial bank and such inflationary funds in an amount and on such terms as are suitable and necessary to meet the balance of the Treasury's requirements.

The first is a field from which a much greater sum can be obtained with effective coverage; the second is a field which must and will supply the balance needed.

The first is the important field - - it hits at the roots of inflation - - it expresses to the individual his part in the war - - it requires effort and education to get the utmost in results.

The second is the most important field by far in dollar volume, but requires comparatively little effort or education to produce the required amount.

As to organization, the plan has as its objective -

- 1 -- the elimination of competition between organizations preparatory to and during the offering campaigns;
- 2 -- that campaigns to the public be segregated from the offerings to financial institutions, etc. and be directed solely to individuals and to business and commercial corporations and be conducted by the organization most experienced in wide-spread distribution - - that organization to be composed of the most effective personnel from all existing treasury activities, and -
- 3 -- the direction of all under one head in each district.

Obviously, the following plan within the principles of the above objectives offers latitude for change in detail.

PLANS FOR THE NEXT WAR LOAN CAMPAIGN:FIELD OF PROSPECTS:

The field to be divided into two groups; first, a group consisting of all individuals, all business, commercial and industrial corporations, all trust funds and such associations as Unions, Colleges, Philanthropic Associations, etc.

Second group to consist of financial institutions, including commercial banks, savings banks, insurance companies, finance companies, savings and loan associations, investment companies, investment dealers, brokers, etc.

PERIOD OF OFFERING:

The first group to be solicited in a campaign beginning September 5th and running for three weeks, to September 26th. The second group to be solicited during the period from September 26th through September 30th.

SECURITIES TO BE OFFERED:

The group of individuals and corporations to be offered the whole basket of securities, including tax notes, certificates, medium length bonds, tap issue, and E, F and G War Bonds; all but the tax notes and the certificates to count toward the goal of that group. The tap or other bonds to be in denominations at least as small as \$100.00.

The same basket of securities, where eligible, to be offered to the second group - the financial institutions - and all sales of all securities to count toward their goal.

No subscriptions from the second group permitted during the time of the first group's campaign.

QUOTAS OR GOALS:

National quotas or goals and district and local quotas or goals to be set for the first group and sub-divided into groups as to individuals and as to corporations.

Quotas or goals also set for the second group in accordance with Treasury needs at the time and to represent the difference between what is needed and what is raised by the first group, with special separate treatment accorded the commercial banks; such second group or over-all quotas not to be announced until the completion of the first group drive.

PREPARATION AND SOLICITATION:

The Campaign for the first group; - individuals and corporations, to begin its organization and preparation plans June 15th. These plans to embrace (a) house to house canvass; (b) organization by trades, commerce and industry divisions, which would supplement and intensify regular payroll savings plans; would solicit all corporations (from the big ones down to those employing two people) and would relate the corporation subscriptions to the employee group subscriptions, particularly that portion of the latter which was in addition to regular payroll savings. The trade or commerce and industry organization to have a "special names" grouping of the bigger corporations and the wealthier individuals in each trade to be covered by a leadership group in each trade which would include bankers and investment bankers.

Preparation for the solicitation of the second group, would require the formation of small highly specialized committees, suitable to be effective with the insurance companies, savings banks and other financial institutions.

ADVERTISING AND PUBLICITY:

The first group - individuals and corporations- is the audience to which advertising and publicity are directed; therefore this activity would be the responsibility of the organization responsible for the solicitation of this group. Before, and particularly during the three week period of solicitation of the first group, regular advertising, including radio, motion pictures, features, newspapers, etc., would be geared and planned to form an effective background for house to house and trade canvassing.

ORGANIZATION:

The country to be divided into the twelve (12) Federal Reserve Districts, with the President of each Federal Reserve Bank as Chairman. Under the direction of the Chairman and directly responsible to him, the War Savings Staff would have the responsibility and direction of the solicitation of

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the first group, the Victory Fund Committee the responsibility and direction of the solicitation of the second group. The War Finance Committee as such would not exist in the Federal Reserve Districts. The responsibility for the functioning of the War Savings Staff and Victory Fund Committee would be vertical from the top through those organizations. Where the War Savings organization, on a Statewide basis, are split into more than one Federal Reserve District, the Chairman in charge of the State War Savings or Victory Fund program reports respectively to whatever Federal Reserve District President has jurisdiction over different portions of his State.

Both the War Savings activities for the solicitation of the first group and the Victory Fund activities for the solicitation of the second group, are directly under the jurisdiction of the Chairman of their District, but each group is coordinated with their respective organizations in the Treasury Department in Washington, for the purpose, particularly with respect to advertising and publicity, of most effectively doing those things from Washington which can be most effectively done through national organization.

The Chairman in each of the 12 Federal Reserve Districts would report to the Chairman of the National War Finance Committee in Washington. The latter would have on his Committee, as now, heads of the War Savings Staff in Washington and the Victory Fund Committee - - - and he would report as now, directly to the Secretary or Under-Secretary of the Treasury.

EXPENSES:

Special drive budgets should be provided the War Savings Staff and Victory Fund Committee.

Supplemental Memorandum:REASONS FOR THE FOREGOING PLAN:Field of Prospects:

The financial institutions are divided into a separate group because their large subscriptions so dominate the total if included with the other subscriptions, that it makes the individual subscriber feel he is too small a factor to be of any worthwhile value. The Corporations are included with the individuals because the same organization that solicits the individual can for the first time reach the small corporation and the corporate subscriber can be related to the individual subscriber to stimulate both classes of buying.

Period of Offering:

September is suggested as the period for the campaign, because it is better than the vacation month of August, and October might be too late, and would in any event conflict with the War Chest Campaign. We are not concerned with the fact that September is a tax month. In August people are getting ready for it; in October they are suffering from it and experience indicates that a quarterly tax month makes little difference. Three weeks is selected as the period of time needed to cover the field of wide distribution, and four days a period of time sufficient to cover the special group of financial institutions. The relationship of these two periods permits the withholding of the large financial subscriptions until the individuals and the corporations have done their jobs.

Securities to be Offered:

It is suggested that even tax notes and certificates be offered to the wide distribution group because they, and particularly corporations, should not be excluded from the opportunity to buy such short issues if more suitable for them. On the other hand, such sales are of comparatively little value to the Treasury as permanent war financing, and therefore should not be included in the quota set for buyers in this category. We would prefer to see the bond and tap issues in denominations as low as \$100.00 and believe that to have such denomination available would very considerably increase sales.

Quotas or Goals:

We realize the continued difficulties of establishing quotas and goals, and yet, particularly in the field of individual buyers, it is an incentive for which nothing can be substituted.

Preparations:

The dividing of the field of prospects into two groups, one of which requires a long period of preparation for a wide-spread distribution and the upbuilding of a large organization, and the other of which, composed of a few highly important financial institutions, the solicitation of which requires a small organization of highly experienced financial executives, results in an elimination of the duplicate organizations now existing in many regions in the War Savings Staff and the Victory Fund Committees. The infiltration of banking leadership with industrial leadership to cover the bigger corporations and wealthier individuals in each commerce and industry division of the first group, is by experience the most effective way to get coverage and results.

The solicitation of the second or financial group will require in each community so small personnel of financial leaders as to necessitate little, if any competition, with the distributing organization of the War Savings with its necessity to cover the whole public.

Organization:

One head - one control in each District is necessary for effective coordination. The Federal Reserve Districts seem the most suitable units into which to divide the country - and the President of each Federal Reserve Bank the most appropriate chairman of each District.

It is suggested that under him the two organizations - War Savings and Victory Fund, be kept separate because the War Savings organization has the most experience and better understands the job of wide-spread distribution, - whereas the Victory Fund group are the natural leaders in the financial field. Many from the financial field would be a part of or at the head of the solicitation of the most important special commerce and industry groups of the War Savings organization.

To eliminate the War Finance committees in each district and to have the authority vertical from the Chairman of the district through the executives of the War Savings organization and of the Victory Fund organization in all the regions of activity, eliminates the confusion in each Federal Reserve District of having regional War Finance Committee representatives.

Expenses:

Special budgets are necessary not only because of unusual expenses attendant on greatly enlarged activity during the campaign period, but because regulations affecting regular budget funds restrict or preclude certain necessary expenditures. Rigid controls should, of course, be instituted, but delaying procedures eliminated to permit procurement of essential personnel and material at the right place at the right time.

W. RANDOLPH BURGESS  
55 WALL STREET  
NEW YORK

PERSONAL

May 25, 1943.

Dear Henry:

Since our meetings I have been thinking a good deal about the last proposal we discussed on Saturday, and I thought it might be helpful to put this down on paper for, on reflection, it seems to me, it may offer the best way out of the present difficulties.

The suggestion is that the next drive should, in each district, be organized under the chairmanship of the Federal reserve president in two divisions: a bank division which would do substantially what Perry Hall's organization here has been doing through the banks, and second, a home and workers' division which should work in the area of Nevil Ford's group but do a considerably expanded and more thoroughgoing job of reaching workers in their places of employment and conducting house-to-house sales.

It seems to me that some such organization would be most effective in conserving the present form and experience, and at the same time bringing about a better measure of coordination. There would, of course, be some overlapping in the bank's appeal to its customers and the other divisions' appeal to employes and homes, but there is no way of dividing up the field without some duplication, and this difficulty is largely encountered in cities since in smaller communities the two divisions would in effect be merged.

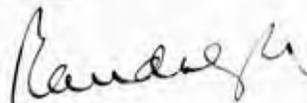
There should, of course, be a small executive committee and staff workers for general overhead problems and coordination.

I recognize that this does not go as far in streamlining the organization as would be ideal if you were starting a brand new organization.

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On the other hand it avoids a lot of emotional difficulties and loss of momentum which accompanies sweeping changes. At any rate, I throw it in the hopper for what it is worth.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Rausser".

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

WRB.H

May 25, 1943  
9:32 A. M.

Operator: Go ahead.

HMJr: Hello.

Sen. Walter  
George: Hello.

HMJr: Henry talking.

G: Yes, Henry. How are you, sir?

HMJr: Okay. How are you, Walter?

G: Tired, tired, tired. Too tired to hardly wiggle.

HMJr: (Laughs) Too tired to wiggle?

G: Yes.

HMJr: That's pretty tired.

G: Yes, that's pretty tired, but that's right.

HMJr: Well, I just wanted to let you know I was back.

G: Well, I'm glad you're back. We have a - we're struggling along here in the hopes of doing something today, but I don't know whether we can or not.

HMJr: Well.....

G: But it looks like we ought to get something now so that we can get in withholding.....

HMJr: I see.

G: ....collection at the source.

HMJr: Yeah. Well, if I can be of any help, that's what I'm here for.

G: All right. We did speak yesterday about calling you -- some of them did in the committee -- but someone said you were out of the - out of the city.

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HMJr: Well, I've been up with Mrs. Morgenthau. She had a very serious operation.

G: Oh, I'm sorry to hear it. I hope she's better.

HMJr: She's getting along nicely.

G: Well, that's good.

HMJr: And I got back on the midnight tonight....

G: Yeah.

HMJr: ....last night.

G: Well, we'll call you, Henry. If.....

HMJr: But that's where I've been.

G: ...anything develops that looks like that we can work something out, we'll call you.

HMJr: Yes. Thank you.

G: All right.

HMJr: Goodbye.

May 25, 1943  
10:30 a.m.

HMJr: Hello.

Operator: I have Mrs. Brady. Miss Tully is not there.

HMJr: All right. Hello.

Operator: Go ahead.

Mrs. Kathryn  
Brady: Hello.

HMJr: Henry Morgenthau.

B: Yes, sir.

HMJr: When am I going to see the President?

B: Well, didn't Grace get any answer for you yesterday?

HMJr: If she did, she didn't pass it on.

B: Uh huh. Well, maybe she didn't get any answer, so I take it it won't be today, or at least not for a bedside.

HMJr: Well, not bedside this morning anyway.

B: No, well....

HMJr: Well, the point - the thing I pointed out to Grace was....

B: She sent - I know - I know that she sent the memorandum in to the President.

HMJr: Will she be in shortly?

B: Yes, she will.

HMJr: And....

B: Are you in town?

HMJr: I'm here at my desk....

B: Uh huh. All right. Suppose....

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HMJr: ....and between now and 9:30 tomorrow morning  
I pretty much got to see the President.

B: Yes, sir.

HMJr: See?

B: Well, I'll call you as soon as I find out some-  
thing.

HMJr: Yeah, between now and 9:30 tomorrow.

B: Yes, sir. I'll call you.

HMJr: Okay.

B: All right.

May 25, 1943  
11:05 a.m.

TAXES

Present: Mr. Bell  
Mr. Gaston  
Mr. Paul  
Mr. Sullivan  
Mr. White  
Mr. Thompson  
Mr. Gamble

H.M.JR: Paul, what happened with Czar Byrnes?  
(Laughter)

MR. PAUL: They had about an hour's conference, at the end of which Byrnes decided to recommend to the President that he accept sixty to sixty-two and a half percent across the board forgiveness because otherwise they wouldn't get a bill.

They are going to have a meeting this morning of the conference committee--

H.M.JR: Just a minute, please.

(Discussion off the record.)

MR. PAUL: The Democrats on the conference committee are going to have a meeting after the other full meeting.

H.M.JR: Start over again.

MR. PAUL: Doughton put very heavy pressure on Byrnes, saying that we must have a bill, they couldn't take the gaff if they didn't have a bill, and "We won't get a bill unless you are prepared to go as high as seventy percent or even seventy-five."

Byrnes said, "No, I won't advise the President to go any higher than sixty, or, at the outside, sixty-two and a half percent."

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H.M.JR: Straight across the board?

MR. PAUL: Yes.

MR. GASTON: Percentage of tax liability.

MR. PAUL: That is right, except with one little extra thing on it, that they will forgive the whole tax, a hundred percent below fifty dollars.

MR. GASTON: Of tax.

MR. PAUL: Yes. They are going to have a meeting of the Democrats after the other full conference committee meeting this morning, at which they will discuss that.

I doubt very much, based on the information that comes to me, whether the Senate side will accept sixty-two and a half percent.

H.M.JR: Do they know whether the President will?

MR. PAUL: Yesterday afternoon, you see, Byrnes told me that the President didn't like anything but the House bill or the Ways and Means bill.

Now, I don't know whether Byrnes can change the President, but he must think he can if he--

H.M.JR: Well, there is nothing for us to do except sit, is there?

MR. PAUL: Well, if we are against the sixty to sixty-two percent - it may be academic because the Senate may not accept that, but if we are against that and want to do anything about it we have got to see the President.

MR. GASTON: That is poor trading on the part of Byrnes. If he wants to reduce the flat forgiveness I don't know why he didn't say fifty.

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H.M.JR: I am not going to do anything, Randolph. I am going to sit. Byrnes sent word through Paul yesterday that he hoped I would be here and I should get in touch with the President at nine o'clock this morning.

MR. PAUL: I don't think he said nine o'clock. He didn't mention any hour.

H.M.JR: In order to get it back in our hands, either - as George said, the committee may invite you (Paul) to come up today - he would have yesterday if I had been here.

MR. PAUL: That is just a gracious remark.

H.M.JR: Well, let's wait. I am going to sit. I learned that. I learned that when I was first in Albany. I can sit for days. I may get the breaks; I may not.

If Byrnes is successful and sells the President on the sixty-two percent, then the President won't call. If Byrnes is unsuccessful, he will call me. I am just going to sit.

MR. WHITE: The President knows all the arguments you have. He seems to understand it thoroughly. The decision is his.

If Byrnes is going to recommend it, I think - and if the President wants to take it - I think you may as well stay out.

If the President is in doubt then he will call on you, and that is different. But if the President has made up his mind to take it and use Byrnes' recommendation as the peg on which to hang his hat, you don't do anything - you don't do any good by going--

MR. PAUL: I would rather have Byrnes advise the President to take such a ridiculous settlement than do it myself.

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H.M.JR: Let's just sit.

If necessary, Paul, go up to the house and get a good book, if you are restless.

MR. PAUL: I wouldn't even recommend it to the President.

H.M.JR: All right, that is all the more reason - let's just sit. If you are restless, go up to the house and get a good book.

I will talk with you fellows again this afternoon.

May 25, 1943  
12:44 P. M.

HMJr: Hello.

Operator: Miss Tully.

HMJr: Hello.

Operator: Go ahead.

Grace  
Tully: Hello.

HMJr: Grace?

T: Yes, Mr. Secretary. Are you back?

HMJr: (Laughs) Am I back!

T: (Laughs)

HMJr: Now don't give me that.

T: Well, I tried to get FitzGerald last night. I didn't get to the President. You see, he was with the Prime Minister, and they had these conferences and I didn't get to him until late. I called the office and FitzGerald wasn't there.

HMJr: Yeah.

T: And the President read the memorandum I - we gave him the memorandum about the Federal Reserve and what-not and he said, "Well, Henry'll be here tomorrow and I'll talk to him," meaning, I think, he's going to call you, and I don't know - he's pretty jammed up and it may not be that he can make it, but he will talk to you on the telephone, anyway.

HMJr: Well, that wouldn't be very good. The Prime Minister has asked me to come over and see him at five.....

T: Uh huh.

HMJr: ....which I am. Well, is he busy all night?

T: Huh?

HMJr: Is he going to be busy all evening?

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T: Is he - the Boss, you mean?

HMJr: Yeah.

T: I don't know what - what's on for this - he's - he's been busy every night for the last couple of weeks. (Laughs) I assume tonight will be no different.

HMJr: Well, this is.....

T: And he's got Liberia coming tomorrow, you see?

HMJr: ....this is pretty important for - not only for me, for everybody.

T: Uh huh. Well, I couldn't get anything definite, because I don't know whether he knew whether he was going to have any free time.

HMJr: When are you going to see him again?

T: Probably not until after the press this afternoon, from the schedule, I would say. That would be probably about four - four-fifteen, twenty, or thirty.

HMJr: I see. You're not going to see him before?

T: Not before press, no. They're having a luncheon at the house, and he won't be over and then he has two appointments after luncheon, and then there's - that will be almost time for the press to come in and I don't expect to see him until after press. It - it just might happen that I could get in, but I doubt it.

HMJr: He's all tied up after lunch?

T: He is, yes, uh huh.

HMJr: Not very helpful.

T: No. I can't do anything about it though. (Laughs) I wish I could, but....

HMJr: Hmm.

T: ....there are times when I can't. However, I'll....

HMJr: And how about tomorrow morning, bedside?

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T: No, I put it all down there and the President said, "I'll talk to Henry when he gets here tomorrow."

HMJr: Well, have another try at it.

T: All right. Fine. I will.

HMJr: Because I\*- I very seldom say it's important, but this one is.

T: Uh huh. All right. Fine. I'll tell him, Mr. Secretary. How is Mrs. Morgenthau today?

HMJr: She had a bad night....

T: Aw!

HMJr: ....but she's making progress.

T: Good.

HMJr: Yeah.

T: That's fine.

HMJr: Right.

T: All right, Mr. Secretary, I'll call you later.

HMJr: Thank you.

T: Goodbye.

May 25, 1943  
12:55 P. M.

HMJr: Hello.

Operator: Mr. Cox.

HMJr: Hello.

Oscar  
Cox: Hello, Mr. Secretary.

HMJr: Hello, Oscar. They said you called me a couple of days ago?

C: Yes, sir. It wasn't of major significance, but this fellow, Joe Weiner, who is head of Civilian Supply in W.P.B.....

HMJr: Yeah.

C: ....is available now that he's going to quit up there.

HMJr: I see.

C: He's a very, very able citizen....

HMJr: Uh huh.

C: ....and I didn't know whether you wanted to possibly consider him for something in the Treasury or not.

HMJr: Well, I'll talk to my people about it.

C: Yeah. The - the one field in which I think you might be interested in going in, whether you consider him or not.....

HMJr: Yeah.

C: ....in which I think if you do consider him, he'd be useful -- is there's a great deal of surplus property.....

HMJr: Yeah.

C: ....that the Army and Navy and so forth have under order.....

HMJr: Yeah.

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C: ....that's now available for disposition.....

HMJr: Yeah.

C: ....and it would seem to me logically to fit into the Treasury more than certainly in the Army and Navy, because they know nothing about the domestic economy.....

HMJr: Yeah.

C: ....and it's already reached an enormous quantity at this juncture.

HMJr: Surplus property?

C: Yeah. I mean they've got aluminum ingots and they've got forgings and they've got machine tools.....

HMJr: What's - what's going to happen to that?

C: Well, they're just getting rid of them now, but you know from your old experience in the trade-in stuff and the sales that when you reverse the stuff....

HMJr: Yeah.

C: ...for getting it into the civilian economy, they don't quite know the field.

HMJr: Yeah.

C: And it's an economic problem of the first water....

HMJr: Well.....

C: ....and on this whole demobilization thing, it'll be more important -- I think the only advantage that you're getting in it now is educational.

HMJr: Yeah. Well, they'll most likely create a new agency - and lose out on it and let them handle it.

C: I think that's a mistake, don't you?

HMJr: I don't know enough - I haven't thought about it, Oscar.

C: Yeah. But Joe has really a first-rate mind.

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HMJr: Well, I'm glad you called me, and I'll give it careful consideration.

C: All right. Thank you.

HMJr: Goodbye.

C: Goodbye.

May 25, 1943  
1:53 P. M.

HMJr: .....talk to him or her.

Operator: All right.

HMJr: Hello. Hello.

Operator: Miss Gerling is on the line.

HMJr: Miss Sterling?

Operator: Gerling. G-e-r-l-i-n-g.

HMJr: Okay. Hello.

Miss Gerling: Yes, Mr. Morgenthau.

HMJr: Miss Gerling? How do you do?

G: How do you do, sir?

HMJr: I have this request from Senator Downey to return to him this report on the Bank of America.

G: Yes. Uh huh.

HMJr: Now naturally we want to send it back.

G: Uh huh.

HMJr: Mr. Bell informs me that the Senator was thinking of turning it over to the so-called Smith Committee.

G: Yes, sir.

HMJr: Well, I don't think that would do anybody any particular good, including the Bank of America.

G: Uh huh.

HMJr: And before he does that I -- if he has that really in mind -- I wish you'd give me a chance to talk to him.

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- G: Well, the Senator didn't have that in mind at all. He hasn't been back here. What happened was the Smith Committee called us - a Mr. Ford, and he said that a Mr. Birdsell of the Bank of America had been talking to him and that Mr. Birdsell wanted the booklet sent to the Smith Committee. Mr. Birdsell, I believe, is the Vice President of the Bank of America....
- HMJr: Yeah.
- G: ....and they wanted to know if we had any objection to their securing it from the Treasury. Well, we didn't. But if you don't believe it should be turned over to them, why, of course, I'm sure the Senator wouldn't want to go against your wishes on that.
- HMJr: Well, I think it would do a lot of harm for everybody.
- G: Uh huh.
- HMJr: Because, I mean it's going to mean washing the dirty linen of the Bank of America before the whole public....
- G: Uh huh.
- HMJr: ....and as far as we in the Treasury are concerned with the Bank of America, right now we're at peace.
- G: Uh huh.
- HMJr: So why not leave it that way?
- G: Well, the Vice President of the Bank of America had been the one that originally, I believe, instigated the request for it to be turned over to the Smith Committee. Why, I don't know.
- HMJr: Birdsell?
- G: They just asked -- Birdsell, yes, that's it -- they had just asked us, as a matter of formality, if we had any objection to them securing this....
- HMJr: Yeah.
- G: ....and we could see none that we knew of. We said, "No."

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HMJr: Oh.

G: But if you believe that it shouldn't be turned over to them, why, of course, we'll just tell the Smith Committee we believe that - that it's a matter for Senator Downey to decide, and that we'll talk to him about it when he comes back.

HMJr: Right. Well....

G: He's flying back. He'll arrive in Washington tomorrow night.

HMJr: Well, in the meantime, I'll send it up to you.

G: All right. You'll send it to our office.

HMJr: Right.

G: All right. Thank you so much, Mr. Morgenthau.

HMJr: Goodbye.

May 25, 1943  
3:10 p.m.

TAXES

Present: Mr. Gaston  
Mr. Paul  
Mr. Elough  
Mr. Surrey  
Mr. Smith

H.M.JR: Read this out loud.

MR. SMITH: This is essentially the same as we had this morning except I have switched it around from being a personal letter to a memorandum.

MR. PAUL: I went over this this morning.

H.M.JR: Was it your idea?

MR. PAUL: It is very much like the idea I mentioned to you of taking the heat off the President.

H.M.JR: Then he is for it. (Laughter)

I just talked to the President on the Federal Reserve business, and he is going to see me through.

I tried to give him a little sketch on this. He says, "The people don't want any letters. They want action."

But I haven't read this. Let's hear it.

(Memorandum to the Senate Finance Committee read by Mr. Smith, copy attached.)

H.M.JR: That is much too long. It is twice too long - three times too long.

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MR. SMITH: But the one thing--

H.M.JR: In the mood he is in - I just talked to him - I didn't know it was a letter, but I had an idea what a letter should be, and he said, "This is no time for letters. The people aren't interested in letters. What they want is to see a bill get through."

MR. PAUL: The President said that?

H.M.JR: Yes, just now - just two minutes ago. "We want to get a bill."

He said, "They have been arguing with me and trying to get me to do this and that. I don't want to write any letter."

He is tired. He told me he was tired. He has had ten days of arguing with Churchill, and the man is exhausted. There wouldn't be any chance.

What do you think, Herbert?

MR. GASTON: I am in doubt about the issuance of a letter at this juncture as it applies to the pay-as-you-go issue. In any event if the letter should be written - if anything should be issued for publication, I think it should more clearly distinguish between the two problems: The one the pay-as-you-go thing, and the other the need for additional taxes and the basis on which additional taxes must be levied.

Of course this letter as it stands would convey the impression that the President was confused on those two subjects.

We have an immediate situation confronting us with respect to pay-as-you-go, and then we have another situation confronting us with respect to additional taxes.

H.M.JR: I think this, Fred - I think you made a stab at it. The President won't do it. He is in no

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mood to do it. I think this - what I would like you (Blough) to do, because I have other things for Smith - Blough, I don't know how hectic you are, but you might be working on something and then I will have Smith kind of blow a little life into it.

MR. GASTON: There is a great deal of nice material there that could be used.

H.M.JR: What I was thinking, supposing they should decide they want to invite me up for a statement, why not let's have one.

MR. BLOUGH: This doesn't fit into this bill, but this might fit into the tax bill - it does. You see, this isn't a tax bill we are talking about now.

H.M.JR: This is Smith just trying to do something extra.

MR. BLOUGH: This is a very good idea in connection with the opening of the new bill.

H.M.JR: You take it.

MR. BLOUGH: It might very well make a Presidential radio speech.

H.M.JR: The President is not interested in taxes. (Laughter)

MR. GASTON: If you more clearly recognize the tax situation and talk about pay-as-you-go to the general tax structure, and then you go into a discussion of the tremendous importance of--

MR. PAUL: I don't want to address myself to that letter, but that letter has a lot of good material in it and a lot of inaccurate statements and a lot of general items.

MR. SMITH: That is likely. I am writing it to be read. (Laughter)

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MR. PAUL: I mean statements which would do harm - that sense of inaccuracy. I don't care about minor inaccuracies.

But there is a problem where I am very - a phase of the problem where I am very sympathetic with Smith's idea, and that is to take the heat off the President in the event of a deadlock, which is, I think, according to the latest report I got only a few minutes ago, very apt to be the case.

The best information I have is that the bill will go back - will be deadlocked at the three-thirty meeting today. Then it will be sent back to the House and to the Senate, and the President will be blamed because we have no pay-as-you-go.

Now, he has been reasonable. He has been willing to take any bill that was passed by an overwhelming majority of the House. True, he doesn't want the Senate bill, but he isn't such an unreasonable man. He was willing to take one of the two bills passed by one of the two houses. What he said in his other letter was what he wouldn't sign; he didn't say what he would sign.

MR. SMITH: All the people know is that somehow or other Mr. Morgenthau and Mr. Roosevelt have just positively refused to give the people the kind of a bill that the people want.

MR. PAUL: Because that is what the papers tell them.

H.M.JR: You see, your statement again is inaccurate - they think it is Mr. Roosevelt and Mr. Paul who won't give them the kind of bill they want. (Laughter)

MR. GASTON: You mean Mr. Byrnes. (Laughter)

H.M.JR: I accept that - Mr. Roosevelt and Mr. Byrnes. (Laughter)

Have you read Arthur Krock today?

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MR. GASTON: Yes. I thought that except for a little bit of injustice to the Treasury and an unfortunate illustration, the general tenor of his column was all right.

H.M.JR: Have you read Arthur Krock?

MR. SMITH: Yes, I read it.

H.M.JR: They say the only people in the United States that read Arthur Krock is the Cabinet. (Laughter)

All right, you people keep thinking about it.

Don't be discouraged.

MR. SMITH: I am not discouraged.

H.M.JR: You can't get all the hits - when you get up to bat you can't make a home run every time.

MR. PAUL: You ought to work on a draft of a veto message which I have on my desk.

MR. SMITH: I just would like to see the Treasury take the initiative.

MR. PAUL: Breathe some life into that. I breathed a little.

H.M.JR: That is all right.

MR. GASTON: We might think about two things. One is a statement for Secretary Morgenthau in his conference on Thursday morning - a rather impatient statement about why don't they do something and "Here is what they ought to do." The other is a statement by the President for his conference on Friday morning. He is occupied by Churchill and the aftermath of that today. One of those two press conferences might give them a shot.

H.M.JR: Well, of course, I will tell you what I would like to say. It will just take a minute. I think

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that for me - I mean they have had me cooped up here. I think especially this deadlock - it is about high time that I expressed my own views - the views of my associates here in the Treasury - on the need of more money.

MR. PAUL: Right there--

H.M.JR: The need of the pay-as-you-go, but first additional money.

I don't know where I read this thing - somewhere - that if they don't get this thing I have to borrow seventy-five billion dollars.

MR. PAUL: That was said between the President and Bell.

H.M.JR: Well, I read it somewhere. Have just been catching up.

I think there should be some place, and Roy should start working on it rather than go up - I mean - anyway, he ought to start to put down the facts, a statement for me on why the country needs this additional sixteen billion dollars - a powerful statement, inflation, and so forth and so on.

MR. PAUL: There I want to get clear on something. I agree with you that it might be very advisable to have such a statement, but I think we do have to clear up the question of whether that sixteen billion doesn't have to be related to--

H.M.JR: Bell has related his thing - you mean to savings?

MR. PAUL: Not only to the compulsory savings situation, but also sixteen billion was a fiscal year figure.

H.M.JR: That is a detail.

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MR. PAUL: No, it is very important.

H.M.JR: I am not going to bother with that. The point that I am getting at is I sit here, and time goes on and I don't say anything. I am supposed to be the Secretary of the Treasury, and I think if these fellows keep fooling - I don't care whether it is eight or sixteen or twenty billion, but something should be said by me.

MR. PAUL: That is very important because of this additional reason, that Congress is about to go into a vacation - about to recess for about a month and a half or two months.

MR. BLOUGH: You held your hand before for two reasons, as I understand it. One was the bond drive, which you didn't want to mix up with it. The second was that you thought if you just held your breath a day or two longer they would get this pay-as-you-go out of the way and then you would have a clear track.

H.M.JR: No, neither of your reasons is right.

MR. BLOUGH: Then I don't know of any other reasons.

H.M.JR: No. I had a reason. Mr. Doughton asked us to advise them and not tell them.

MR. PAUL: That is right.

H.M.JR: And Paul and I have been hewing to that line, with the present result, that we have been doing this since last December.

MR. PAUL: That is right, and he hasn't produced.

H.M.JR: And he hasn't produced. I don't know what the right time is, but it isn't too far off where the Secretary of the Treasury could get up and say what we need in the way of a fiscal policy, and so forth and so on - not pull any punches.

MR. SMITH: That is all I am after. I just want you to take the initiative.

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H.M.JR: The President will never do it. He doesn't like to do it. He will get all mixed up with the Director of the Budget, and everything else.

I think the thing is for me to say it - not today, but you can't write those things overnight. I think the thing should be in the works, Roy, see, and you get the thing in the works and Fred Smith will put the sex appeal in it. (Laughter)

MR. BLOUGH: There are a lot of things in the works. We can draw them together very close.

MR. PAUL: We have had that in the works for some time. We would be incompetent if we hadn't.

MR. BLOUGH: What sort of an occasion would you want this for?

H.M.JR: I will get the occasion. Gaston has got letters here to me--

MR. BLOUGH: You have in mind a public address?

H.M.JR: This fellow (Smith) will arrange that. He will put me on with Jack Benny or somebody. (Laughter)

MR. PAUL: Make it a beautiful woman. (Laughter)

MR. BLOUGH: Is it a fifteen-minute radio speech or--

H.M.JR: Give him (Smith) the facts, don't worry. When we went out on the "We the People" they kept cutting, cutting, cutting. I mean, you give the facts and they will take care of it.

MR. GASTON: The Minnesota Bankers Association, June 17 - as much time as you want.

H.M.JR: We have all the invitations to speak.

MR. GASTON: I am going to get a call today on that, probably.

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H.M.JR: When these fellows get through, I will do speeches with you.

Will you start something?

MR. BLOUGH: Absolutely.

H.M.JR: There is no use trying to talk to the President. He won't do anything.

*Return to H.M. Jr file.*

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 25, 1943

TO Secretary Morgenthau  
FROM Fred Smith *(PS)*

When you told me the other day that the President had been asked to indicate what kind of a tax bill he would sign, it seemed to me that here was a wonderful opportunity to present your tax philosophy and to again create the impression that you and the President know exactly what you want and why.

I am not familiar enough with politics and protocol to know whether it would be advisable for the President to reply directly to the Senator. If so, I believe we could trump his Ace by throwing a formula at him which could not be too harshly criticized, but would put the opposition on the defensive in any bill which did not meet with the President's stated formula. In other words, if the President lists basic considerations, and a bill is drawn up which does not meet them, then the sponsors of the bill will have to prove their case, not the President nor you.

Attached is a letter of the type which the President might sign, and which I believe would be well received by the public at large. I don't see how it can be severely criticized except in a "fussy" and not very effective way — and it certainly lays the groundwork for a bill which would be acceptable to the Treasury. It would also give us a springboard for criticizing any bill that did not meet with the Treasury's philosophy.

I believe that such a letter, made public, would breed a great deal of confidence in the tax program, and I am sure this is very desirable.

A MEMORANDUM  
TO THE SENATE  
FINANCE COMMITTEE

Because I did not favor the tax bill recently approved by the Senate, I have been asked for a definition of the kind of a tax bill which I would approve, sign, and support. I should like to give that definition - and tell you why the Treasury Department and I feel the way we do about the whole subject of taxes in war time.

Of course, it does not lie within the province of the President to design a tax bill; that is up to the Senate, to the House, and to the Treasury Department. As President, I do, however, have obligations in the matter. Any bill that I approve must be, above all, fair. It must also be sufficiently comprehensive to raise a substantial part of the revenue required to finance the war. Finally, it must be simple enough to put into effect at once so that we can pay for the war now, when we need fighting equipment, and when we have money.

As you know, we will have 145 billion dollars in income this year. That means 145 billions in wages, salaries, and profits which will be available to the American people for their living expenses and to supply the 100-billion-dollar-cost of the war during 1943.

Through taxes and War Bonds we must keep getting more and more of this money. We must not waste a day, for 45 billions of the necessary 100 billions must still be raised before the end of this year. If we plan taxes right, and if the people continue to buy War Bonds, getting this money should not, however, prove too great a hardship on anyone, because our national income is 3 times what it was a few scant years ago, and we have far fewer places to spend it, and fewer things to buy, than we had then. In these times of greatly curtailed civilian production, I think the American people can pay a great part of the war expenses, and still live as well as it is possible to live during this most crucial period of the Total War.

I have been asked what, specifically, I would like and approve in a tax bill, and what Mr. Morgenthau could enthusiastically support. I want to give you as direct an answer as I can.

First: I am heartily in favor of the "pay as you go" idea. Our Treasury Department proposed this in 1941 with my support, and neither Mr. Morgenthau nor I have wavered an inch from this point of view. I believe we will never find a better time to make this necessary change in tax policy. By all means, provision for this should be included in any tax arrangement that is offered to the people.

Second: I favor abatement of a portion of our back taxes, so long as the abatement is reasonably equitable. If any inequality of sacrifice becomes necessary, as a practical matter, I think we should favor those who have only their modest earnings to fall back on. I say this not because we should penalize the rich, or the able, or the talented, but because the presently rich, and able, and talented will probably be better able to recoup their financial positions after the war -- just as they did after the last war, just as they always have since this country was set up on the principle that a man's rewards should be limited only by his energy and effort and talents.

Perhaps such people can never again become very, very rich, but I believe ~~that~~ that is as it should be -- and I think it is a situation that will be shared in our new world by all the people of all the civilized nations.

But to get back to abatement: It seems to me that any abatement should be based on the tax brackets that go stright across the boards, and affect all who pay taxes. This probably will mean the complete forgiveness of smaller taxes, but again I feel that this will not result in too great a sacrifice on the part of those whose privilege it is to have high salaries or incomes. I sincerely believe that any injustices this may cause will be unlikely to bring real hardship to anyone -- and in the final analysis hardship can be our only guide.

If it is true that this penalizes incentive, then we must say that for the duration we cannot afford to recognize any incentive but an American's passionate desire for victory and his hunger for peace. Money incentive is perhaps a victim of conversion to war, like the family car, the refrigerator, and costume jewelry. I believe that this is understood by most men of good will, regardless of their present or past incomes.

Third: I believe that a good part of current taxes should be deducted from salaries, wages, and profits at their source. The withholding principle is one that the American people will accept willingly and will be grateful for when they become accustomed to it.

Fourth: I recognize fully how difficult it is to levy severe taxes equitably in times like these; but I will not sign a tax bill which is obviously or unnecessarily inequitable.

In our tax thinking we must assume that everyone realizes that the war has changed our entire way of life for the duration:

that men and women who are making higher wages than normally recognize they must forego most of the benefits these higher wages in other times would bring to them;

that business proprietors must pour out in higher taxes and War Bonds much of their profits which ordinarily would go

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into expenses and reconditioning and strengthening the structures of their corporations;

that farmers know they are in the service of the war no less than business men or wage earners, and their incomes, even though they may be larger than normal, can not be used entirely as the farmer may wish;

that the business man realizes this is not the time to take his savings from a lifetime of high wages or profits, and retire. All of the men who have carried on this nation's commerce, all of their brains, are necessary in this total war. Now is simply not the time for an easy life, or for growing old gracefully and securely, and our tax bill, in my estimation, need not consider this a factor. This may seem harsh; but the fact is that all the people who have so long made plans for "when their ship comes in", all who may richly deserve the added bounty which they now have, can not forget that this is war -- a deadly, earnest war in which even partial defeat at the hands of our enemies means the end of everything. The dollars of these people who may be temporarily disappointed will go a long way toward bringing victory, and toward holding together our country and our way of life after the smoke and sound of battle is gone. I think the American people know that.

I think, therefore, that the tax bill can be severe -- very severe -- so long as it is fair, and as equitable as possible, and simple enough so that complicated problems of administration will not postpone its effectiveness.

Fifth: We must not lose sight of the fact that some family incomes have been seriously curtailed by the war, and millions of white collar workers are receiving pre-Pearl Harbor wages and salaries though their living expenses have risen. We expect to be able to curb these expenses, to keep them from encroaching more upon these people, and all people. But under any circumstances, we can not, as a nation, afford to tax these or any other people beyond their limit to pay. They, in turn, must remember that the war robs people of most good things, and when they see their savings diminishing, let them realize that they, too, owe their plight directly to Mr. Hitler.

Let me summarize. I will willingly approve a tax bill, and the Treasury Department will enthusiastically support it, only if it is drawn up with provisions that take into consideration these facts:

1. That "pay as you go" is not only desirable, but is the most practical way of paying taxes.

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2. That any abatement plan must be as equitable as possible and must be shared in by all who pay taxes. We must recognize that our only guide in levying the kind of taxes the war requires is the hardship factor; and those who have more money must give up more money, if the only alternative is hardship on any of us.
3. That taxes should at least partially be withheld at source.
4. That any bill drawn up can be severe, so long as it is fair and simple enough to be put into immediate effect.
5. That any bill must be as equitable as possible and especially must not penalize those whose moderate incomes have not risen since the war, or whose family incomes have decreased because of the war.

On the basis of these considerations, I believe a practical, fair tax bill can be drawn up that will meet not only with my approval and that of Mr. Morgenthau, but also with the approval of the vast majority of the American people.

I believe the Doughton Bill, passed in the House, is such a bill, and it is my fervent hope that a bill of that sort will be adopted immediately by both Houses of Congress, for our time grows short, and the war rapidly grows more severe and costly. We have no time to lose.

F. D. R.

May 25, 1943  
3:44 P. M.

HMJr: Hello.

Operator: Mr. Eccles.

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

Marriner  
Eccles: Hello.

HMJr: Marriner?

E: Yes, Henry.

HMJr: I am sorry to hear that what's-his-name in  
New York is sick - Sproul.

E: Well, I am too. He apparently is pretty ill.

HMJr: Oh.

E: He - I called Monday.

HMJr: Yeah.

E: His office reported that he was home in bed  
running a very high temperature....

HMJr: I see.

E: ....and that the doctors had ordered him to  
stay there and that he wasn't able to see or to  
talk to anyone.

HMJr: I see.

E: So he's - he's apparently in - in pretty bad  
shape. He was sick - he's been sick for two  
or three weeks. He's had - he's had some  
stomach trouble.....

HMJr: I see.

E: ....and the strain and everything apparently  
upset it and his resistance, so I understand,

(Cont'd.)

E:  
(Cont'd.) is very low and he took on this very bad case of the flu, so that's where it is. So he isn't - he won't be here tomorrow.

HMJr: Well, that's too bad. I'd like to see you a half an hour before the others.

E: All right.

HMJr: Now I don't know whether you want to come at 9:30 or postpone the other meeting. Which would you prefer to do?

E: Well, it might - Young and what's-his-name won't be in until that eight-forty or fifty train. It - it may be as well to meet later.

HMJr: Well....

E: If those trains happen to be late, which they are nowadays, they just - they just wouldn't be there.

HMJr: Well, would you rather come at ten then?

E: Yes, ten or ten-thirty, and - and then possibly let those fellows be subject to call....

HMJr: Well.....

E: ....after they got in.

HMJr: All right, let's....

E: You see, Young is coming in from Chicago. We called Young, and his train doesn't get in, I think, until about 8:50 if it's on time.

HMJr: Well, let's say if - would it be convenient for you, say, to come over at 10:30?

E: That would be fine.

HMJr: And then we could have the others.....

E: Subject to call....

HMJr: Right.

E: ....after they got in.

HMJr: Right.

E: Is that okay?

HMJr: That would be fine.

E: Are you in town?

HMJr: I'm in - I've - I've been here since this morning.

E: Well, I'll - I'll come over then at - at 10:30 and advise the others that - that this thing will be subject to call. There's only four of them coming. I asked Young, Fleming, Leach and Williams....

HMJr: Right.

E: ....and, of course, Sproul.

HMJr: Right.

E: But there will only be the four in here.

HMJr: And the Board, I take it.

E: The Board will all be here. What's-his-name - Evans is a delegate down to this Food Conference.

HMJr: I see.

E: He was going down tomorrow.....

HMJr: Yeah.

E: ....and I suggested that he - if he could, to stay over.....

HMJr: Yeah.

E: ....as I thought that this was important enough for him.....

HMJr: Yeah.

E: ....to be here.

HMJr: Yeah.

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E: So the Board will all be there.

HMJr: Good. Well, then let's say - I'll look forward to seeing you at 10:30.

E: Yes. Okay.

HMJr: Thank you.

E: All right. Goodbye.

May 25, 1943  
6:01 P. M.

Randolph  
Paul:

Did you?

HMJr:

I had no news.

P:

Well, I just had a conversation about five minutes ago.....

HMJr:

Yes.

P:

....it was - it was just one minute ago, in fact -- that - that there's a - a bill has been voted out of the Conference Committee 75%.

HMJr:

I see.

P:

The way it happened was that Doughton deserted the Democrats and went with the Republicans.

HMJr:

Well, I'll be damned.

P:

So the vote in the House conferees was four to three....

HMJr:

Yeah.

P:

....three Republicans and Doughton, four - and Cooper and Dingell and Disney stuck out against it.

HMJr:

Who did?

P:

Cooper and Dingell....

HMJr:

Yes.

P:

....of Michigan and Disney.

HMJr:

I'll be damned.

P:

And - so that'll bring the 75% issue up and then, of course, the next question is the veto or no - to veto or not to veto.

HMJr:

Yeah.

P:

To be or not to be.

HMJr:

And what did - what did the "Great Czar" Byrnes - what did he tell them this morning?

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P: Well, he told them 62½ - he - he told them this morning that the President would veto anything like that; that he would advise the President to veto; that the ultimate he'd go to was 60 or 62½%. But it seems to me - of course, that was a private conference and - but that is a - you - you can't justify vetoing 75% and - and and not vetoing 62½% - I mean the whole point is that either one of them has got the wrong principle of distribution of forgiveness, and that's the only ground on which you can stand.

HMJr: Well, we'll talk about that tomorrow.

P: Yeah. Well, you call me. I beg your pardon. Did you have something in mind?

HMJr: What are you begging my pardon for? I had to....

P: Well, I interrupted you. I - you....

HMJr: No.

P: ....I wondered if you had something to say.

HMJr: I - I was calling you up for news.

P: Oh, you were? Well, I thought you wanted to tell me something.

HMJr: No, I want to listen.

P: Well, you've listened to the very latest dope.

HMJr: And when - that'll come before the House tomorrow?

P: No, it'll - it'll come up on Thursday for the rep. - Conference Report to be signed.

HMJr: I see.

P: And - and you - of course, you know where I got my information.

HMJr: Yeah.

P: And that member is not going to sign it. He's - in fact, he just asked me to write him a speech for Friday on the floor.

HMJr: I see. Okay. Well, we'll have plenty of time to talk about it tomorrow.

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P: Yeah. All right. That's the - you got the latest.

HMJr: Thank you.

May 25, 1943

## MEMORANDUM

TO: Secretary Morgenthau

FROM: Mr. Gaston

Chick Schwarz learned through George Bryant, who has taken Gene Duffield's place as head of the Washington bureau of the Wall Street Journal, that the single sentence appearing in the column of miscellaneous notes of the Wall Street Journal last Friday, to the effect that Chairman Eccles thought it would be a good thing if one of the bond drives should be a failure, was based on a conversation between Eccles and several reporters for different newspapers, including both the Wall Street Journal and the Journal of Commerce, following the hearings on Thursday before the House Banking and Currency Committee on the propriety of the use of Government securities as a reserve against Federal Reserve notes. Mike Flynn was the Journal reporter present. He said that Eccles had expressed the belief that a very high goal should be established for bond drives and that it might be a good idea if one of the drives should fail to reach the goal so that the country might be awakened to the urgent need for funds to finance the war.

The original submission of the Journal's bureau here for the column consisted of several sentences expressing this full idea, but it was trimmed on the desk to leave but the one sentence. This one sentence was in the mail edition but was dropped out in later editions.

I am attaching a copy of Ted Goldsmith's weekly letter giving his version of the same interview.



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THE GOLDSMITH WASHINGTON SERVICE

Devoted Exclusively to

# UNITED STATES GOVERNMENT SECURITIES

NATIONAL PRESS BUILDING      TELEPHONE NATIONAL 8600      WASHINGTON, D. C.

BULLETIN NO. 161

ISSUED EVERY OTHER WEEK AT \$50 THE YEAR

MAY 22, 1943

## A POST MORTEM ON THE TREASURY'S SECOND VICTORY FUND DRIVE

### A POST MORTEM ON THE TREASURY'S SECOND VICTORY FUND DRIVE

At a press conference on May 10 Under Secretary of the Treasury Daniel W. Bell gave out detailed figures on the results of the Second Victory Loan drive which we are publishing in full at the end of this Bulletin. An article in the May *Federal Reserve Bulletin*, made public last Friday, contains a good deal of statistical information on the results of the last drive not heretofore available.

At his press conference Under Secretary Daniel W. Bell stated that the next or third Victory Loan drive would not come "earlier than next September." But Mr. Bell did not wish to imply that the next Treasury drive might not come later than September.

Mr. Bell definitely stated that there would be an interim open market financing operation between now and the next drive. It is believed this open market financing is likely to be announced in July. Mr. Bell made it clear that \$629 million 1 1/4 % Treasury notes maturing on June 15, 1943, \$450 million 3 1/2 % Treasury bonds called for payment on June 15, 1943 and \$324 million 1 1/8 % Reconstruction Finance Corporation notes due July 15, 1943 would be paid off in cash on maturity.

Under Secretary Bell was asked whether the Treasury would separate commercial bank financing from the next War Loan drive for bona fide investors, and he replied that the Treasury had considered this plan in connection with the first War Loan drive last December, again before the second War Loan drive in April and that the Treasury would consider the separation of commercial bank financing again.

But no definite decision on the timing and the nature of the next Victory Fund drive has been reached yet. Treasury officials point out that the separation of commercial bank financing is not a simple decision to make particularly if securities eligible for commercial bank purchase continue to be offered in these general drives.

It is known that the Treasury will seriously consider confining the next War Loan campaign to 2 1/4's and 2 1/2's neither of which would be eligible for commercial bank purchase for a period of years. If this suggestion is adopted it would also leave out of the next general Victory Loan drive corporations with temporarily idle funds.

Many bankers feel that one-year certificates have no place in a War Loan campaign. They point out that \$3100 million of the \$13,500 million total sold to non-banking sources in the recent drive consisted of 1/4 % certificates. It is known that the Treasury considered closing the books on the 1/4's during the drive but decided not to change the rules during the campaign.

The Treasury will not only consider the separation of commercial bank financing from the next Victory Fund drive but also the separation from the next drive of the sale of short-term Treasury securities to industrial corporations.

#### ECCLES ON BANK FINANCING

It is known that Mr. Eccles thought the Treasury should have fixed a high goal for the financing and to have announced in advance that only such part of the total which could not be placed with bona fide investors and investment institutions would then later be offered to the commercial banks. He believes this would place the commercial

banking system in the proper role of underwriters. He is known to think that it might be better to have a near failure on a Victory Loan drive in order to allow the public to realize the substantial amount of the War deficit that is now being financed through the inflationary commercial bank route. Mr. Eccles believes that the best method of controlling the sale of Government secu-

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banking system in the proper role of underwriters. He is known to think that it might be better to have a near failure on a Victory Loan drive in order to allow the public to realize the substantial amount of the War deficit that is now being financed through the inflationary commercial bank route. Mr. Eccles believes that the best method of controlling the sale of Government secu-

rities in commercial banks is via the control of excess reserves. He thinks that excess reserves must now be allowed to decline to sharply lower levels if Government security prices are to be kept from rising too rapidly and the pattern of interest rates is to be maintained. At a hearing on May 16 before the House Banking and Currency Committee, in reply to questions by Congressman Wright Patman of Texas, Mr. Eccles made the following remarks pertinent to this question:

*Mr. Patman:* One other question about this bond drive. We were told by Mr. Morgenthau, if not before this committee, before the Ways and Means Committee, that he expected to obtain about \$13 billion in this second War Bond drive, and that, if necessary, he expected to get \$5 billion of that from commercial banks. Of course, he looks with disfavor upon the commercial banks' creating the money to pay the cost of the war. You do and I do, and everyone else does, because it is highly inflationary.

Since this War loan drive was so successful and people who had money to buy bonds actually purchased \$13 billion or more, why did they then permit the commercial banks to purchase \$5 billion more when it was not necessary?

*Mr. Eccles:* I was opposed to including the commercial banks in this financing.

*Mr. Patman:* Well, it looked to me like it was unnecessary.

*Mr. Eccles:* Let me tell you the way the thing was handled. Before the drive was commenced we had to set up a quota for nonbanks, and it was felt that \$8 billion was a conservative amount.

*Mr. Patman:* Was a maximum, Mr. Morgenthau said.

*Mr. Eccles:* We felt it was the minimum that could be gotten. I certainly did not think it was the maximum. I felt it was the minimum, and I think that the Reserve people generally felt that \$8 billion was the minimum that could be gotten outside the commercial banks at that time. I know some of us felt that even \$10 billion would be a safe amount to put in a quota and to exclude commercial banks, but the Treasury said that they needed thirteen or fourteen billion or they would have to have another drive too soon.

I felt that they should get their money outside of the commercial banks and decide what they should get from the commercial banks after they found out what they could get from the public, and get what was then needed from the commercial banks in the interim between the public drives by making available to the banks what was known as short-term bank paper largely. I would not

have included the seven-eighths certificates in the public drive.

In setting up the quota of \$13 billion that was arrived at by a digest of various opinions. Some thought \$12 billion and some thought \$15 billion—

*Mr. Patman:* That does not answer the question, Mr. Eccles. The fact is that the figure they set was reached and it was oversubscribed outside the commercial banks. Since it was oversubscribed outside the commercial banks, why should they create \$5 billion more through the commercial banks?

*Mr. Eccles:* They had already created \$2 billion through the commercial banks the day the drive opened. They set up a quota of \$13 billion to be raised during a period of 3 weeks. Eight billion of that was to be gotten outside of the commercial banks. Then \$5 billion was to be gotten from the commercial banks during this 3 weeks' period. It was \$200 million a week in Treasury bills. We have been increasing the bill offering periodically. In other words, the 90-day bills have a roll-over every 18 weeks, and we have been stepping them up so that each week there has been \$200 million of new money that we got every week besides refunding or rolling over the amount that was maturing. The Treasury included, for the purpose of the drive, all of the bills that were sold during the month of April, just as they included all of the War Savings bonds for the entire month.

*Mr. Patman:* Yes, I understand that.

*Mr. Eccles:* Now, \$200 million each week for the 4 weeks was \$800 million that it was contemplated would be taken largely by the commercial banks because they are the market for Treasury bills. They then figured \$2 billion of 7½% certificates would be offered to the banks on the opening day of the drive, and the books would be left open for 2 or 3 days—2 days, I think it was.

The banks subscribed for over \$9 billion. They were allotted in full up to \$100,000. The balance was prorated, and it figured an 18 percent allotment on their subscriptions. The Treasury allotted \$2,100 million approximately.

*Mr. Patman:* At 2 percent?

*Mr. Eccles:* No, at seven-eighths. They announced before the drive opened that they would get from the banks approximately \$5 billion; that they would get \$2 billion in certificates the first 3 days of the drive; that they would get \$2 billion in 2 percent bonds the last 3 days of the drive; and that the banks would not be permitted to subscribe for any other securities and in any greater amount.

That was all part of the program. That was agreed to several weeks before the drive started, because there was a lot of educational work to be done.

#### FEDERAL RESERVE BULLETIN

The *Federal Reserve Bulletin*, which is published monthly and sent to all member banks and can be obtained by anybody else for \$2.00 per annum, frequently contains very pertinent information written by experts. Earlier in this Bulletin we referred to an article in the May Federal Reserve Bulletin on the results of the War Loan drive. It contains some information not elsewhere made available. It probably deserves careful reading by all those interested in Treasury financing.

Here are a few of the things which the research people in the Federal Reserve Board apparently think are important, in considering the results of the April War Loan drive.

"The largest percentage increases compared with the December drive were in sales to corporations, other than insurance companies, and to individuals. Increased response by individuals to the latest drive is encouraging, but even more progress in this direction is necessary if enough current income is to be diverted into the war effort."

"It is expected that an increasing proportion of the needed funds will be raised from nonbanking investors, particularly from individuals. Part will be obtained through continuing sales of Savings Bonds and tax notes and by a limited amount of financing in the market between drives. The larger part, however, is expected to be raised through special large-scale drives similar to that in April.

"With 25 billion dollars of additional securities sold in the first four months of this year, it is estimated that commercial banks increased their holdings by about 10 billion dollars, including allotments of 2 per cent bonds to be paid for in May. Holdings of Federal Reserve Banks increased slightly in the period. Bank purchases, therefore, absorbed about 40 per cent of the increase in the public debt in the first third of 1943, compared with about half of the increase in the last four months of 1942. It is the aim of the financing program that bank purchases in the future constitute much less than 40 per cent of the total.

"To achieve this aim it will be necessary to sell to nonbanking investors about twice as much as in 1942. With the rapid growth of national income, growing out of expanding war activities, and the diminishing supply of goods available for

civilian purchase, this volume of sales to the public can be reached or surpassed. Personal and business savings will be on a large scale and Government security offerings will be the only large-scale new outlet for investment funds.

"Treasury estimates indicate that in the last six months of 1942 individuals invested in Government securities about 47 per cent of their personal savings remaining after payments for life insurance, reduction in debt, and increase in savings bank deposits. This proportion increased to more than the 55 per cent goal set for the first four months of 1943, and the Treasury's tentative program calls for increases to 65 in the second four months and to 75 per cent in the last four months of the year. Under this schedule individuals will add to their holdings in 1943 about 25 billion dollars, including Savings Bonds and tax notes.

"The Treasury similarly has estimated that corporations, other than banks and insurance companies, invested in Government securities 72 per cent of their newly available accumulations in the last six months of 1942. In the first four months of the current year they increased this proportion substantially, and the Treasury program calls for further increases, reaching 85 per cent in the last four months of the year. For the year as a whole corporations are expected to add about 13 billion dollars to their holdings of Government securities.

"These purchases of Government securities by individuals and businesses, added to about 5 billion dollars expected from insurance companies and mutual savings banks and more than 4 billion from Government investment accounts, would total 48 billion dollars from nonbanking sources in the calendar year, leaving 22 billion to be bought by commercial banks. For the purpose of combating inflation, as well as for obtaining a wide distribution of the public debt, every effort should be made not only to achieve but to surpass this goal."

#### ROBBINS RESIGNATION

We reported in Bulletin No. 159 dated April 24, 1943 that W. M. Robbins, fairly newly appointed Chairman of the War Finance Committee (the purpose of which was to coordinate the squabbles between the Victory Fund Committees and the War Savings Staff) was getting disgusted and was about to resign. Secretary Morgenthau announced last Monday with regret that Mr. Robbins had resigned. All those interested are hopeful that the inexcusable and purely bureaucratic controversy between the War Savings Staff of the Treasury Department and the largely volunteer workers of the Victory Fund Committee will be

smoothed out before the next War Loan drive takes place.

#### ETHIOPIAN PROBLEMS

The three Ethiopian delegates to the United Nations Food Conference now being held at Hot Springs are pretty much disillusioned about the value of gold. Someone told me that they had considerable trouble in scraping up \$40,000.— in gold to cover their expenses to this country. They had no trouble in buying airplane transportation from Ethiopia to the United States with this gold.

But the minute they put foot on American soil they found it impossible to buy even a bag of peanuts with their gold. The State and Treasury Departments spent a couple of embarrassing days to consummate the purchase of this gold for burial in Fort Knox, Kentucky. A lot of water has gone over the dam since many of us were imbued with the philosophy of the old-fashioned "gold standard" and the horse-and-buggy days. Anyway, the Ethiopian delegates apparently discovered on their arrival in the United States of America that gold isn't what it used to be.

#### ANALYSIS OF SUBSCRIPTIONS TO SECURITIES OFFERED DURING SECOND WAR LOAN BY CLASSES OF INVESTORS AND BY ISSUES

Class of Investors	Amount of subscriptions—In millions of dollars							Total
	Savings Bonds Series E	Savings Bonds Series F and G	Treasury Notes Series C	U. S. Bonds 1943-4	U. S. Bonds 1952-3	U. S. Government Securities	Other	
<b>I. Nonbanking investors:</b>								
(a) Individuals, partnerships, and personal trust accounts	1,473	425	132	540	472	240	—	3,282
(b) Insurance companies	—	—	—	1,882	703	123	—	2,408
(c) Savings banks	—	—	—	550	539	105	—	1,194
(d) Eleemosynary institutions	—	—	—	35	41	41	—	117
(e) State and local governments	—	—	—	181	82	241	—	504
(f) Other corporations and associations	—	242	1,320	504	789	1,383	—	5,938
(g) Subtotal—all nonbanking investors	1,473	667	1,652	3,292	2,826	2,738	—	12,650
<b>II. Banking sources (allotments only)</b>	—	—	—	—	2,110	2,138	800	5,048
<b>III. Other sources:</b>								
(a) Dealers and brokers*	—	—	—	—	189	355	—	544
(b) U. S. Government agencies and trust funds	—	—	—	359	10	13	—	381
<b>IV. Total—all investors</b>	1,473	667	1,652	3,761	4,935	5,244	800	18,533

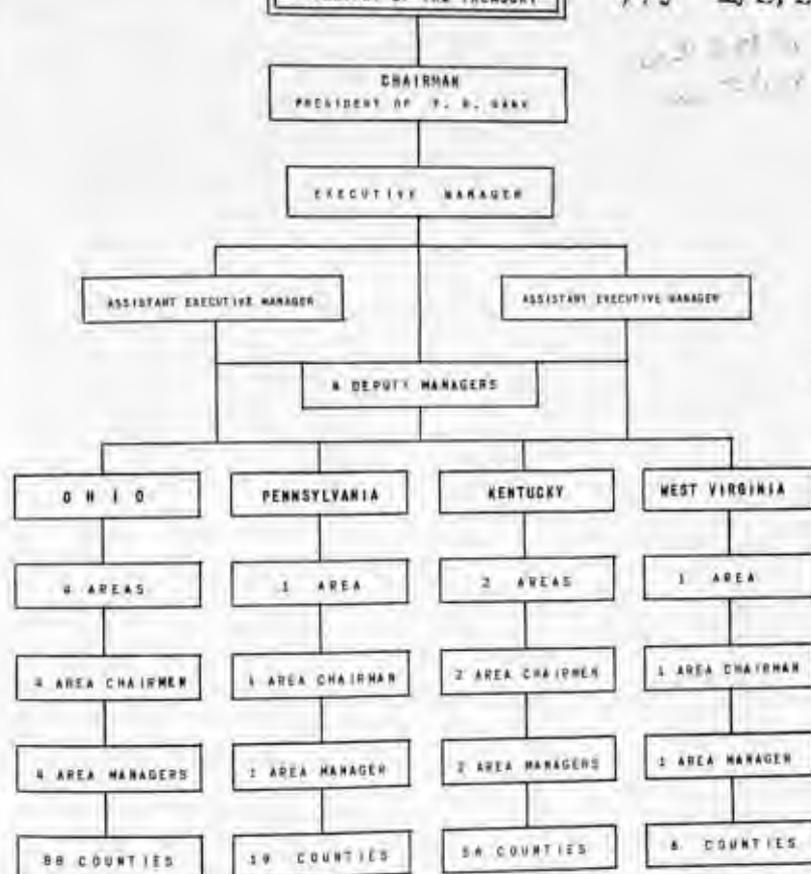
Office of the Secretary of the Treasury, Division of Research and Statistics, MAY 16, 1943.  
 \* Net increase in amount outstanding during month only. Figures are rounded and do not necessarily add to total.  
 † Excluding the amounts distributed or earmarked for distribution to nonbanking investors. These have been reallocated among the appropriate nonbanking investor classes.

#### COMPARISON OF THE SUBSCRIPTIONS TO SECURITIES OFFERED DURING SECOND WAR LOAN WITH THE GOALS SET FOR THESE SUBSCRIPTIONS BY MAJOR CLASSES OF INVESTORS AND BY FEDERAL RESERVE DISTRICTS

DISTRICT	Amounts in millions of dollars						Percent of goal accomplished	
	Individuals, partnerships and personal trusts	Corporations and associations	Subtotal for all nonbanking investors	Banking sources	Other sources†	Grand total	Individuals, partnerships and personal trusts	Subtotal for all nonbanking investors
Boston	168	300	933	600	1,000	800	—	—
New York	737	809	4,119	2,400	4,856	3,000	—	—
Philadelphia	202	150	444	325	645	475	—	—
Cleveland	304	250	658	306	972	650	—	—
Atlanta	195	150	393	290	588	350	—	—
Chicago	495	400	1,210	650	1,705	1,050	—	—
St. Louis	135	100	251	150	406	250	—	—
Minneapolis	126	78	170	100	290	175	—	—
Kansas City	163	160	175	125	338	225	—	—
Dallas	140	75	183	125	333	200	—	—
San Francisco	33	275	502	400	835	675	—	—
Unallocated	29	—	29	—	—	—	—	—
<b>Total</b>	3,282	2,408	9,289	5,500	12,550	8,000	5,048	5,000

Office of the Secretary of the Treasury, Division of Research and Statistics, MAY 16, 1943.  
 \* Net increase in amount outstanding during month only. Figures are rounded and do not necessarily add to total.  
 † Excluding U. S. Government agencies and trust funds and those subscriptions of dealers and brokers not distributed or earmarked for nonbanking investors.

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Executive and Assistant Executive Managers to be appointed by Chairman, subject to approval of Secretary of the Treasury.

Deputy Managers to be appointed by Secretary of the Treasury after consultation with and approval by the Chairman.

Area Chairmen to be appointed by Chairman after consultation and approval by Secretary of the Treasury.

Notice of all appointments to be issued by the Chairman except those in County organizations.

Area Chairmen to appoint County Chairmen and to notify them of appointment. Co-Chairmen to be appointed by Area Chairmen with notice of appointment from Area Chairmen.

Area Chairmen to have full responsibility within their respective areas. Deputy Managers and staffs wherever located to be on Treasury Department payroll, which should include a Deputy Manager for each full State or part of State within Federal Reserve District, with responsibility for the continuous promotion and sales of War Savings Bonds and Stamps, both to the general public and through payroll savings plans.

Clearing House Associations

\* --- Reserve Cities

# --- Clearing House Examination Cities

		Deposits as of 12-31-42 (in thousands of Dollars)	Population
Aberdeen,	South Dakota	\$ 15,525	17,015
Abilene,	Texas	22,800	26,612
Akron,	Ohio	139,278	244,800
Alameda,	California	1,577	36,256
Albany,	Georgia	11,429	19,055
Albany,	New York	473,493	130,577
Albert Lea,	Minnesota	5,047	12,200
Alexandria,	Virginia	22,376	33,523
Allentown,	Pennsylvania	53,222	96,904
Alliance,	Ohio	19,599	22,400
Altoona,	Pennsylvania	19,535	80,214
Amarillo,	Texas	44,729	51,700
Ames,	Iowa	6,829	12,555
Anderson,	Indiana	18,679	41,572
Anniston,	Alabama	19,701	25,523
Arkansas City,	Kansas	4,847	12,752
Ardmore,	Oklahoma	6,761	16,886
Asheville,	North Carolina	7,976	51,310
*Atlanta,	Georgia	356,797	302,288
Atlantic City,	New Jersey	20,468	64,094
Auburn,	New York	37,877	35,753
Augusta,	Georgia	28,872	65,919
Aurora,	Illinois	23,467	47,170
Austin,	Texas	59,423	88,000
Bakersfield,	California	Not available	29,252
*Baltimore,	Maryland	1,014,540	859,100
Bangor,	Maine	56,117	29,822
Bartlesville,	Oklahoma	16,943	16,267
Battle Creek,	Michigan	23,626	43,453
Bay City,	Michigan	29,375	47,956

		<u>Deposits as of</u> <u>12-31-42</u>	<u>Population</u>	
Beaumont,	Texas	\$ 51,998	59,000	
Bellingham,	Washington	6,464	30,000	
Beloit,	Wisconsin	17,116	25,300	
Berkeley,	California	Not Available	85,500	
Bethlehem,	Pennsylvania	32,122	58,500	
Billings,	Montana	23,613	23,260	
*Birmingham,	Alabama	203,114	267,500	
Bismarck,	North Dakota	8,087	15,500	
Bloomington,	Illinois	27,933	32,800	
Boise,	Idaho	106,049	26,100	
*Boston,	Massachusetts	2,692,397	771,000	
Bowling Green,	Kentucky	8,481	14,500	
#Bridgeport,	Connecticut	227,348	147,100	
Bristol,	Tenn - Virginia	14,277	14,000	Tenn Va.
			9,768	
Brunswick,	Georgia	9,152	15,000	
*#Buffalo,	New York	702,424	576,000	
Butler,	Pennsylvania	29,745	24,500	
Cambridge,	Massachusetts	141,675	111,000	
Camden,	Arkansas	5,022	9,000	
Canton,	Ohio	74,796	108,400	
Carthage,	Missouri	5,574	10,500	
Casper,	Wyoming	14,082	18,000	
*Cedar Rapids,	Iowa	73,202	62,100	
Champaign,	Illinois	20,207	23,300	
Charles City,	Iowa	4,731	8,700	
Charleston,	South Carolina	148,734	71,000	
Charleston,	West Virginia	95,924	68,000	
*Charlotte,	North Carolina	194,421	100,899	
Chattanooga,	Tennessee	129,900	128,000	
Chester,	Pennsylvania	38,781	60,000	
Cheyenne,	Wyoming	25,789	22,400	
*#Chicago,	Illinois	5,719,419	3,400,000	
*Cincinnati,	Ohio	639,577	455,000	
*Cleveland,	Ohio	1,321,255	878,000	
Clinton,	Iowa	14,936	26,200	
Colorado Springs,	Colorado	36,736	36,700	
Columbia,	Missouri	10,929	18,400	
Columbia,	South Carolina	12,290	62,300	
Columbus,	Georgia	37,666	53,800	
*#Columbus,	Ohio	263,456	306,000	

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		<u>Deposits as of</u> <u>12-31-42</u>	<u>Population</u>
Concord,	New Hampshire	48,990	27,000
Corsicana,	Texas	11,181	15,000
Council Bluffs,	Iowa	16,983	41,500
Cumberland,	Maryland	24,601	40,000
*#Dallas,	Texas	523,001	295,000
Danville,	Illinois	19,359	37,000
Danville,	Virginia	22,922	33,000
Dayton,	Ohio	127,400	211,000
*#Denver,	Colorado	337,270	322,000
Derby,	Connecticut	16,794	10,000
*Des Moines,	Iowa	184,254	160,000
*Detroit,	Michigan	1,877,370	1,620,000
Dodge City,	Kansas	6,010	8,500
*Dothan,	Alabama	16,097	17,000
DuBois,	Pennsylvania	10,409	12,000
*Dubuque,	Iowa	23,840	44,000
#Duluth,	Minnesota	100,042	101,000
Durham,	North Carolina	50,716	60,000
East St.Louis,	Illinois	27,583	76,000
Elkhart,	Indiana	18,913	33,400
*El Paso,	Texas	70,919	96,900
Elyria,	Ohio	19,994	25,100
Emporia,	Kansas	7,721	13,100
Enid,	Oklahoma	15,255	28,000
Erie,	Pennsylvania	79,875	117,000
Eugene,	Oregon	19,124	21,000
Evanston,	Illinois	38,989	65,000
Evansville,	Indiana	102,481	97,000
Fall River,	Massachusetts	85,029	115,000
Fargo,	North Dakota	27,064	32,500
Fergus Falls,	Minnesota	5,993	11,000
Fort Dodge,	Iowa	11,354	23,000
Fort Wayne,	Indiana	97,200	118,000
*Fort Worth,	Texas	223,489	178,000
Frederick,	Maryland	22,117	15,900
Fremont,	Nebraska	9,003	12,000
Gainesville,	Georgia	5,299	10,200
*Galveston,	Texas	67,215	61,000
Gastonia,	North Carolina	11,042	21,300
Glendale,	California	4,915	82,500

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		<u>Deposits as of</u> <u>12-31-42</u>	<u>Population</u>
Grand Forks,	North Dakota	10,516	20,200
Grand Island,	Nebraska	13,512	19,000
*Grand Rapids,	Michigan	97,068	164,000
Great Falls,	Montana	35,315	30,000
Greeley,	Colorado	10,641	16,000
Green Bay,	Wisconsin	28,016	46,000
Greensboro,	North Carolina	44,816	60,000
Greenville,	Mississippi	8,751	21,000
Greenville,	South Carolina	21,106	35,000
Greenwich,	Connecticut	34,506	6,000
Griffin,	Georgia	5,162	13,000
Guthrie,	Oklahoma	4,823	10,000
Hagerstown,	Maryland	20,177	32,000
Hamilton,	Ohio	31,145	50,500
Hannibal,	Missouri,	8,334	20,800
Harrisburg,	Pennsylvania	73,424	84,000
Hartford,	Connecticut	496,800	166,000
Hattiesburg,	Mississippi	17,820	21,000
Hazleton,	Pennsylvania	37,530	38,000
*Helena,	Montana	30,539	15,056
Hibbing,	Minnesota	7,960	16,000
Hollywood,	California	6,206	(included in Los Angeles)
Holyoke,	Massachusetts	64,063	54,000
Hot Springs,	Arkansas	8,108	21,000
*Houston,	Texas	528,902	384,000
Huntington,	West Virginia	28,757	79,000
Huron,	South Dakota	2,247	11,000
#Hutchinson,	Kansas	21,358	30,000
Independence,	Missouri	7,544	16,000
*Indianapolis,	Indiana	476,293	386,000
Jackson,	Michigan	30,950	50,000
Jackson,	Mississippi	65,979	62,000
*Jacksonville,	Florida	221,517	173,000
Jamestown,	New York	48,800	43,000
Janesville,	Wisconsin	15,446	23,000
Joplin,	Missouri	18,463	37,000
Kane,	Pennsylvania	2,873	6,100
*Kansas City,	Kansas	72,033	121,000
*Kansas City,	Missouri	746,362	400,000
#Knoxville,	Tennessee	83,816	111,500

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		<u>Deposits as of</u> <u>12-31-42</u>	<u>Population</u>
LaCrosse,	Wisconsin	\$ 18,999	43,000
Lafayette	Indiana	27,111	29,000
Lancaster,	Ohio	9,200	21,000
Lancaster,	Pennsylvania	50,037	61,000
Lansing,	Michigan	121,644	79,000
Laramie,	Wyoming	6,913	10,000
Lawrence,	Kansas	10,120	14,000
Lebanon,	Pennsylvania	20,783	27,200
Lewistown,	Maine	42,466	39,000
Lexington,	Kentucky	42,596	49,000
Liberal,	Kansas	4,200	4,400
*Lincoln,	Nebraska	87,063	82,000
*Little Rock,	Arkansas	107,239	88,000
Long Beach,	California	116,847	164,000
Lorain,	Ohio	11,627	44,000
*#Los Angeles,	California	1,480,942	1,500,000
*Louisville,	Kentucky	369,100	319,000
Lowell,	Massachusetts	70,285	101,000
Lynchburg,	Virginia	28,553	45,000
Lynn,	Massachusetts	91,750	98,000
Macomb,	Illinois	7,054	8,800
Macon,	Georgia	19,651	58,000
Madison,	Wisconsin	55,453	67,000
Manchester,	New Hampshire	81,790	78,000
Manhattan,	Kansas	7,118	11,700
Manitowoc,	Wisconsin	16,820	24,000
Mankato,	Minnesota	14,539	16,000
#Mansfield,	Ohio	26,563	37,000
Marietta,-	Ohio	12,509	14,000
Marionette,	Wisconsin	7,664	14,000
Marion,	Ohio	13,749	31,000
Martinsburg,	West Virginia	8,731	15,000
Mason City	Iowa	17,658	27,000
Meadville,	Pennsylvania	16,005	19,000
*Memphis,	Tennessee	330,160	293,000
Meriden,	Connecticut	31,940	40,000
Meridian,	Mississippi	19,960	35,000
Mexico,	Missouri	4,454	9,000
Miami,	Florida	104,873	172,000
Michigan City,	Indiana	12,816	26,000

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		Deposits as of 12-31-42	Population
Milledgeville,	Georgia	\$ 3,882	6,800
*Milwaukee,	Wisconsin	572,164	588,000
*#Minneapolis,	Minnesota	675,480	492,000
Minot,	North Dakota	10,775	16,500
Mobile,	Alabama	138,394	78,700
Modesto,	California	Not Available	16,200
Montclair,	New Jersey	54,446	40,000
#Montgomery,	Alabama	54,753	78,000
Mount Carmel,	Pennsylvania	7,977	18,000
Muncie,	Indiana	37,123	50,000
Muskegon,	Michigan	37,297	48,000
Muskogee,	Oklahoma	23,867	32,000
Nashua,	New Hampshire	24,996	32,000
*#Nashville,	Tennessee	242,895	167,000
Nebraska City,	Nebraska	3,966	7,300
Neenah,	Wisconsin	10,857	10,700
New Albany,	Indiana	9,440	25,000
New Albany,	Mississippi	3,428	3,600
#Newark,	New Jersey	672,303	430,000
Newark,	Ohio	17,898	31,000
New Bedford,	Massachusetts	94,647	110,000
Newburgh,	New York	39,827	31,900
Newcastle,	Pennsylvania	27,795	47,000
New Haven,	Connecticut	226,347	160,000
New Kensington,	Pennsylvania	12,927	24,000
New London,	Connecticut	50,240	31,000
#Newnan,	Georgia	5,149	7,100
*#New Orleans,	Louisiana	460,729	495,000
Newport,	Rhode Island	39,322	30,500
Newport News,	Virginia	32,373	37,000
New Rochelle,	New York	34,670	58,000
*#New York	New York	27,903,455	7,450,000
Niagara Falls,	New York	50,801	78,000
Norfolk, (incl. Portsmouth,) Va.		163,907	{ 144,000 Norfolk 50,745 Portsm. 38,000
Norristown,	Pennsylvania	28,840	
Northern New Jersey			
Clearing House, New York, N.Y.		438,949	526,098
Norwalk,	Connecticut	21,650	40,000
Oakland,	California	91,240	302,000
*Ogden,	Utah	62,214	43,600

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		<u>Deposits as of</u> <u>12-31-42</u>	<u>Population</u>
Oil City,	Pennsylvania	\$ 24,363	20,000
*Oklahoma City,	Oklahoma	175,482	200,000
*Omaha,	Nebraska	265,656	224,000
Orange,	New Jersey	29,497	36,000
Oshkosh,	Wisconsin	20,454	40,000
Palestine,	Texas	4,969	12,000
Paris,	Texas	10,030	19,000
Parsons,	Kansas	7,158	14,000
Pasadena,	California	40,933	81,900
Passaic,	New Jersey	65,078	61,000
Paterson,	New Jersey	145,354	140,000
Pensacola,	Florida	24,805	37,000
*Peoria,	Illinois	84,460	105,000
Peru,	Indiana	7,757	12,400
Petersburg,	Virginia	11,461	30,000
*#Philadelphia,	Pennsylvania	2,913,006	1,900,000
Phillipsburg,	New Jersey	9,684	18,000
Phoenix,	Arizona	127,013	65,000
Pine Bluff,	Arkansas	30,839	21,000
Pittsburg,	Kansas	9,473	17,500
*Pittsburgh,	Pennsylvania	1,609,693	672,000
Pittston,	Pennsylvania	15,474	18,000
Portland,	Maine	108,521	74,000
*Portland,	Oregon	565,063	305,000
Portsmouth,	Ohio	14,713	40,000
Pottstown,	Pennsylvania	16,338	20,000
Pottsville,	Pennsylvania	24,205	25,000
Poughkeepsie,	New York	57,632	40,000
#Providence,	Rhode Island	560,488	254,000
*Pueblo,	Colorado	38,319	52,000
Quincy	Illinois	21,805	40,000
Racine,	Wisconsin	39,280	67,000
Raleigh,	North Carolina	810	47,000
Reading,	Pennsylvania	69,663	111,000
Red Wing,	Minnesota	5,553	10,000
*#Richmond,	Virginia	340,176	193,000
Roanoke,	Virginia	59,190	70,000
Rochester,	Minnesota	13,922	26,000
Rochester,	New York	433,146	325,000
Rockford,	Illinois	59,066	85,000

		Deposits as of 12-31-42	Population
Rocky Mount,	North Carolina	\$ 15,005	26,000
Rome,	Georgia	12,119	26,000
Sacramento,	California	67,319	105,000
St. Cloud,	Minnesota	7,422	24,000
*St. Joseph,	Missouri	60,875	76,000
*St. Louis,	Missouri	1,145,737	816,000
#*St. Paul,	Minnesota	316,394	288,000
Salinas,	California	31,142	11,500
Salisbury,	North Carolina	1,991	19,000
*Salt Lake City,	Utah	186,902	150,000
#San Angelo,	Texas	20,234	26,000
*San Antonio,	Texas	206,433	254,000
San Diego,	California	98,683	203,000
Sandusky,	Ohio	17,826	25,000
*San Francisco	California	4,474,361	635,000
San Jose,	California	15,918	68,500
#San Pedro,	California	2,546	(included in Los Angeles)
Santa Barbara,	California	16,282	35,000
Santa Cruz,	California	9,154	17,000
Santa Monica,	California	4,203	53,500
Santa Rosa,	California	6,475	12,700
*#Savannah,	Georgia	240,267	96,000
Scranton,	Pennsylvania	103,750	140,000
*Seattle,	Washington	811,561	368,000
Sedalia,	Missouri	7,205	20,000
Shamokin,	Pennsylvania	12,463	19,000
Sharon,	Pennsylvania	21,724	26,000
Sheboygan,	Wisconsin	37,599	41,000
Shenandoah,	Pennsylvania	7,207	20,000
Shreveport,	Louisiana	109,453	98,000
*Sioux City,	Iowa	62,399	82,000
Sioux Falls,	South Dakota	43,741	41,000
South Bend,	Indiana	54,286	101,000
South St. Paul,	Minnesota	17,366	11,900
*Spokane,	Washington	71,816	122,000
Springfield,	Illinois	43,329	75,000
Springfield,	Massachusetts	215,022	150,000
Springfield,	Missouri,	30,585	61,000
Springfield,	Ohio	37,379	71,000
#Stamford,	Connecticut	63,928	47,000

		<u>Deposits as of</u> <u>12-31-42</u>	<u>Population</u>
Steubenville,	Ohio	\$ 24,100	38,000
Stockton,	California	not available	55,000
Superior,	Wisconsin	14,281	35,000
Syracuse,	New York	244,043	206,000
#Tacoma	Washington	92,000	109,000
Tampa,	Florida	78,850	109,000
Terre Haute,	Indiana	51,000	63,000
Texarkana	Texas	30,700	{ 17,019 Texas
			{ 11,000 Ark
*Toledo,	Ohio	216,800	282,000
*Topeka,	Kansas	56,700	68,000
Trenton,	New Jersey	156,000	125,000
#Tucson,	Arizona	17,000	37,000
*Tulsa,	Oklahoma	177,000	142,000
Utica,	New York	99,600	100,000
Valdosta,	Georgia	3,410	16,000
Vernon,	Texas	7,900	10,000
Vicksburg,	Mississippi	15,100	25,000
Virginia,	Minnesota	6,700	12,200
*Waco,	Texas	36,700	56,000
Warren,	Pennsylvania	21,000	15,000
*#Washington, D.C.		604,600	664,000
Waterbury,	Connecticut	93,000	100,000
Watertown,	Wisconsin	6,200	11,000
Watsonville,	California	7,500	9,000
Wheeling,	West Virginia	52,100	61,000
Whittier,	California	6,200	16,000
*#Wichita,	Kansas	154,000	115,000
#Wichita Falls,	Texas	44,000	45,000
Wilkes-Barre,	Pennsylvania	66,000	86,000
Williamsport,	Pennsylvania	27,100	44,000
#Wilmington,	California	Not Available	(Incl in Los Angeles)
#Wilmington,	Delaware	274,000	112,000
Wilmington,	North Carolina	23,000	33,000
Winona,	Minnesota	12,290	22,500
Winston-Salem,	North Carolina	180,100	80,000
Winter Haven,	Florida	6,300	7,000
Worcester,	Massachusetts	256,800	194,000
Yakima,	Washington	4,700	27,000
Yankton,	South Dakota	5,000	7,000
York,	Pennsylvania	70,100	57,000
Youngstown,	Ohio	87,000	168,000

Respectfully submitted,  
*Preston Delano*  
 Preston Delano

MAY 25 1943

Dear Mr. Head:

I have your letter of May 18, 1943, submitting your resignation as Chairman of the Treasury War Finance Committee for the St. Louis Federal Reserve District.

I believe I understand why you have submitted this resignation and I hope you won't mind if I hold its acceptance in abeyance for a few days until I determine the basis for the organization to handle subsequent War Loan Drives.

I want to thank you for your untiring efforts in connection with the Second War Loan Drive and the successful way in which you handled the whole matter. It was a pleasure to work with you and I hope that we can continue in other drives.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Walter W. Head  
President  
General American Life Insurance Company  
St. Louis, Missouri.

DWB:ew

File in Diary

1021  
206



Lord Baltimore Hotel  
Baltimore

May 18, 1943.

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

Dear Mr. Secretary:

Inasmuch as I am the only chairman of a District War Finance Committee who is not connected, in any way, with a Federal Reserve Bank, and believing that in organizing for the Third War Loan Drive you should, without the slightest degree of embarrassment to yourself or anyone else, be free to appoint the person who, taking into consideration all factors involved, can and will produce the best results for the Treasury Department, I herewith tender to you my resignation as Chairman of the United States Treasury War Finance Committee, Eighth Federal Reserve District.

I am grateful to you for having given me the opportunity to work with you in this most important and most worthy cause. It is very much appreciated.

With best wishes, I am

Yours very sincerely,

WALTER W. HEAD

P. S. Yesterday I came over here from Washington, which accounts for stationery used.



H. N. BUSICK,  
MANAGING DIRECTOR

May 25, 1943

Copies to:

Mr. D. W. Bell

Mr. Gaston

Mr. Gamble

Mr. Buffington

# INVESTMENT BANKERS ASSOCIATION OF AMERICA

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ARNOLD GRUNIGEN, JR.	SAN FRANCISCO	ASSISTANT SECRETARY		PERCY M. STEWART	NEW YORK
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I. A. LONG	ST. LOUIS	136 SOUTH LA SALLE STREET			
JOHN S. LOOMIS	CHICAGO	CHICAGO			
STANLEY G. McRIE	CINCINNATI	MAY 19, 1943 <hr/>			

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

Dear Mr. Morgenthau:

Your letter thanking me as president of the Investment Bankers Association of America for the cooperation and help of its members in the Second War Loan Drive is much appreciated.

I can assure you that it will be the duty and privilege of this group to continue their enthusiastic assistance and support under any plan which is evolved for the sale of Government securities.

Sincerely yours,

*Jay N. Whipple.*

## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE May 25, 1943.

TO Secretary Morgenthau  
FROM Mr. Schwarz *CS*

Initial mailing of the booklet, "The Story of America's Greatest War Loan," amounted to 93,448 copies and requests for additional copies are now being received. The number of such requests is not yet more than 2,000, but the Federal Reserve districts and War Savings Staff field offices expect to ask for more when their original supply is exhausted. Attached is a table showing where the first copies went.

OWI is rounding up some of the comments and news broadcasts on the booklet and will send them on to us. So far they have received from New York this transcript of Tro Harper's broadcast at 9:30 A. M. yesterday over WOR:

"The average American worker has done a good job buying War Bonds but Treasury Secretary Morgenthau says he has to buy more if he is going to avoid some kind of compulsory savings program.

"Secretary Morgenthau declared Americans proved they are not going to sit around waiting for compulsory savings when they oversubscribed the recent War Bond drive by five and a half billions of dollars but he points out that seven-eighths of the current income is in the hands of people making five thousand a year or less.

"He says it is up to them to use their idle funds to help finance the war."

## Mailings of "The Story of America's Greatest War Loan"

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## Federal Reserve:

Boston	3,000	
New York	1,800	
Philadelphia	3,500	
Cleveland	15,000	
Richmond	2,500	
Atlanta	2,900	
Chicago	4,000	
St. Louis	5,500	
Minneapolis	6,000	
Kansas City	3,000	
Dallas	2,500	
San Francisco	4,500	
	<hr/>	54,200
War Savings Staff (field)		12,852
National organizations		8,466
Weekly newspapers		7,521
Publishers, editors and radio commentators		4,000
Radio stations		1,800
Daily newspapers		1,559
Treasury officers		800
Foreign language papers		800
Labor press		600
Motion pictures and special events		450
Farm press		250
Negro press		150
		<hr/>
		93,448

TOM CONNALLY, TEX., CHAIRMAN

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 GERALD P. NYE, N. DAK.

## United States Senate

COMMITTEE ON FOREIGN RELATIONS

May 25, 1943

ROLAND YOUNG, CLERK

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

My dear Mr. Secretary:

Allow me to thank you most cordially for your generous note of the 19th with respect to my efforts in the Senate against the Ruml plan. I am immensely pleased to have your approval and commendation.

Sincerely,



TC/ldh

May 25, 1943

TO: MR. PAUL  
FROM: THE SECRETARY

Please compliment Foreign Funds on digging up this Ford material.

Have you looked into the files of any other companies, like General Electric or General Motors, to see if there is similar correspondence?

*Finished - Per Paul 6/7/43 -*

## STRICTLY CONFIDENTIAL

May 25, 1943

My dear Mr. President:

I am sending you herewith a one page memorandum and a brief summary of amazing and shocking correspondence between Edsel Ford and Mr. Dollfuss, Managing Director of the Ford interests in France.

As late as July 17, 1942, after the French company had been bombed on June 6, 1942, Mr. Edsel Ford wrote as follows to Mr. Dollfuss:

"I have shown your letter to my father and Mr. Sorenson and they both join me in sending best wishes for you and your staff, and the hope that you will continue to carry on the good work that you are doing."

Yours sincerely,

(Signed) H. Morgenthau, Jr.

The President,

The White House.

Envelope marked "Strictly Confidential" and "For Attention: Miss Tully"

Delivered by SS Agent 5:07 5/26/43

File in Diary

P.S. (in Secretary's handwriting) This letter was dictated before Edsel Ford died.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE MAY 25 1943

TO Secretary Morgenthau  
FROM Randolph Paul

A short time ago a brief investigation was made of the files of the Ford Motor Company of Dearborn, Michigan, in order to determine the extent of its relationship and its control over its French subsidiary. Since the investigative report is rather lengthy, I have attached hereto a summary thereof which discloses that from the fall of France to July 1942 -- the date of the last letter in the files from Ford of France to Ford of America: (1) the business of the Ford subsidiaries in France substantially increased; (2) their production was solely for the benefit of Germany and the countries under its occupation; (3) the Germans have "shown clearly their wish to protect the Ford interests" because of the attitude of strict neutrality maintained by Henry and Edsel Ford; and (4) the increased activity of the French Ford subsidiaries on behalf of the Germans received the commendation of the Ford family in America.

I am sure you will want to read the attached report. We propose to submit informally copies of the investigative report to Military Intelligence, Office of Naval Intelligence, Federal Bureau of Investigation and other similar investigative agencies.

If you are in agreement, please so indicate below.



Attachment.

Approved: H. Morgenthau

MEMORANDUM

COPY

The Ford Motor Company of Dearborn, Michigan, has operated subsidiaries in France since 1925. Prior to the war, the operation was not a profitable one. The Ford Motor Company of Dearborn was constantly called upon to lend money to these subsidiaries and to make further capital contributions. The French subsidiaries declared only one dividend in the period from 1929 to 1940.

Beginning shortly before the outbreak of war in 1939, the subsidiaries in France cooperated with the French Government in manufacturing army trucks and gun parts and did all the preliminary work, including the installation of new machine tools and the building of a new plant for the manufacture of airplane engines.

At the time of the fall of France, these subsidiaries were operating three plants, all in areas which were immediately occupied by the Germans. The plants suffered no material damage and the German authorities immediately appointed two Commissars to operate the plants. Both men were German citizens and long-time executives of the Ford subsidiary in Germany. One of these men was the son of the Chairman of the Board of the Ford Company of Germany, Doctor Heinrich F. Albert. It will be recalled that Dr. Albert was the key man of the German Espionage Organization in the United States during the first World War. It was from him that the brief case was seized by a Secret Service agent on a New York elevated train in a famous international incident in July 1915.

The two German Commissars received Maurice Dollfuss, the Managing Director of the Ford subsidiaries in France, with courtesy and introduced him to the German military authorities.

On July 19, 1940, Mr. Dollfuss wrote to Mr. Edsel Ford. Mr. Dollfuss comments as follows on a visit paid him by a German Colonel to whom he was introduced by the two Commissars:

". . .I had with him a long and very satisfactory talk."

Mr. Dollfuss stated further:

"We are working within a common scheme and I can confirm to you that we shall have the best protection that can be obtained for a purely French concern; and furthermore, we will benefit from the main fact of being a member of the Ford family which entitles us to

- 2 -

better treatment from our German colleagues, who have shown clearly their wish to protect the Ford interest as much as they can.

"The damage for us is hence thus smaller than in any other company . . ."

After stating that the condition of the three companies is good and the profits for May, in his own words "brilliant," he continued:

"We cannot, of course, know the results for June and July, although we have delivered considerable quantities of spare parts to the German authorities, which were paid for with requisition bonds, which have an official value. Furthermore, we have delivered quite a number of trucks and passenger cars to the same German authorities from which we received bonds of the same type."

Mr. Dollfuss discussed the difficulty he faced in taking care of 3,000 employees and then stated that "the good graces of the authorities" enabled the company to requisition a school to provide housing for employees and enabled the company, also, to supply the employees with food.

There is no indication that Mr. Edsel Ford replied to this letter; however, Mr. Sorenson, to whom a copy of the letter was sent, stated in a reply dated August 19, 1940:

"We are pleased to learn from your letter of July 18, which we received and read very carefully, that our organization is going along, and the victors are so tolerant in their treatment. It looks as though we might still carry on in spite of all the difficulties."

August 31, 1940, Mr. Dollfuss informed Mr. Edsel Ford that production had reached twelve trucks a day, would reach fifteen trucks a day within a week, and within three weeks would reach twenty trucks a day, which was better than -

". . .our less fortunate French competitors are doing. The reason is that our trucks are in very

- 3 -

large demand by the German authorities and I believe that as long as the war goes on and at least for some period of time all that we shall produce will be taken by the German authorities."

He indicated that the German authorities were receiving the entire production. He stated further:

". . .in order to safeguard our interests - and I am here talking in a very broad way - I have been to Berlin and have seen General Von Schell himself, who is the highest executive responsible for the motor industry, both from the military and the civilian points of view.

"I will satisfy myself by telling you that my interview with him has been by all means satisfactory, and that the attitude you have taken together with your father of strict neutrality has been an invaluable asset for the protection of your companies in Europe." (Underscoring supplied)

Mr. Dollfuss added a note in long-hand in the margin opposite this paragraph:

"I was the first Frenchman to go to Berlin."

Immediately after this visit the German authorities reinstated Mr. Dollfuss as Managing Director of the French subsidiaries of the Ford Motor Company at Dearborn, subject only to the slight control represented by a visit from one of the executives of the Ford Motor Company of Germany once every three weeks.

September 12, 1940, Mr. Dollfuss wrote to Mr. Edsel Ford and stated that up to the first of August the Ford companies had made a profit of 1,600,000 francs. He recognized that their cash position was very weak in dollars -

". . .but, as you know, our gold standard has been replaced by another standard which - in my opinion - is a draft on the future not only in France and Europe but, maybe, in the world."

In this letter Mr. Dollfuss also stated that he had worked out a

- 4 -

plan for shipping machinery not needed in the French plants to the Belgian and Netherlands plants for the purpose of manufacturing parts to be distributed amongst all of the Ford factories in Europe.

In a short acknowledgment of these letters on November 12, 1940, Mr. Sorenson stated:

" . . . We all realize that you are carefully guiding our business in the unusual situation that it is now."

October 31, 1940, Mr. Edsel Ford replied to the letters mentioned above congratulating Mr. Dollfuss on the fact that his trading results had been profitable and stated:

"I think that this is a remarkable achievement in view of the difficulties that are present at this time.

"I also appreciate your great effort to keep the organizations intact and desire to produce something. Raw materials must be very hard to find. You are doing a fine job in cooperating with the other companies in the allocation of raw materials for the various Ford companies."

In reply to a cable informing him of the date on which complete installation was expected in a new plant Mr. Ford replied by a cable of October 10, 1940:

"DELIGHTED TO HEAR YOU ARE MAKING PROGRESS. YOUR LETTERS MOST INTERESTING. FULLY REALIZE THE GREAT HANDICAP YOU ARE WORKING UNDER. HOPE YOU AND FAMILY ARE WELL, REGARDS. EDSSEL FORD."

In a letter of October 11, 1940, to Mr. Edsel Ford, Mr. Dollfuss seemed quite pleased by the fact that the Ford business was equal to what it had been before the war, whereas the business of Renault and Citroen was only 20 percent of what it had been before the war. He stated:

"Naturally the advantages that we have are because we belong to the Ford family, advantages which we cannot overestimate under the present circumstances."

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In this letter he also stated that the Ford enterprises in France were working for the Ford Company of Germany in the tool department.

November 27, 1940, Mr. Dollfuss wrote to Mr. Edsel Ford, and pointed out once more the favorable position of Ford compared with other French firms and emphasized that profits were substantial. He explained in this letter that the two men from the German subsidiary became Commissars because of a plan they presented to the German authorities to create a European Ford organization under the leadership of the German company. However, when military operations ceased, Mr. Dollfuss was able to arrange through General Von Schell to have the French enterprise continue on a completely independent basis. He stated:

"At this stage I would like to outline the importance attached by high officials to respect the desires and maintain the good will of 'Ford' - and by 'Ford' I mean your father, yourself, and the Ford Motor Company, Dearborn.

"What the future organization of the Ford companies should be in Europe after Europe is remade - or maintained - is a matter for 'Ford' to decide, and not for Dr. Albert or Mr. Schmidt. Anything done actually to force a decision would be both premature and risky - your interests must be defended by yourself, and not by disinterested parties.

"Were you today to approve of a Ford organization different from what it was, would be equivalent to taking a position which would separate you of the neutral attitude - an attitude which you have been able to safeguard so successfully.

"Even in the case of a completely victorious German peace, the rights of the shareholders will be protected; this because it is one of the basis of the Nazi theory, and in France, it is the theory upon which the future organization of this country is to be founded; in consequence, the rights of shareholders are intangible and your right of control will remain. Therefore there is no reason for you to give away one of those rights today.

"After the above considerations, and if we admit the possibility of a German victory, in my opinion, we cer-

- 6 -

tainly must:

- (a) Maintain the independence of the French company and eventually that of the British company;
- (b) Have a company or organization somewhat similar to the Guernsey company - evidently comprising representatives from every country, all the more so that by then the United States of Europe will be contemplated, and each state will have to be represented there. In that company you should have independent men of your own choice, and not satellites placed there to protect Cologne's interest."

This letter was not mailed to Dearborn, but was carried by Mr. G. A. Lesto, an employee of the French Ford subsidiary who came to Dearborn arriving early in January 1941. Immediately after his arrival on January 6, 1941, Mr. Edsel Ford cabled Mr. Dollfuss, noting the arrival of Mr. Lesto:

"APPRECIATE YOUR EFFORTS TO CONTINUE DEVELOPMENT FORD INTERESTS FRANCE. HOPE IT UNNECESSARY TO CHANGE STATUS OF COMPANY CONTROL."

On January 20, 1941, Mr. Edsel Ford wrote to Mr. Dollfuss stating that Mr. Lesto had arrived and that he had an interesting conversation with him. The letter continued:

"It is gratifying to learn of the efforts you have made to continue the Ford manufacturing program which began prior to hostilities and especially to know that you have been able to get the cooperation of various interested parties and to make some progress towards the completion of this program since the Armistice."

In addition to the letters from Mr. Dollfuss, Mr. Lesto brought with him to Dearborn a letter of November 28, 1940 to Mr. Edsel Ford signed by J. C. Charpentier, a Director of the French subsidiary. In the main this is a personal letter, but the writer extols the manner in which Mr. Dollfuss has conquered great difficulties and says of the French Ford Company:

- 7 -

"I feel that you have got there a child worthy of yourself."

Mr. Edsel Ford replied on January 29, 1941:

"I am very appreciative of your direct personal word regarding the reopening of our plant in Paris and the slow return to something like a normal manufacturing operation. I am quite sure that this has been done under the utmost difficulties and with much hard work.

"We are very proud of the record that you and your associates have made in building the company up to its first great position under such circumstances."

On January 29, 1941, Mr. Edsel Ford wrote to Mr. Dollfuss stating that he agrees with Mr. Dollfuss as to the status of the European companies and in addition:

"I am gratified to hear of the financial results as of October 31, 1940, of the Matford Company which seems to me an excellent showing considering the circumstances under which you are operating."

In reading this statement by Mr. Ford it should be borne in mind that he was referring to the financial statement as of October 31, 1940, which shows a debit balance of 26,128,000 francs in the account of the German authorities. In a letter accompanying this statement the accountant explained that while this debit balance was unusually large, the German army was paying regularly and the total business so far had amounted to 34,000,000 francs.

The correspondence in the spring of 1941 is not particularly significant. On June 9, 1941, Mr. Dollfuss informed Mr. Edsel Ford that the French Government had asked him to supervise the Hispano-Suiza Works in Paris making certain parts for aviation motors. He declined since he did not have the time to spare.

In a letter of August 6, 1941, Mr. Dollfuss stated that production had reached 1,000 units per month, which is considerably in excess of the pre-Armistice level. The letter also states that they are now delivering trucks to civilians for the first time.

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Mr. Edsel Ford replied to this letter as well as an intervening one of August 21, 1941, by a letter of October 16, 1941, as follows:

"It is encouraging to hear that you are going along in spite of the terrific handicaps. I heartily approve of your fight to keep salaries and wages up to our standards, as there is no other way to keep the morale and working spirit of employees at a high pitch."

October 13, 1941, Mr. Dollfuss wrote to Mr. Edsel Ford complaining bitterly of the difficulties which he believed had been placed in his way by "those who should really be supporting us." He said that he "finds it easier to deal with the authorities themselves." He also said that he had just been called personally to Berlin to see General Von Schell.

Mr. Edsel Ford replied on November 14, 1941:

"I am also glad to hear that the difficulties in connection with this consolidation have been overcome and I also fully understand where the difficulties have arisen."

On December 5, 1941, Mr. Dollfuss wrote Mr. Edsel Ford and Mr. Henry Ford II notifying them that they had been elected Directors of the new company which was a merger of the former Ford subsidiaries.

January 28, 1942, Mr. Dollfuss wrote to Mr. Edsel Ford that production continues at the same rate and is distributed between the French and the German authorities. He also said that this production rate was the highest of all the French manufacturers.

A letter of February 11, 1942, from Mr. Dollfuss to Mr. Edsel Ford gives 1941 net profit as 58,000,000 francs.

Early in March the largest Ford plant in France was severely bombed by the R.A.F. and the slight amount of correspondence between France and the Ford Motor Company of Dearborn within the next few months was concerned primarily with this matter. The plant was bombed four times by June 6, 1942, which was reported in full by a letter of June 6, 1942, from Mr. Dollfuss to Mr. Edsel Ford.

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Mr. Edsel Ford replied by a letter of July 17, 1942, the final paragraph of which is as follows:

"I have shown your letter to my father and Mr. Sorenson and they both join me in sending best wishes for you and your staff, and the hope that you will continue to carry on the good work that you are doing."  
(Underscoring supplied)

The letter of July 17, 1942, was the last letter from Dearborn in the file.

On August 15, 1942, Mr. Dollfuss wrote to Mr. Edsel Ford stating that production had been resumed at the same rate and that production had been dispersed among various plants.

No reply was made to this letter from Dearborn.

The last communication from Mr. Dollfuss was the transmission of information by the Department of State that the French company had received from the Government of France an indemnity in the amount of 38,000,000 francs for damages incurred in the bombings.

May 25, 1943

MEMORANDUM

TO: Secretary Morgenthau

FROM: Mr. Gaston

Joe O'Connell and Assistant General Counsel Lynch came in yesterday with Thurman Hill, Chief Counsel of Procurement, to tell me of their uneasiness about reports that a man named Curtis, a representative of E. B. Badger & Sons Company, contracting agent for the procurement division in the matter of obtaining oil refinery equipment for Russia, has been soliciting bribes.

The matter first came to the attention of the procurement division through a call from a Department of Justice agent in Chicago, who later wrote a letter on the same subject. The man who wrote the letter appears to represent the War Frauds Division of the Department of Justice, but the original report seems to have come from F.B.I. An officer of the Mack Truck Company in Chicago reported to the Department of Justice agent that Curtis had made him a proposition under which the price of material to be sold by the Mack Truck Company to Procurement through Badger would be increased by 5% and the 5% would be split three ways, a part going to the Mack Truck salesman, a part to Curtis, who made the proposition, and another part to a high officer of E. B. Badger & Sons Company.

A representative of the Department of Justice representing, it is believed, the War Frauds Division later called at Procurement and Justice has been asked to go ahead with the investigation. If the investigation by Justice should be prolonged and directed only toward criminal prosecution, it will leave us in an embarrassing situation. If the story is true, we might even want to void the contract with Badger. I arranged to have Elmer Irey talk with Clif Mack and I plan to talk to him myself tomorrow, Wednesday, when he returns from New York.

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While we naturally don't want to interfere with a criminal prosecution, it appears equally certain that we don't want to wait for a bad scandal to develop before taking some administrative action. You will probably want to assign someone else to carry this through as it seems to be of urgent importance. Maybe John Sullivan could take it on.

*W.S.*  
Referred to Mr Sullivan  
by the Secretary's direction  
*W.S.*



## TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

OFFICE OF THE DIRECTOR

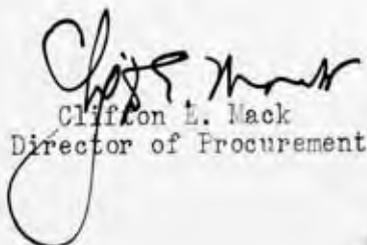
**SECRET**

May 25, 1943

## MEMORANDUM TO THE SECRETARY:

There is submitted herewith the operating report of Lend-Lease purchases for the week ended May 22, 1943.

The Russians have assigned a high priority to the refinery equipment and are arranging to lift from port areas approximately 15,000 tons of this material the first two weeks in June. The steel requirement for the United Kingdom for the third quarter will be approximately 650,000 tons. To date specifications have been received on 285,000 tons which are being placed under contract.

  
Clifton L. 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 22, 1943  
 (In Millions of Dollars)

	<u>Total</u>	<u>U. K.</u>	<u>Russia</u>	<u>China</u>	<u>Administrative Expenses</u>	<u>Miscellaneous &amp; Undistributed</u>
Allocations	\$3089.8 (3084.9)	\$1595.7 (1595.7)	\$1121.9 (1117.1)	\$103.4 (103.4)	\$6.1 (6.1)	\$262.7 (262.6)
Purchase Authoriza- tions (Requisitions)	\$2644.3 (2594.6)	\$1462.8 (1433.5)	\$1027.9 (1005.7)	\$40.4 (42.1)	- -	\$113.2 (113.3)
Requisitions Cleared for Purchase	\$2524.9 (2505.3)	\$1407.9 (1388.1)	\$968.9 (966.6)	\$39.8 (41.5)	- -	\$108.3 (109.1)
Obligations (Purchases)	\$2443.5 (2395.4)	\$1374.4 (1359.4)	\$942.0 (908.4)	\$39.5 (41.3)	\$5.7 (5.6)	\$81.9 (80.7)
Deliveries to Foreign Governments at U. S. Ports*	\$1062.0 (1049.3)	\$ 770.2 (765.2)	\$262.1 (254.9)	\$18.0 (17.6)	- -	\$11.7 (11.6)

\*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 May 15, 1943.

# SECRET

## EXPLANATION OF DIFFERENCE

The reductions in the China column result from transfers of material in storage to the War Department.

5/20/43 229

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**REPORT TO CONGRESS ON  
LEND-LEASE OPERATIONS**

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**For the Period Ended April 30, 1943**

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**REPORT TO CONGRESS ON  
LEND-LEASE OPERATIONS**

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**For the Period Ended April 30, 1943**

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"The President from time to time, but not less frequently than once every ninety days, shall transmit to the Congress a report of operations under this Act except such information as he deems incompatible with the public interest to disclose."

[From Section 5, subsection b of "An Act to Promote the Defense of the United States" (Public Law No. 11, 77th Congress, 1st Session).]

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## PRESIDENT'S LETTER OF TRANSMITTAL

TO THE CONGRESS OF THE UNITED STATES OF AMERICA:

As I transmit to the 78th Congress a Report of Operations under the Lend-Lease Act from March 11, 1943 to April 30, 1943, the last members of the once vaunted Afrika Korps and their Italian allies are streaming into prison camps. The peoples of Tunis and Bizerte are hailing their liberation—and Italians among them are as enthusiastic as any for their deliverance.

An entire continent—the continent of Africa—has now been cleared of the enemy. Its people have been freed from Nazi and Fascist rule. In Africa we have dealt a blow which is sorely felt in Berlin and Rome and Tokyo; and we have brought hope to millions still to be liberated. Liberation of Africa is a forerunner of the future.

In the coming battles for Germany and Japan, we shall need the full support and the full resources of the peoples of the newly liberated areas. This is a military and political necessity of the first order. Their fields can produce food not only for their own people, but for the United Nations' forces. Their factories and mines can supply not only themselves, but our armies as well.

The peoples in liberated areas are enlisting in support of the United Nations' cause. Their support will reflect itself in active cooperation at the proper time by millions still to be liberated. They appreciate, as only those who lost freedom can appreciate, the compelling necessity for overthrowing tyranny.

Our lend-lease operations in North and West Africa—the first of the liberated areas—have demonstrated how a freed people can aid in the defeat of the Axis. In this victory, our military operations have been backed up by the friendly support of the peoples behind the lines. We also were aided by the new French armies. They were equipped with lend-lease weapons. They were and are an important part of the United Nations' fighting forces. Aid has also been given us and the other United Nations by the liberated peoples of French Africa in the production and shipment of strategic and critical materials for our war production program.

As we progress to victory, the United Nations have brought and are bringing food for the starving and medicine for the sick in the areas which we set free. Our promises are being fulfilled in deeds. Our integrity is enlisting the peoples and resources of these areas as effective fighting partners in the common fight against Axis aggression and tyranny.

While Axis prisoners have streamed into captivity at the end of our campaign of liberation in North Africa, lend-lease has shipped greater and greater quantities of war matériel into the battle areas—and into the other countries allied with us.

In my lend-lease report to the Congress on September 11, 1941, I stated that "it is our task to turn the workshops of our industry into mighty forges of war—to out-build the aggressors in every category of modern arms."

Today, we are out-building the aggressors in every category of modern arms. And we are delivering them in the amounts necessary to build up the striking power for offensives that will end only in Berlin and Tokyo.

As lend-lease moves ahead in its third year, our armed forces, our supplies, and the combined efforts of the United Nations are driving ahead to complete victory over the enemy.

FRANKLIN D. ROOSEVELT.

THE WHITE HOUSE  
May 25, 1943.

## Chapter I

### THE LEND-LEASE PROGRAM TO DATE

The streams of war weapons flowing from the United States to the battle fronts mingle with streams from many other United Nations sources. War supplies flow from the centers of war production of each of the United Nations to the battle-fronts. The supplies may be used by the fighting forces of the country which produces them, by the forces of the United States, or by the forces of one of the other United Nations. The Soviet and British fighting forces are principally equipped from the output of their own factories and farms. Great Britain is an arsenal of finished munitions, second only to the United States, and Canada, India, and Australia are important war production centers. The Soviet Union is an arsenal of the first magnitude. In addition to weapons and battle equipment sent the fighting fronts, the United Nations provide great quantities of the essential raw materials, such as copper, nickel and tin, mica and tungsten, wool and rope fiber for the production of war supplies in the United Nations arsenals.

Lend-lease supplies from the United States fill critical deficiencies. They are sent in order to attain the maximum possible United Nations production of the tools of war, and to bring the greatest possible weight of men and materials to bear against the Axis, in accordance with the time table and geography of United Nations strategy. That strategy is to win unconditional surrender and to win it as quickly as possible—in Rome and Berlin and Tokyo.

## Total Aid

Lend-lease aid furnished by the United States from March 11, 1941, to April 30, 1943, totalled \$11,102,000,000. Of this amount \$9,214,000,000 represents the value of goods transferred to our allies and \$1,888,000,000, the value of services rendered. Lend-lease expenditures have been approximately 12 percent of our total war spending to date.

### LEND-LEASE EXPENDITURES AND TOTAL WAR COST TO DATE



Munitions have been 46 percent of total lend-lease aid; industrial materials and equipment for our allies' war production 22 percent; agricultural products 15 percent; and shipping and other services 17 percent.

The dollar value of lend-lease aid in March 1943 was \$688,000,000 and in April was \$783,000,000. Table 1 shows the dollar value of lend-lease transfers and services.

### Lend-Lease Exports

Most lend-lease goods transferred to foreign governments have been sent overseas to the fighting fronts. The dollar value of lend-lease exports from March 11, 1941, to April 1,

## TOTAL LEND-LEASE AID

Thousands of Dollars

	April 1943	March 1943	Cumulative Mar. 1941 through Apr. 1943
Goods Transferred.....	\$720,103	\$663,275	\$9,214,238
Services Rendered.....	62,851	24,450	1,888,234
Total Lend-Lease Aid.....	782,954	687,725	11,102,472

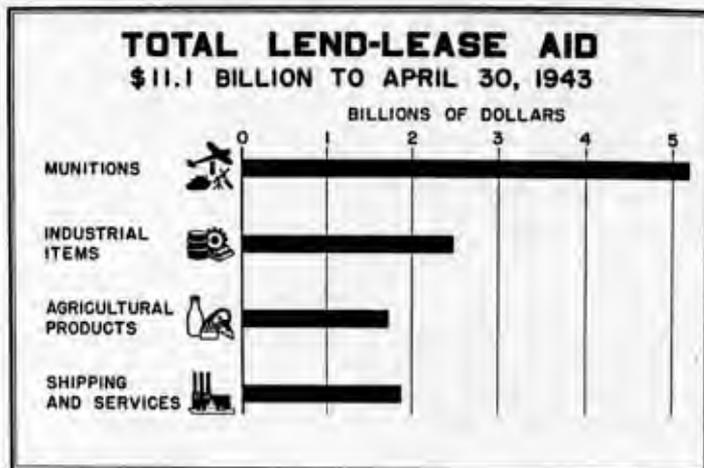
Table 1

1943 (figures for April exports are not yet available) was \$7,105,000,000. This does not include the value of certain lend-leased planes which were flight-delivered and ships which were lend-leased and sailed to their destinations under their own power. The dollar value of these amounted to approximately \$700,000,000 additional.

The difference between the dollar value of lend-lease transfers and lend-lease exports is due principally to (1) goods transferred to lend-lease countries and used in the United States, such as trainer planes used in the training in this country of pilots of other United Nations, and (2) goods which have been transferred, but not yet exported.

The total of goods transferred and services rendered is the best measure of the over-all amount of lend-lease aid. However, in view of the global nature of the war, the name of the government to which goods are transferred does not necessarily indicate the battle front on which the goods will be used; for example, guns transferred to the United Kingdom may be used by New Zealand troops fighting in North Africa. Hence in considering aid by countries, the export figures give a better picture of the part played by lend-lease in the various fronts of the war than do the figures on transfers.

Table 2 shows the monthly totals of lend-lease exports by country. Exports in March reached a new high, totalling \$712,000,000, more than twice as much as in the corresponding month a year ago and 20 percent more than in the previous high month.



As shown in Table 3, nearly half of all lend-lease exports have been munitions. We have sent over a billion dollars' worth of guns and ammunition and bombs. We have sent many thousands of planes, including nearly \$900,000,000 worth sent aboard ship and many others flown direct by air. We have sent over \$600,000,000 of military motor vehicles, and over \$500,000,000 of tanks.

For the arsenals of the other United Nations we have sent more than \$1,950,000,000 of machinery and tools, steel, armor plate, aluminum, copper, chemicals, and other materials for use in making more guns, planes, tanks, and ships with which to fight our common enemies.

We have shipped more than \$1,600,000,000 worth of agricultural products. Most of this has been food shipped principally to Russia, for the Soviet Army, and to Great Britain, for the British armed forces and those on the production front

**LEND-LEASE EXPORTS—MONTHLY**  
Millions of Dollars

	United Kingdom	U. S. S. R.	Africa and Middle East	China, India, Australia, New Zealand	Other	Total
1941						
Mar.....					1	1
Apr.....	1		1		4	6
May.....	9		5	1	1	16
Jun.....	26		6	1	2	35
Jul.....	49		19	1	3	72
Aug.....	46		14	5	2	67
Sep.....	74		7	2	2	85
Oct.....	141		12	12	1	166
Nov.....	107	1	11	18	2	139
Dec.....	119		21	12	2	154
1942						
Jan.....	103	15	24	19	13	174
Feb.....	78	55	26	21	12	192
Mar.....	138	96	25	46	7	312
Apr.....	128	160	45	55	15	403
May.....	134	70	37	46	7	294
Jun.....	183	109	35	35	12	374
Jul.....	155	103	62	57	20	397
Aug.....	146	148	55	56	17	422
Sep.....	208	96	69	67	13	453
Oct.....	218	113	97	83	26	537
Nov.....	181	185	90	55	13	524
Dec.....	195	164	110	97	20	586
1943						
Jan.....	174	153	90	72	15	504
Feb.....	205	167	35	48	25	480
Mar.....	298	187	104	66	57	712
<b>TOTAL EXPORTS....</b>	<b>3,116</b>	<b>1,822</b>	<b>1,000</b>	<b>875</b>	<b>292</b>	<b>7,105</b>

Table 2

LEND-LEASE EXPORTS—CUMULATIVE—MARCH 1941  
THROUGH MARCH 31, 1943

Millions of Dollars

	United Kingdom	U.S.S.R.	Africa and Middle East	China, India, Australia, New Zealand	Other	Total
<b>MUNITIONS</b>						
Ordnance.....	148	60	93	78	36	415
Ammunition.....	265	220	186	145	42	858
Aircraft.....	199	327	135	139	87	887
Tanks.....	104	180	133	117	19	553
Motor Vehicles.....	94	229	148	113	23	607
Watercraft.....	71	25	15	7	14	132
Total.....	881	1,041	710	599	221	3,452
<b>INDUSTRIAL ITEMS</b>						
Machinery.....	191	122	61	50	6	430
Metals.....	334	235	94	104	12	779
Petroleum Products.....	261	11	35	43	5	355
Other.....	185	97	56	42	27	407
Total.....	971	465	246	239	50	1,971
<b>AGRICULTURAL PRODUCTS</b>						
Foodstuffs.....	1,033	283	40	24	19	1,399
Other.....	231	33	4	13	2	283
Total.....	1,264	316	44	37	21	1,682
<b>TOTAL EXPORTS.....</b>	<b>3,116</b>	<b>1,822</b>	<b>1,000</b>	<b>875</b>	<b>292</b>	<b>7,105</b>

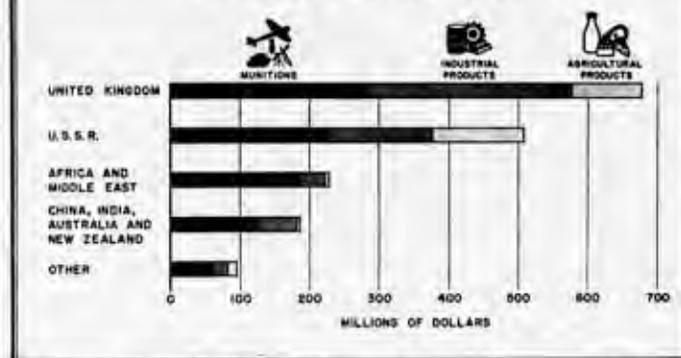
The above data do not include the value of certain lend-leased planes, which were flight-delivered, and ships, which were lend-leased and sailed to their destinations under their own power.

Table 3

who are supplying the fighting lines. We have also sent food for the people of Algeria and Morocco and now for Tunisia. Lend-lease food is going into the liberated areas in the wake of advancing United Nations forces as an essential element of military operations and in fulfillment of the President's statement of our policy that "No one will go hungry or without

the means of livelihood in any territory occupied by the United Nations, if it is humanly within our power to make the necessary supplies available to them."

**WHERE LEND-LEASE GOODS HAVE GONE**  
JANUARY - MARCH 1943



**Lend-Lease by Our Allies**

The program of lend-lease aid by the United States is being matched by other United Nations to the extent of their available resources, in aid which they render to each other and by lend-lease aid in reverse which they render to the United States without payment by us.

Although no over-all estimated dollar total for such aid is yet available, the following partial figures indicate the magnitude of mutual aid by our allies and their reverse lend-lease aid to us:

(1) The Chancellor of the Exchequer has estimated that up to the first of this year Great Britain had sent to the Soviet Union on a lend-lease basis munitions costing \$680,000,000. These included 3,000 tanks and 2,500 aircraft. In addition the British have provided shipping and convoy services on the Arctic route to Russia, have sent hundreds of thousands of tons of other supplies to the Soviet and have provided much of the equipment for the forces of the governments in exile.

(2) From June 1, 1942 to April 1 of this year the United Kingdom provided as reverse lend-lease a large quantity of equipment and supplies needed by the American forces stationed there, totalling more than 1,360,000 ship tons. This is exclusive of construction materials used in building installations for American forces which totalled an additional 2,170,000 tons. The United Kingdom government has estimated that the cost of construction of airfields, barracks and other facilities for our forces in the United Kingdom will exceed \$600,000,000. These figures do not include large quantities of supplies provided by the British as reverse lend-lease to American forces in North Africa, India, Egypt, Iran, Iraq, Palestine, Iceland, and many other parts of the world. Nor do they include the value of many services, such as the transportation of American forces. A large proportion of American troops are carried in British ships as reverse lend-lease without payment by us, and a majority of the ships on the convoys to North Africa have been British.

(3) Canada has provided without payment \$1,000,000,000 worth of military supplies for the fighting forces of the United Kingdom, Russia, Australia, and New Zealand and is now launching a mutual-aid program for a second billion dollars' worth. In proportion to population, a billion dollars' worth of aid from Canada is the equivalent of \$12,000,000,000 of aid from the United States.

(4) The Australian government has estimated that its expenditures for reverse lend-lease to United States forces in the South and Southwest Pacific theaters will total \$196,000,000 by the end of the current fiscal year, June 30, 1943. This is 10 percent of Australia's total war budget for the period. Last year Australia provided most of the food for our forces there, and this year the Australian reverse lend-lease program calls for many times the amount supplied last year. The New Zealand government has estimated the cost of reciprocal aid to United States forces at \$31,825,000 up to February 28, 1943, and the estimate for the fiscal year ending March 31, 1944, is \$65,000,000.

Australia has a population of only 7,000,000 and New Zealand of only 1,650,000 persons. In proportion to popu-

lation their assistance to us represents a much greater share of their war effort than does our assistance to them.

Our forces are also receiving reciprocal aid from the Soviet Union, China, the Union of South Africa, India, and others of the United Nations to the extent that our needs can be supplied by these nations.

## Chapter 2

### LEND-LEASE IN THE THEATERS OF WAR

As the United Nations move forward against the Axis Powers with ever-growing strength, material aid by us and by our allies plays an increasingly vital role in the united strategy of war supply. American soldiers on foreign soil are equipped, fed, clothed, and supplied to a significant extent with the growing quantities of reverse lend-lease aid we are receiving from our allies. Arms, food, industrial materials, and other war supplies flow from the United States and other United Nations to those fronts from which the most damaging blows can be struck at our common enemies.

#### AFRICA AND MIDDLE EAST

In Africa we have dealt the Axis a blow which will lead to further blows that will prove mortal.

Lend-lease shipments to Africa and the Middle East, not including certain lend-lease planes flown away and lend-lease ships sailed away, totalled \$1,000,000,000 from March 11, 1941, to April 1, 1943. Cash purchase shipments to this area totalled an additional \$635,000,000 during the period.

One-sixth of lend-lease shipments to Africa and the Middle East were sent in the first 12 months of lend-lease and five-sixths in the past 12 months. The following table shows the break-down of lend-lease exports to the area by categories for the periods ending April 1, 1942, and April 1, 1943.

Item	March 11, 1941, to April 1, 1942	April 1, 1942, to April 1, 1943
Ordnance .....	\$44,532,000	\$234,138,000
Aircraft .....	5,583,000	129,842,000
Tanks .....	41,112,000	92,431,000
Motor Vehicles .....	29,030,000	118,614,000
Watercraft .....	6,138,000	8,268,000
Industrial Products .....	36,968,000	209,612,000
Agricultural Products .....	6,383,000	37,130,000
TOTAL .....	169,746,000	830,035,000

In the past six months alone lend-lease exports to Africa and the Middle East totalled \$525,000,000, mostly munitions. In addition some lend-lease equipment supplied by the United States and used by the British First Army was sent on from the United Kingdom. Thousands of lend-lease planes and tens of thousands of lend-lease trucks with the British First and Eighth Armies have played an important part in the smashing defeat of Von Arnim's forces in Tunisia. The French forces under General Giraud and the Fighting French under General LeClerc have been largely equipped through lend-lease.

The British have provided our forces with many essential supplies and services ranging from Spitfires for some of our fighter squadrons to medical supplies and most of the coal for the operation of railroads bringing troops and equipment up to the front. Most of the British troops have fought with British equipment and most of the American troops with American equipment, but both have been strengthened by equipment furnished by the other and aided by the very effective participation of French forces in the final offensive, fighting with lend-lease weapons supplied from the United States.

#### Civilian Supply in Liberated Areas

Since the invasion last November, lend-lease has had a double job. In addition to the military equipment we have

sent to the United Nations forces there, we have supplied food, clothing, medicines, and other necessities of life for the civilian population behind the lines. These had a value of \$32,205,000 up to April 1 and have been essential to the success of our military operations. Lend-Lease food and medicines are now being distributed to the people of war-torn Tunisia. The British have also sent large quantities of such supplies. We have also sent materials and equipment to aid in restoring the production of strategic and critical raw materials.

Even though the grasp of the Axis on North Africa has now been broken, lend-lease supplies to that area are of continuing importance to the United Nations war effort. We must continue to supply munitions and war equipment to the armies of our French allies in North Africa so that they may be properly trained and equipped to play their part in the invasions to come. We must continue, moreover, to supply the essential civilian needs of North Africa as a military and political necessity. The area is capable of producing large amounts of foodstuffs for the armies of the United Nations fighting in the European theater—foodstuffs which in 1941 provided more than 300,000 tons of fruits and vegetables, 200,000 tons of cereals and other large quantities of food for Vichy France and the Nazis. Before the liberation of North Africa, large amounts of phosphates for fertilizer (North Africa has the only large European source) and other materials vitally needed for farm and munitions production went to the Nazis. It can contribute such critical raw materials as manganese, cobalt, and phosphate to the war production of the United Nations. Cobalt is of particular importance to the United States as a steel alloy for the production of high-speed cutting tools used in the construction of aviation engines, in the manufacture of magnets and for the production of shells and naval armaments.

This area was so completely stripped by the Nazis of food and production equipment that we must send food and other essential civilian supplies until local production can be restored. When these immediate needs have been met, North Africa can produce food both for the inhabitants themselves

and for export to the other United Nations as well as vital raw materials for export. Supplies sent now to North Africa will be repaid manifold in terms of future United Nations supply from that area.



More planes and tanks were exported under lend-lease in the first quarter of 1943 than in the average quarter of 1942. However, the proportion of our total production that was exported was less than in 1942.

In the invasions to come, lend-lease supplies will have a two-fold task: to furnish aid to the invading forces of the United Nations, and to aid the peoples of the liberated areas. Lend-lease will continue to furnish greater and greater amounts of war supplies to the United Nations armies. Lend-lease supplies will also be needed to assist the people of newly liberated areas to help themselves and the United Nations through restoring the production of their farms, factories, and mines.

#### Middle East

To the Middle East lend-lease has sent industrial materials and equipment for assembly plants, repair depots, for building roads and railroads, pipe lines and gasoline refineries, air-

fields and other facilities needed for American and Allied forces and to aid in the transport of supplies to Russia by way of the Persian Gulf area.

Through the Middle East Supply Center we are helping to provide, both on a cash and a lend-lease basis, supplies needed to prevent a break-down of the civilian economy of Iraq, Iran, Egypt, and other countries of the region, although most such requirements have been met by the British Commonwealth. Lend-lease munitions and materials needed for war production and transportation are also going to Turkey from the United States along with British munitions.

### THE SOVIET UNION

Lend-lease shipments to the Soviet Union to April 1, 1943, totaled \$1,822,000,000, not including many hundreds of planes ferried by air. The lend-lease program for the Soviet Union was not begun until October 1941 and nine-tenths of the total exports to the U. S. S. R. were in the last twelve months, as the following table shows:

Item	October, 1941, to April 1, 1942	April 1, 1942, to April 1, 1943
Ordnance .....	\$14,002,000	\$266,093,000
Aircraft .....	52,636,000	274,991,000
Tanks .....	33,221,000	146,599,000
Motor Vehicles.....	14,724,000	214,643,000
Watercraft .....		24,921,000
Industrial Products.....	35,479,000	428,775,000
Agricultural Products.....	12,159,000	304,035,000
<b>TOTAL.....</b>	<b>162,221,000</b>	<b>1,660,057,000</b>

Lend-lease shipments to the Soviet Union up to April 1, 1943, totaled 3,500,000 gross tons. In terms of tonnage, shipments were more than one-third again as large in the first three months of 1943 as in the preceding three months, and more than twice the total shipped in the first three months of last year. In the last three months 30 percent of lend-lease

shipments to all areas went to the Soviet Union. We have sent more munitions to date to the Soviet than to the United Kingdom, although shipments to Russia did not start until many months after they began going to Great Britain.

Shipments to Russia of military equipment have included thousands of planes, many tens of thousands of trucks, jeeps, and other military motor vehicles, hundreds of thousands of miles of field telephone wire, several million pair of army boots, and large amounts of other military supplies. Lend-lease shipments have also included hundreds of thousands of tons of armor plate, steel, aluminum, copper, zinc, TNT, and chemicals for the production in Russia of planes, tanks, and bombs; electric furnaces, presses, forging hammers, and various types of machine tools for Soviet arms factories; electric power generating equipment for Soviet war industries and quantities of rails and other supplies for railroads and communications.

American forces are not fighting or training on Russian soil but the Soviet Union is providing American ships in Russian ports with emergency fuel, food, medical aid, repairs, and other supplies as lend-lease in reverse.

### Food for the Soviet Army.

More than 1,000,000 tons of food were shipped to Russia up to April 30. More than half of this was sent in the past six months and 40 percent of all Soviet shipments made in March were foodstuffs. Food this year has a shipping priority on a par with planes and trucks on the ships leaving for Russia.

These shipments are necessary in order to maintain the rations of the Soviet Army. The Nazis have held and ravished Russia's best agricultural region—the Ukraine—for two successive growing seasons. The consequent shortages of flour and sugar, of proteins and of fats, have become increasingly serious. The Soviet is making heroic efforts to restore food production in areas liberated from the Nazis and to raise more food in newly developed regions behind the Urals and far in the interior of Siberia. To aid these efforts, we have sent 10,000 tons of seeds.



Item	March 11, 1941, to April 1, 1942	April 1, 1942, to April 1, 1943
Ordnance .....	\$51,368,000	\$361,220,000
Aircraft .....	38,151,000	160,569,000
Tanks .....	15,412,000	88,533,000
Motor Vehicles .....	29,059,000	64,626,000
Watercraft .....	6,055,000	65,492,000
Industrial Products .....	276,147,000	695,203,000
Agricultural Products .....	470,041,000	794,717,000
<b>TOTAL</b> .....	<b>886,233,000</b>	<b>2,230,360,000</b>

Bombs, guns, and ammunition make up more than half of lend-lease munitions sent to Britain. Although we have sent a substantial number of planes under lend-lease to the United Kingdom, a much greater quantity has gone to the Soviet Union. This is partly because British factories are producing such great quantities of four-engine bombers and fighters for the air offensive against Axis Europe and partly because the British have paid and are still paying in cash for large numbers of planes under contracts entered into prior to the passage of the Lend-Lease Act. The tanks and trucks which have gone to the British Isles represent less than one-fifth of lend-lease shipments of these articles.

#### Supplies for British Arsenal.

The most important categories of industrial supplies sent to Britain have been raw materials, machinery, tools, and other equipment for British munitions production together with petroleum for the RAF and the British Navy.

We have sent quantities of steel and chemicals and smaller amounts of other industrial materials for British production of bombers and the blockbuster bombs, which have been raining on German munitions and railroad centers, and for the building of tanks and transports and destroyers. Our shipments have supplemented much larger quantities of industrial

materials both domestically produced and imported from other parts of the British Commonwealth. The war output of British industry is indispensable to supplying United Nations forces.

The British have depended upon us for critical types of machine tools and other production equipment and we have been able to supply these needs, partly because of the early expansion of American machine tool production capacity stimulated by British cash orders placed in 1939 and 1940, before the Lend-Lease Act was passed.

Enormous quantities of gasoline and oil are consumed in the great RAF and American raids on Essen, Dusseldorf, Cologne, Duisburg and other centers of Nazi war production, and by British and allied naval units and convoys operating from the British Isles. Lend-lease shipments of petroleum products have been essential in continuing the air offensive in Europe, and in the continued battle against German submarines and air and surface raiders on the Atlantic.

#### Food Shipments

Lend-lease food shipments to the United Kingdom have made up a vital 10 percent of Britain's food supply. Without these shipments it would not have been possible to provide sufficient food to the British people to sustain their intensive war effort. Despite lend-lease food shipments, however, British per capita food consumption is generally below the level of our own. Lend-lease food shipments to the United Kingdom this year have been continuing at about the same level as last year.

Almost all lend-lease food is shipped either to the United Kingdom or to the Soviet Union and lend-lease food shipments to all areas last year were less than six percent of total United States supply. This year, because of increasing Russian shortages and the needs of liberated areas in Europe, lend-lease shipments are expected to increase. How much food we send will depend, of course, upon how much we produce, for the needs of United States armed forces and American civilians

must of course be met. Elsewhere in this report a chart shows the quantities of food shipped to all areas under lend-lease in relation to our supply.

### Reverse Lend-Lease

American forces in the British Isles are receiving almost all the supplies and services that can be provided on the spot as reverse lend-lease, without payment by us. Such aid is furnished through local supply officers at hundreds of airfields, camps and bases throughout the British Isles. The following table shows the estimated quantities, in ship tons provided to the various services of the United States Army in the United Kingdom from June 1, 1942, to April 1, 1943.

Articles and Equipment:	<i>In ship tons</i>
Engineer Corps . . . . .	249,471
Quartermaster Corps . . . . .	731,301
Signal Corps . . . . .	7,371
Ordnance Department . . . . .	115,716
Transportation Corps . . . . .	3,757
Medical Corps . . . . .	85,983
Air Force . . . . .	139,541
Miscellaneous Supplies . . . . .	29,541
Total . . . . .	1,362,681

Construction materials totaled another 2,177,384 tons.

Literally thousands of different types of items have been provided—from barbed wire to kitchen ranges; from artillery and incendiary bombs to locomotives; from parachutes to telephone switchboards; from concrete mixers to Nissen huts; from Spitfires to soft drinks; from antitank mines to underwear and socks.

In addition to these supplies and to facilities turned over without charge to United States forces, the British have provided many services as reverse lend-lease, such as:

Sea transport of United States Army personnel and freight, rail and motor transport within the United Kingdom.

Repair and servicing of American ships in British ports not only in the United Kingdom but elsewhere in the Empire.

All official mail, telephone, and telegraph and other communications; light, heat, water, and other public utility services.

British civilian labor directly employed by United States forces and paid by the British varying in number from 12,000 to 25,000 each week.

Maintenance and servicing of Red Cross centers for United States forces.

All expenses for printing newspapers for the United States Army, in the European theatre.

All available British supplies for United States Army Commissary stores (canteens). (The United States Army sells these supplies for cash to American troops and retains the proceeds.)

The British also have provided American forces with considerable quantities of food from their own limited stocks and this year expect to furnish several hundred thousand additional pounds of food, principally the kinds that can be grown in quantity on British soil. The spirit in which this reverse lend-lease is provided is illustrated by the setting aside of much-needed farm land for the production of sweet corn for American troops. Corn is not generally eaten by the British people.

In the first 3 months of 1943 they furnished our forces with 16,251,000 pounds of enriched wheat flour, 5,435,000 pounds of potatoes, 4,920,000 pounds of bread, 7,274,000 pounds of sugar, and 3,500,000 pounds of vegetables as well as many other foodstuffs.

Quantities and statistics do not fully measure the value of reverse lend-lease aid. Recreational facilities including base-

**WHERE LEND-LEASE PLANES AND TANKS HAVE GONE**  
 EACH SYMBOL REPRESENTS PLANES OR TANKS VALUED AT \$25,000,000



The plane figures do not include the value of certain lend-leased planes which were flight delivered.

ball fields and equipment and musical instruments have been provided for our troops. The best hotels have been made available so that our forces can take their leave at the seashore. The value of these services to the morale and health of our troops is incalculable.

**CHINA, INDIA, AUSTRALIA AND NEW ZEALAND**

Total lend-lease exports to this area from March 11, 1941, to April 1, 1943, have been \$875,000,000. As shown by the following table about one-eighth of these shipments were made in the period ending April 1, 1942, and seven-eighths in the period ending April 1, 1943:

Item	March 11, 1941 to April 1, 1942	April 1, 1942 to April 1, 1943
Ordnance.....	\$29,137,000	\$194,346,000
Aircraft.....	37,277,000	101,801,000
Tanks.....	4,416,000	112,405,000
Motor Vehicles.....	31,161,000	81,559,000
Watercraft.....	68,000	6,369,000
Industrial Products.....	32,276,000	207,493,000
Agricultural Products.....	4,197,000	32,786,000
<b>TOTAL.....</b>	<b>138,532,000</b>	<b>736,759,000</b>

More than two-thirds of the supplies shipped to this area have been munitions for United Nations forces in India, China, and Burma and for Australian and New Zealand forces fighting beside the Americans in New Guinea, the Solomons and other parts of the Southwest and South Pacific theaters.

**China**

Of the lend-lease supplies shipped to China, some got in over the Burma Road before the Japanese cut that route, others have reached their destinations by other means and still others are stockpiled ready for delivery. These have included critical tools and raw materials to keep in operation Chinese arsenals,

and spare parts to keep trucks rolling over the difficult but vital roads in the interior. New land routes are being developed to increase lend-lease shipments into China, and the reopening of the Burma Road is among the strategic objectives of our forces. For their part the Chinese are providing some of the equipment for the growing U. S. Air Forces in China as lend-lease in reverse.

### India

Lend-lease munitions have been helping to build up the striking power of General Wavell's forces in India, although most of the equipment and supplies for these forces have been provided by the United Kingdom or from India's own substantial war production. Lend-lease machine tools, steel and other materials and equipment are aiding in increasing the Indian output of munitions, in building airfields, and speeding the flow of supplies through Indian ports and on Indian railroads.

American forces in India have received reverse lend-lease aid on a substantial scale. Accommodations of various types have been made available, in addition to the construction of airfields, hospitals and other facilities for our troops. We have received in India millions of gallons of aviation and truck gasoline, and great quantities of lubricating oil, together with utilities, services and items of uniform equipment adapted to tropical climates. We also have received small arms and ammunition, engineers' stores and other equipment for our troops under reverse lend-lease.

### Australia and New Zealand

Australian armored units have fought through New Guinea jungles beside our troops, in tanks provided by the United States under lend-lease. In turn, most of the food needed by our forces has been provided by Australia and New Zealand under lend-lease in reverse. Severe civilian shortages of a number of foods have resulted in both countries but the reciprocal aid program has been maintained and is being greatly expanded this year.

Australia is manufacturing many items of uniform equipment for our forces and both Australia and New Zealand are expanding their canning and dehydrating facilities in order to provide more field rations for our troops. Lend-lease equipment from the United States is helping to make this possible. Australia is also producing some types of munitions for United States forces with the aid of lend-lease machinery and materials from the United States. Australia and New Zealand have provided our forces with airfields, warehouses, repair shops and barracks as reverse lend-lease. American planes, tanks, and ships are repaired in Australian and New Zealand shops and shipyards.

Rubber tire requirements of American forces are now largely being met by Australian factories on a reverse lend-lease basis. More than 320,000 items of recreational equipment covering everything from baseballs and bats to chess-sets and horse-shoes have been included in the reverse lend-lease program. A number of hospitals, including the newest and finest in Australia, have been turned over to the United States Army for its exclusive use.

New Zealand had spent \$22,000,000 up to February 28, 1943, on a continuing program of construction of hospitals, camps, warehouses and other capital projects for the use of American forces.

### OTHER AREAS

Lend-lease shipments to other areas totaled \$292,000,000 up to April 1, 1943. This figure included supplies shipped to Canada totalling \$184,000,000. Canada does not receive lend-lease aid from the United States. She buys munitions and other supplies from us and we buy other types of munitions and materials from her for cash. However, some lend-lease supplies are exported to Canada for the use of other United Nations' forces in training there. We have, for example, sent more than 1,000 trainer planes to Canada for British R. A. F., Norwegian, Polish and other student pilot units. Other lend-lease exports to Canada consist of supplies sent for transshipment, principally partially fabricated mu-

nitions items on which production is completed in Canadian plants. The finished products are then sent on from Canada to the United Kingdom, Russia, the Middle East or the Far East, and thus do not appear in the records of United States exports to these areas.

The balance of lend-lease exports to areas other than the four major war zones have gone to Latin America, principally Brazil, to Central America and the Caribbean area.

The following table shows the total of shipments to other areas by category:

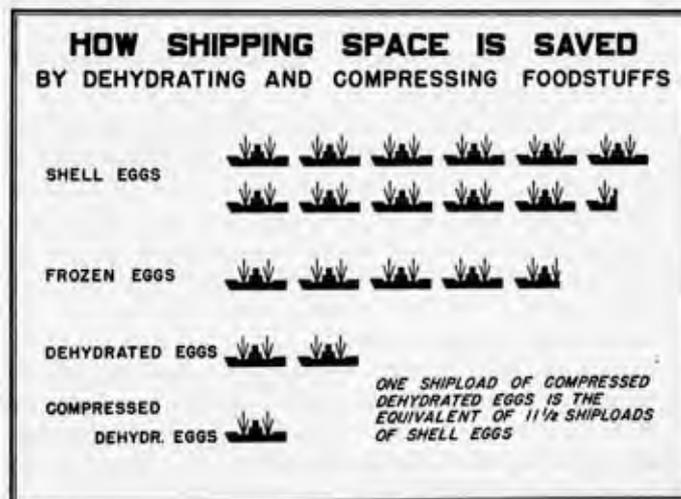
Items	March 11, 1941, to April 1, 1942	April 1, 1942, to April 1, 1943
Ordnance .....	\$17,631,000	\$60,758,000
Aircraft .....	18,773,000	66,775,000
Tanks .....	1,514,000	17,273,000
Motor Vehicles.....	1,456,000	21,698,000
Watercraft .....	317,000	14,042,000
Industrial Products.....	8,328,000	41,103,000
Agricultural Products .....	7,354,000	14,177,000
<b>TOTAL .....</b>	<b>55,373,000</b>	<b>235,826,000</b>

## Chapter 3

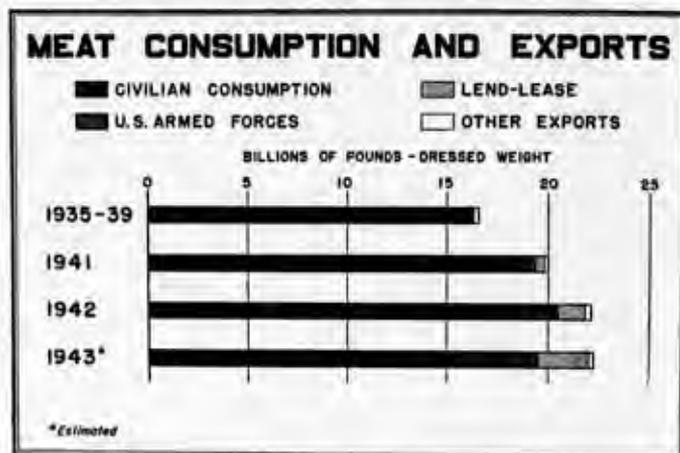
### SPECIAL ACTIVITIES

#### FOOD DEHYDRATION AND COMPRESSION

One of the most striking developments in the field of war supply has been the advancement in the art of dehydrating and compressing foods. Dehydration reduces weight by removing water; compression reduces bulk by removing air. The savings in shipping space which result from eliminating large overseas shipments of "cargoes of air and water" as part of every food shipment can do much to win the battle of transportation. The accompanying chart illustrates the savings of space which can be achieved by dehydration and compression of eggs.



Of the two processes, dehydration was the first to be utilized extensively. During the past six or eight months, various branches of the Government have increasingly turned their attention to food compression and since March the work of all the various agencies has been unified and coordinated and a comprehensive plan developed to improve the compression process and widen its use.



Large quantities of dried eggs and dried milk and smaller quantities of other dehydrated foods have already been shipped under lend-lease. Through March 31 of this year 216,000 tons of dehydrated food had been shipped overseas. Early in April lend-lease made an experimental shipment of compressed dehydrated eggs which represented additional savings in shipping space.

The lend-lease program for the coming year contemplates sending overseas several hundred thousand tons of dehydrated and compressed foods. Application of dehydration and compression to other foods, such as fruit juice, meats, fish, vegetables, and other foods of high nutritive value, is fast reaching the stage where sizeable overseas shipments can be expected.

As a factor in combatting the battle of shipping, food dehydration and compression have great promise. The same number of ship arrivals overseas will mean larger food deliveries. But the advantages of the processes do not end there. Reduction in the bulk and weight of food shipments means savings of critical materials in packing. It means savings in truck, rail, and storage space.

Equally important, the processes substantially reduce perishability of food and will therefore add much needed flexibility to the food supply program. Storage will be facilitated. The time and distance factors in food delivery will be minimized. The lives and health of United Nations fighting forces will benefit, both from the standpoint of improvement in preservation of their food supply and from the standpoint of relief on their overtaxed systems of military transport.

In all its stages, lend-lease has given full support to the dehydration and compression program, both through contribution of ideas and through provision of funds to develop facilities. Orders to fill lend-lease requirements have lent considerable impetus to the expansion of facilities by the processors. Recently, lend-lease has made arrangements with the War Department which should encourage private financing of dehydration and compression facilities.

### INTERCHANGE OF INVENTIONS

Under the Lend-Lease Act and supplemental international mutual-aid agreements, the United States has encouraged the complete interchange for war use of inventions, industrial processes, and technical information. The weight of our industrial ingenuity has been thrown into the United Nations' pool of war production. The Axis can be crushed only by cooperation of the United Nations on all fronts. Scientific "know how" is one of the most important factors in defeating the Axis, and that knowledge must be shared if we are to achieve early victory.

Great Britain, since the fall of 1940, has afforded the United States royalty-free use in our war production of many impor-

rant military and industrial inventions, and has given us much needed technical information. Early British battle experience thus conveyed to this country at a time when we were taking our first steps toward total preparedness and were relatively inexperienced in the ways of modern war, has contributed immeasurably to the effectiveness of the tanks, airplanes, and other weapons which we now produce. Similarly, the U. S. S. R. has furnished us valuable technical military information. We are also receiving the benefits of its research in synthetic rubber manufacture and the extraction of rubber from rubber-bearing plants at a time when military reverses have cut off our supply of crude rubber.

The procedure for interchange of inventions under lend-lease and reverse lend-lease between this country and Great Britain was formalized on August 24, 1942. Pursuant to the agreement and with full protection to its citizens, each government procures from its nationals at its own expense and makes available to the other government for war purposes patented and unpatented inventions, processes and information requested by the other government. Centralization in the two governments of these functions of making requests for procuring and interchanging patent rights and technical information has been of great practical value in saving time and making possible a well-coordinated technical program. The development of procedures and policies for further facilitating interchange under the agreement is the responsibility of a Joint Committee which meets in Washington and makes recommendations concerning problems which arise in the administration of the agreement.

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## APPENDICES

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### Appendix I LEND-LEASE ACT

Further to promote the defense of the United States, and for other purposes

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as "An Act to Promote the Defense of the United States."*

#### Section 2.

As used in this Act—

(a) The term "defense article" means—

- (1) Any weapon, munition, aircraft, vessel, or boat;
- (2) Any machinery, facility, tool, material, or supply necessary for the manufacture, production, processing, repair, servicing, or operation of any article described in this subsection;
- (3) Any component material or part of or equipment for any article described in this subsection;
- (4) Any agricultural, industrial or other commodity or article for defense.

Such term "defense article" includes any article described in this subsection manufactured or procured pursuant to section 3, or to which the United States or any foreign government has or hereafter acquires title, possession, or control.

(b) The term "defense information" means any plan, specification, design, prototype, or information pertaining to any defense article.

#### Section 3.

(a) Notwithstanding the provisions of any other law, the President may, from time to time, when he deems it in the interest of national defense, authorize the Secretary of War, the Secretary of the Navy, or the head of any other department or agency of the Government—

- (1) To manufacture in arsenals, factories, and shipyards under their jurisdiction, or otherwise procure, to the extent to which funds are

made available therefor, or contracts are authorized from time to time by the Congress, or both, any defense article for the government of any country whose defense the President deems vital to the defense of the United States.

(2) To sell, transfer title to, exchange, lease, lend, or otherwise dispose of, to any such government any defense article, but no defense article not manufactured or procured under paragraph (1) shall in any way be disposed of under this paragraph, except after consultation with the Chief of Staff of the Army or the Chief of Naval Operations of the Navy, or both. The value of defense articles disposed of in any way under authority of this paragraph, and procured from funds heretofore appropriated, shall not exceed \$1,300,000,000. The value of such defense articles shall be determined by the head of the department or agency concerned or such other department, agency, or officer as shall be designated in the manner provided in the rules and regulations issued hereunder. Defense articles procured from funds hereafter appropriated to any department or agency of the Government, other than from funds authorized to be appropriated under this Act, shall not be disposed of in any way under authority of this paragraph except to the extent hereafter authorized by the Congress in the Acts appropriating such funds or otherwise.

(3) To test, inspect, prove, repair, outfit, recondition, or otherwise to place in good working order, to the extent to which funds are made available therefor, or contracts are authorized from time to time by the Congress or both, any defense article for any such government, or to procure any or all such services by private contract.

(4) To communicate to any such government any defense information, pertaining to any defense article furnished to such government under paragraph (2) of this subsection.

(5) To release for export any defense article disposed of in any way under this subsection to any such government.

(b) The terms and conditions upon which any such foreign government receives any aid authorized under subsection (a) shall be those which the President deems satisfactory, and the benefit to the United States may be payment or repayment in kind or property, or any other direct or indirect benefit which the President deems satisfactory.

(c) After June 30, 1943, or after the passage of a concurrent resolution by the two Houses before June 30, 1943, which declares that the powers conferred by or pursuant to subsection (a) are no longer necessary to promote the defense of the United States, neither the President nor the head of any department or agency shall exercise any of the powers conferred by or pursuant to subsection (a); except that until July 1, 1946, any of such powers may be exercised to the extent necessary to carry out a contract or agreement with such a foreign government made before July 1, 1943, or before the passage of such concurrent resolution, whichever is the earlier.

(d) Nothing in this Act shall be construed to authorize or to permit the authorization of conveying vessels by naval vessels of the United States.

(c) Nothing in this Act shall be construed to authorize or to permit the authorization of the entry of any American vessel into a combat area in violation of section 3 of the Neutrality Act of 1939.

#### Section 4.

All contracts or agreements made for the disposition of any defense article or defense information pursuant to section 3 shall contain a clause by which the foreign government undertakes that it will not, without the consent of the President, transfer title to or possession of such defense article or defense information by gift, sale, or otherwise, or permit its use by anyone not an officer, employee, or agent of such foreign government.

#### Section 5.

(a) The Secretary of War, the Secretary of the Navy, or the head of any other department or agency of the Government involved shall, when any such defense article or defense information is exported, immediately inform the department or agency designated by the President to administer section 6 of the Act of July 2, 1940 (54 Stat. 714), of the quantities, character, value, terms of disposition, and destination of the article and information so exported.

(b) The President from time to time, but not less frequently than once every ninety days, shall transmit to the Congress a report of operations under this Act except such information as he deems incompatible with the public interest to disclose. Reports provided for under this subsection shall be transmitted to the Secretary of the Senate or the Clerk of the House of Representatives, as the case may be, if the Senate or the House of Representatives, as the case may be, is not in session.

#### Section 6.

(a) There is hereby authorized to be appropriated from time to time, out of any money in the Treasury not otherwise appropriated, such amounts as may be necessary to carry out the provisions and accomplish the purposes of this Act.

(b) All money and all property which is converted into money received under section 3 from any government shall, with the approval of the Director of the Budget, revert to the respective appropriation or appropriations out of which funds were expended with respect to the defense article or defense information for which such consideration is received, and shall be available for expenditure for the purpose for which such expended funds were appropriated by law, during the fiscal year in which such funds are received and the ensuing fiscal year; but in no event shall any funds so received be available for expenditure after June 30, 1946.

#### Section 7.

The Secretary of War, the Secretary of the Navy, and the head of the department or agency shall in all contracts or agreements for the disposition of any defense article or defense information fully protect the rights of all

citizens of the United States who have patent rights in and to any such article or information which is hereby authorized to be disposed of and the payments collected for royalties on such patents shall be paid to the owner and holders of such patents.

#### Section 8.

The Secretaries of War and of the Navy are hereby authorized to purchase or otherwise acquire arms, ammunition, and implements of war produced within the jurisdiction of any country to which section 3 is applicable, whenever the President deems such purchase or acquisition to be necessary in the interests of the defense of the United States.

#### Section 9.

The President may, from time to time, promulgate such rules and regulations as may be necessary and proper to carry out any of the provisions of this Act; and he may exercise any power or authority conferred on him by this Act through such department, agency, or officer as he shall direct.

#### Section 10.

Nothing in this Act shall be construed to change existing law relating to the use of the land and naval forces of the United States, except insofar as such use relates to the manufacture, procurement, and repair of defense articles, the communication of information and other noncombatant purposes enumerated in this Act.

#### Section 11.

If any provision of this Act or the application of such provision to any circumstance shall be held invalid, the validity of the remainder of the Act and the applicability of such provision to other circumstances shall not be affected thereby.

APPROVED, MARCH 11, 1941.

☆ ☆ ☆

On March 11, 1943, after affirmative votes of 407-6 in the House of Representatives and 82-0 in the Senate, the President signed the act extending the Lend-Lease Act for 1 year.

## Appendix II

### AMOUNTS OF LEND-LEASE AID AUTHORIZED

The amount of lend-lease aid that may be provided under the various acts is summarized as follows:

#### Lend-Lease Appropriations to the President

First Lend-Lease Appropriation.....	\$7,000,000,000
Second Lend-Lease Appropriation.....	5,985,000,000
Third Lend-Lease Appropriation (Fifth Supp. 1942)....	5,425,000,000
Total.....	18,410,000,000

#### Transfers Authorized From Other Appropriations

War Department—Third Supplemental, 1942.....	\$2,000,000,000
War Department—Fourth Supplemental, 1942.....	4,000,000,000
War Department—Fifth Supplemental, 1942.....	11,250,000,000
War Department—Sixth Supplemental, 1942.....	2,220,000,000
War Department—Military Appropriation Act, 1943... ..	12,700,000,000
Navy Department—Second Supplemental, 1943.....	3,000,000,000
Departments other than War—Third Supplemental, 1942.....	800,000,000
Total.....	35,970,000,000

NOTE.—In addition to the foregoing, Congress has with certain limitations authorized the leasing of ships of the Navy and merchant ships constructed with funds appropriated to the Maritime Commission without any numerical limitation as to the dollar value or the number of such ships which may be so leased. (See for example, Public Law 1, 78th Congress, approved February 19, 1943, and Public Law 11, 78th Congress, approved March 18, 1943.)

Appendix III  
STATUS OF NATIONS  
Lend-Lease Countries and United Nations  
Dates of Signing of Agreements

Country	Declared Eligible for Lend-Lease Aid	Lend-Lease Agreement Signed	Reciprocal Lend-Lease Agreement Signed	United Nations Declaration Signed
Argentina.....	May 6, 1941			
Australia.....	Nov. 11, 1941	Feb. 23, 1942	Sept. 3, 1942	Jan. 1, 1942
Belgium.....	June 13, 1941	June 16, 1942	Jan. 30, 1943	Jan. 1, 1942
Bolivia.....	May 6, 1941	Dec. 6, 1941		
Brazil.....	May 6, 1941	Mar. 3, 1942		Feb. 6, 1943
Canada.....	Nov. 11, 1941			Jan. 1, 1942
Chile.....	May 6, 1941	Mar. 2, 1943		
China.....	May 6, 1941	June 2, 1942		Jan. 1, 1942
Colombia.....	May 6, 1941	Mar. 17, 1942		
Costa Rica.....	May 6, 1941	Jan. 16, 1942		Jan. 1, 1942
Cuba.....	May 6, 1941	Nov. 7, 1941		Jan. 1, 1942
Czechoslovakia.....	Jan. 5, 1942	July 11, 1942		Jan. 1, 1942
Dominican Rep.....	May 6, 1941	Aug. 2, 1941		Jan. 1, 1942
Ecuador.....	May 6, 1941	Apr. 6, 1942		
Egypt.....	Nov. 11, 1941			
El Salvador.....	May 6, 1941	Feb. 2, 1942		Jan. 1, 1942
Ethiopia.....	Dec. 7, 1942			Oct. 9, 1942
Fighting France.....	Nov. 11, 1941		Sept. 3, 1942	
Greece.....	Mar. 11, 1941	July 10, 1942		Jan. 1, 1942
Guatemala.....	May 6, 1941	Nov. 16, 1942		Jan. 1, 1942
Haiti.....	May 6, 1941	Sept. 16, 1941		Jan. 1, 1942
Honduras.....	May 6, 1941	Feb. 28, 1942		Jan. 1, 1942
Iceland.....	July 1, 1941	Nov. 21, 1941		
India.....	Nov. 11, 1941			Jan. 1, 1942
Iran.....	Mar. 10, 1942			
Iraq.....	May 1, 1942			Jan. 16, 1943
Liberia.....	Mar. 10, 1942			
Luxembourg.....				Jan. 1, 1942
Mexico.....	May 6, 1941	Mar. 18, 1943		June 5, 1942

Country	Declared Eligible for Lend-Lease Aid	Lend-Lease Agreement Signed	Reciprocal Lend-Lease Agreement Signed	United Nations Declaration Signed
Netherlands.....	Aug. 21, 1941	July 8, 1942		Jan. 1, 1942
New Zealand.....	Nov. 11, 1941	Feb. 23, 1942	Sept. 3, 1942	Jan. 1, 1942
Nicaragua.....	May 6, 1941	Oct. 16, 1941		Jan. 1, 1942
Norway.....	June 4, 1941	July 11, 1942		Jan. 1, 1942
Panama.....	May 6, 1941			Jan. 1, 1942
Paraguay.....	May 6, 1941	Sept. 20, 1941		
Peru.....	May 6, 1941	Mar. 11, 1942		
Philippines.....				June 10, 1942
Poland.....	Aug. 28, 1941	July 1, 1942		Jan. 1, 1942
Saudi Arabia.....	Feb. 18, 1943			
South Africa.....	Nov. 11, 1941			Jan. 1, 1942
Turkey.....	Nov. 7, 1941			
United Kingdom.....	Mar. 11, 1941	Feb. 23, 1942	Sept. 3, 1942	Jan. 1, 1942
United States.....				Jan. 1, 1942
U. S. S. R.....	Nov. 7, 1941	June 11, 1942		Jan. 1, 1942
Uruguay.....	May 6, 1941	Jan. 13, 1942		
Venezuela.....	May 6, 1941	Mar. 18, 1942		
Yugoslavia.....	Nov. 11, 1941	July 24, 1942		Jan. 1, 1942

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau  
FROM Frances McCathran

May 25, 1943

## CONTROVERSIAL ISSUES BEFORE CONGRESS

1. Tax: Pay-As-You-Go - Tax conferees from the House and Senate, apparently still deadlocked, meet this morning for the fifth day for what is again scheduled to be the last time. If they are still unable to reconcile their sharply divergent viewpoints, House Republicans are expected to ask the House to vote again on accepting the Senate-approved Ruml Plan. Reported plans of the conferees to meet with the President to determine which of the tax proposals he would accept, apparently have not been carried out. Latest compromise proposal, said to be sponsored by Senate conferees, would abate the 1942 tax for all taxpayers earning less than \$2,000 and require all those earning above that figure to pay only 25% of the 1942 liability over a period of two years, meanwhile making payments on their 1943 tax currently. House conferees, however, are reportedly not in sympathy with forgiving an equal percentage for the very wealthy. This issue, namely, whether all income brackets should receive an equal percentage of abatement, and also the question of how much abatement should be permitted in order to enact pay-as-you-go taxation, are reportedly the chief points of controversy between the conferees. A meeting late yesterday afternoon between House and Senate Democrats apparently was unable to reconcile differences within the party, and the joint conference itself, as observed before, appears hopelessly deadlocked.
2. Reciprocal Trade Agreements - Highlight of Senate debate yesterday on the extension of the Reciprocal Trade Agreements program was an argument between Senators George and Vandenberg over whether to retain the Senate Finance Committee amendment providing that such agreements may be terminated, on six months notice within six months after the war ends, by the President or a joint resolution of Congress. Senator George opposed the amendment as equivalent to a threat to our allies that at the conclusion of the war the United States

will again enact high tariff barriers. Vandenberg, however, urged retention of the amendment on the grounds that Congressional authority to terminate the agreements after the war would permit American representatives to go to the peace tables as "free agents."

3. Poll Tax - By a vote of 268 to 110 the House voted yesterday to accept a discharge petition releasing its Rules Committee of further consideration of anti-poll tax legislation. Southern representatives, chief supporters of the poll tax, hurled recriminations yesterday at the New Deal, Republicans and the Communist party as the sponsors of a political move which they claim will interfere in state rights. Opponents of the poll tax, however, claim it is a discriminatory device aimed chiefly at southern negroes. Today's discussion, which is limited, is expected to be one of the bitterest of this session of Congress.
4. Anti-Administration Rumors - Yesterday on the floor of the House, Representative Dewey Short said that "sinister rumors" circulating in Washington that somebody is trying to play politics with the conduct of the war, should be spiked, if false, and, if true, accordingly dealt with. Short contended he had heard rumors that certain high command officers on the domestic front may be shelved "because they will not be rubber stamps for the Rasputin of the White House."

MAY 25 1943

Excellency:

This is to acknowledge receipt of your letter of May 17, 1943 and the provisional report on fiscal and monetary problems in Luxemburg which you enclosed.

Thank you for the information that you have sent. It would be appreciated if, in the event that you obtain additional appropriate information, you would forward it to me.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

His Excellency, Pierre Dupong,  
The Minister of Finance,  
Grand Duchy of Luxemburg,  
809 Sun Life Building,  
Montreal, Canada

Photo file in Diary

WHT:Dr1  
5/22/43



GOUVERNEMENT DU GRAND-DUCHÉ DE LUXEMBOURG  
CABINET DU MINISTRE D'ÉTAT  
PRÉSIDENT DU GOUVERNEMENT  
M O N T R E A L  
Q U E .

May the Seventeenth  
1 9 4 3

Mr. Secretary of the Treasury:

In compliance with the request contained in your letter of April 16th, to give you material and information regarding fiscal and monetary problems in my country, I take pleasure in enclosing herewith a provisional report on the matters in question.

In the event that I secure more appropriate information, I shall not fail to forward it to you.

Very sincerely yours,

*Pierre Dupong*  
Pierre Dupong

J. Morgenthau, Esq.,  
Secretary of the Treasury,  
WASHINGTON, D. C.

Translation  
Belgium and Luxembourg

MONETARY SITUATION BEFORE AND AFTER THE INVASION

A. Before the invasion the monetary circulation was characterized by the peculiarity that it was constituted of Belgian and Luxembourg monetary units — both of which were legal tender in the country.

There existed between Belgium and Luxembourg a monetary union, by the terms of which, the central issuing authority of Belgium, respectively the Belgium Government, was responsible for seeing to the needs of the monetary circulation of Luxembourg by means of Belgian monetary units. However, there was a restriction — the Grand-Duchy had reserved the right to issue a limited amount of its own monetary units. Moreover, a private issuing Luxembourg bank enjoyed the privilege of issuing limited money.

At the time of the invasion the monetary circulation in the Grand-Duchy was as follows:

Monetary units of the State  
of Luxembourg - Luxembourg francs - 131 millions

Monetary units of the Banque  
Internationale - Luxembourg francs - 6 1/4 millions  
(private bank) at Luxembourg

Belgian monetary units - Belgian francs - 830 millions

A total of about 1000 million Belgian francs or 800 million Luxembourg francs.

As Belgium and Luxembourg form a unit from the monetary and economic point of view, it is possible to indicate only approximately the circulation of Belgian monetary units.

The Luxembourg franc was the official money of accounts and was worth 1 1/4 of the Belgian franc.

B. At the time of the invasion of Luxembourg, the German troops brought their own money. These were not Reichsmark, but notes "Reichskreditkassenscheine" which bore no signature and which were printed as needed by the army. These notes were declared legal tender currency in the interior of the country. They were not legal tender currency in Germany. Their rate was fixed at ten Luxembourg francs to one mark.

On May 25, 1940 a German credit bank was opened at Luxembourg. This establishment was followed by the opening of similar banks in

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Belgium at Brussels, Liege, "Namur", Ghent, Antwerp and "Charleroi"; the one in Brussels was a clearing house between Belgium and Luxembourg. At the same time exchange control patterned after the German system was introduced in Luxembourg.

The same rate 1 to 10, fixed for the Luxembourg franc, was also fixed for the Belgian franc. Upon insistence from the Luxembourg Administrative Commission, the rate of the Luxembourg franc was reduced to 1 to 8 at the beginning of June; the rate for the Belgian franc remained at 1 to 10.

After the arrival of a Gauleiter, or a deputy Fuhrer, as chief of a German civil administration at Luxembourg, the rate of exchange was changed for the third time and reraised to 1 to 10. At the same time the rate of the Belgian franc was placed at 1 to 12½. The banking rate before the war was 1 RM to 9.60 Luxembourg francs.

This parity was assigned by a decree of the Gauleiter dated August 25, 1940. This same decree introduced the Reichsmark as legal money along with other legal means of payment.

In pursuance of a decree of the Gauleiter dated August 27, 1940 all moneys in gold or silver, gold (~~and~~) and foreign currencies had to be sold to designated banking establishments. Other foreign means of payment, claims in foreign and native currency against foreigners, German and foreign as well as other assets and exchange had to be declared at the Reichskreditkasse at Luxembourg.

The introduction of reichsmarks as legal money did not yet however abolish the Luxembourg and Belgian monetary circulation. The people of Luxembourg hastened at first to change the notes issued by the army of occupation against the Reichsmark. As for Luxembourg notes they were withdrawn as far as possible from circulation and were hoarded.

The circulation of 4 different moneys (Reichsmarks, Reichskreditkassenschiene, Belgian and Luxembourg francs) lasted until February 1941. By decree of February 15, 1941, the Gauleiter tied Luxembourg completely to the German monetary system and decreed that from the first of March, the Reichsmark would be the only legal money of the country. The Belgian notes and German notes had to be changed within a certain time: the Luxembourg notes were simply declared valueless after March 1. The rate of exchange remained at the rate of August 25, 1940.

It is difficult, for lack of specific information, to evaluate the total of Reichsmarks circulating at present in the territory of the Grand-Duchy of Luxembourg. The general increase in expenditures, salaries,

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and prices and the adjustment to the German high level prices, leads us to suppose that the nominal value of the notes in circulation must greatly surpass the volume in circulation before the invasion.

C. Fiscal Regime. The Luxembourg fiscal regime has been progressively replaced by the German fiscal regime.

D. It is too early to make a decision on the rate of exchange to be established between the dollar and the franc. The factors which must determine the rate still change every day.

Translated by E. F. Mikulich  
Division of Monetary Research

PANAMA/PRINCE OF WELLS/GRAM RECEIVED

FROM: American Embassy, Chungking, China

DATE: May 25, 1943, 10 a.m.

NO.: 773

This is a strictly confidential message, 5-125 transmitting the weekly economic report from Mr. Adler for the Secretary of the Treasury.

SECTION I

1. Regarding prices:

(A) The following are Chungking indices:

Wholesale:	<u>March</u>	<u>April</u>	<u>January</u>	<u>February</u>
Food	6320			(revised)
General	8360			

Retail:				
Food	5810	5960	5400	6060
General	7690	7750	7320	7780

It is clear from the above indices that official price quotations instead of actual market prices are frequently used in compiling them and that the upward course of prices is not accurately reflected by them. For example the course of market prices for March cannot be reconciled with the slump in the retail index for the same month.

(B) Prices in the largest cities have swiftly caught up to those in Chungking, while as late as the end of 1942 they all were lagging behind except Kowling. Kowling's prices are between 75 and 100% higher than in the capital, and those in Shanghai, Loyang and Swelling are a little higher than those in Chungking. Lanzhou and Hweiyang are the only important cities having prices below the Chungking level and the spread has been reduced even here. The rapid increase of prices in the big cities, which was also helped by the operation of price control, proves beyond a doubt that inflation has now spread to all the important commercial centers. It is unfortunate that there is not enough reliable information concerning the extent to which the countryside has been penetrated by inflation.

(C) Since

(C) Since the first of May the price of rice has risen over 50 percent in Chungking. The increase is partly due to the season, according to the Ministry of Food. Some other causal factors are rumors that rice allowances to Government employees are going to be abolished or curtailed by the Central Government, the fact that in rice exporting areas in Szechuan fighting is going on, and that the Central Government is being pressed by Freechuan landlords and militarists to reduce compulsory food purchases and land tax.

2. In March at \$40,422,000,000 the amount of legal tender in circulation was 6 percent more than in February. Chinese legal tender which was imported into Kunging by air has the following face value: CN\$10,097,000,000 for March; CN\$2,921,000,000 for April.

3. Up to April 24 the total sales of U.S. dollar backed certificates amounted to CN\$726,000,000.

4. The overpaid position of the Central Bank in April was \$120,000 and U.S. \$1,644,000.

5. The United States dollar sold at the rate of 59 to 19 Indian Rupees and to 15.50 Burma Rupees in the Kunging black market on May 15.

#### SECTION II

1. When the failure of the price control became too evident to ignore any longer, in the second week of April, it was drastically revised. Only eight essential commodities were made subject to price ceilings. Merchants associations in conjunction with city government will agree on prices on other essentials which previously had ceilings imposed while non-essential commodities will have their prices regulated. The words "agreement" and "Regulation" seem to be encouraged for control relaxation. Schemes for rationing for which plans were being made have either been cut down very drastically or abandoned altogether. Control relaxation similar to this has been put in effect in other leading cities and smaller cities having the intention to set up controls have given the idea up. This relaxation came only after considerable damage had been done, but it was very welcome.

2. Because the Japanese have taken possession of the salt producing areas in south eastern provinces there is a salt shortage in Kwangtung, Fukien, Kwangsi, Chekiang, Szechuan and Hunan. Due to this shortage and to lack of

adequate

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adequate transportation facilities a rationing program was started on April 15 by which each person in the first four provinces mentioned was to receive one catty per month and each person in the last two provinces was to receive twelve ounces per month.

3. Credit policy of the Government. At the end of March the Ministry of Finance ordered commercial, district and provincial banks to refer all loans over CN\$50,000 and Government banks to refer all of between CN\$50,000 and 1,000,000 to the Loan Supervising Committee which operates under the supervision of Government bank inspectors since April 1. It was announced last week, however, that Government banks had received orders to invest in and loan to industry CN\$2,000,000,000. These orders which apparently contradict each other indicate that the policy of the Government is to expand the activities of Government banks, while it curtails those of private banks.

4. A free gold market will be established in the near future with the approval of the Ministry of Finance, it was learned from a reliable source. CN\$6,000 per ounce is approximately the black market price in Chungking for gold. It is expected that the price of gold will be only about CN\$4,500 as a result of free buying and selling. It is estimated that the Central Government in China has between 45 and 60 thousand ounces of gold at its disposal.

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Information received up to 7 a.m., 25th May, 1943.

1. NAVAL

One of H.M. Submarines torpedoed a 4,000 ton ship off Eastern SICILY on 16th.

2. AIR OPERATIONS

WESTERN FRONT. 23rd. During the attack on HASTINGS and BOURNEMOUTH, 5 F.W. 190's were shot down in all.

DORTMUND. 23rd/24th. 712 Aircraft dropped 2042 tons of bombs including 11 8,000 pound and 313 4,000 H.E. The Attack took 63 minutes and is the heaviest single raid yet carried out. Weather favourable, no cloud, good visibility apart from ground haze until later when dense smoke hindered observation of results. Marker bombs well placed and bombing well concentrated around them. Very large area of concentrated fires with smoke to 14,000 feet. One particularly heavy explosion reported. Ground defences appeared to be overwhelmed.

24th. 29 escorted Beaufighters attacked with torpedoes an enemy convoy off the Dutch Coast. Results were unobserved. One Beaufighter missing.

SICILY. 23rd/24th. A naval Albacore made two hits with bombs on a 10,000 ton tanker off CATANIA.

3. HOME SECURITY

Fatal casualties now reported 23rd, BOURNEMOUTH - 93, including 36 Service. 23rd/24th. Sunderland - 48.